

AS "PAREX BANKA"

2009

ANNUAL REPORT
AND INDEPENDENT AUDITORS'
REPORT



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In 2009, economies around the world were seriously affected by the financial crisis and cooling of global activity. In the transition region, Latvia has been one of the most severely affected countries with a sharp decline in GDP, which fell dramatically by 19 per cent in the 3rd quarter of 2009. The unemployment rate leaped to 16 per cent at the end of 2009, with a grim tendency to increase. In the financial sector of the country, the crisis and loss of public confidence in the banking system resulted in a heightened pressure on the stability of the currency peg to euro. The International Monetary Fund, European Union, and other donors provided assistance to Latvia as part of an agreement to defend the currency peg and reduce the fiscal deficit to about 5% of GDP.

With the Latvian economy running through the period of instability, *Parex banka* was facing a number of unprecedented challenges in 2009, which has been the most difficult time in the bank's history. Following the bank's takeover in the end of 2008, the new management of the bank set out to prove the vital capacity of the systemic bank developing a new strategy with the aim to restructure the institution; thereby, facilitating the return of the Bank to the ownership of a successful private investor, the repayment of the short-term liquidity support granted by the Latvian Government, and termination of the State Treasury guarantees.

Parex banka's main priorities in 2009 were to ensure sustainability and prevent the outflow of deposits, as well as to reach new agreements with the providers of syndicated loans. Afterwards, the Bank entered the stabilisation phase, improving basic indicators, attracting the European Bank for Reconstruction and Development (EBRD) into its shareholder structure and entering into negotiations with other potential investors. Furthermore, the management of the bank has begun the work on the restructuring of the bank.

From Crisis to Recovery

Since 10 November 2008, when the Latvian State became the majority shareholder in *Parex banka*, the Bank's operations have substantially improved: the deposit outflow has been halted and the deposit volume has been stabilised, liquidity indicators have been improved, new customers have been attracted, and innovative products have been developed.

On 24 February 2009, the Latvian Government decided to transfer the shares of *Parex banka* owned by State JSC Mortgage and Loan Bank of Latvia to State JSC Privatisation Agency, to ensure more optimal management of the State's investment and prepare the Bank for a capital increase and a further sale. Pursuant to this decision the *Privatisation Agency* acquired all *Parex banka's* shares owned by *Mortgage and Land Bank of Latvia*, and respective amendments were made in the shareholders' registry on 27 February 2009.

Despite the global financial crisis and changes in the bank's operations and due to continuous support from the Government, *Parex banka* successfully concluded negotiations with its syndicated lenders, restructuring the outstanding loans and the repayment terms. The signing of the agreement with the syndicated lenders in February 2009 evidenced the completion of a crucial stage in the stabilisation process of the Bank. The Bank has received a State guarantee for the roll-over repayment of *Parex banka's* syndicated loans in line with the agreement negotiated between *Parex banka* and its syndicated lenders with the following loan repayment schedule: 30% (EUR 232.5 million) from the loan amount was repaid in March 2009, 40% (EUR 310 million) was repaid in February 2010 and 30% (EUR 232.5 million) will be repaid in May 2011.

Among *Parex banka's* top priorities in 2009 was concluding the deal with the *European Bank for Reconstruction and Development* about its involvement in the shareholder structure, signalling about the vitality and development potential of the institution. In January and February 2009, the EBRD performed a complete *due diligence* of *Parex banka*, but already in March the Cabinet of Ministers conceptually approved the participation of EBRD in *Parex banka's* equity capital. Similarly the Government reached an agreement to increase *Parex banka's* capital by 227 million lats. On 7 April 2009, the EBRD Board of Directors approved a financial package for *Parex banka*, including the acquisition of 25 percent plus 1 of ordinary shares of *Parex banka* for LVL 59.5 million (EUR 84.2 million) and a subordinated loan of EUR 22 million.

On 16 April 2009, the Share Purchase Agreement was signed providing that following the increase of equity capital the EBRD will purchase 57,506,825 ordinary shares comprising 25 percent and one share of *Parex banka's* equity capital. On 23 July 2009, the *European Bank for Reconstruction and Development* signed the subordinated loan agreement with *Parex banka*.

Finalising the deal, on 3 September 2009, 25 percent and one share of *Parex banka* were transferred from the *Privatisation Agency* to the *European Bank for Reconstruction and Development*. In this initial transaction, the EBRD acquired 51,444,325 ordinary shares with voting rights. As part of a future capital increase at *Parex banka*, the EBRD plans to purchase a further 6,062,500 shares, thus maintaining its stake of 25 percent and one share. The EBRD's investment in the equity capital together with a EUR 22 million subordinated loan contributes to strengthen the capital base of *Parex banka* and support its restructuring and return to profitability and the private sector.

The signed agreement indicates not only the stabilisation of the Latvian financial system and gives a positive signal about the investment environment in Latvia, but also evaluates *Parex banka*'s future development potential and increases the Bank's value. The attracted resources will enable *Parex banka* to further develop new services, paying a closer attention to the segment of small and medium enterprises, as investments in this particular segment are vital for the economy to recover.

Parex banka began to work on optimisation and increased efficiency in late 2008, when the wages of the bank's Board and Council were cut substantially. The wages of the new Board are equal to just 28% of the wages paid to members of the previous Board. In the case of the Council, they are just 17% of the former compensation.

In 2009, the administrative costs of the Bank have declined by 39% in comparison to average monthly indicators in 2008. By the end of 2009, the savings amounted to LVL 32,286 thousand, compared to the administrative costs in 2008. Thus, telecommunication costs were reduced by 31%, and office expenditures were cut by 58% in comparison to the same period of time in 2008. Major savings were also ensured by a 91% cut in travel costs, an 81% drop in advertising and marketing expenditures, a 78% drop in representation costs, a 72% decline in security services, and a 72% reduction in repair and maintenance expenses. Additionally, moving to the new administrative building on 2a Republikas Square in Riga will allow the bank to save LVL 2.7 million a year and further reduce administrative costs and maintenance spending. Furthermore, the wage fund at the bank has declined by 41% after a staff reduction of 25% and a review of all employee wages. Additionally, several new projects have been launched to raise the effectiveness and to achieve the Bank's strategic objectives, for example, the development of a unified salary system, implementation of a performance based management system, as well as increase of effectiveness of the customer service process. In order to improve the cost to income ratio the Bank will continue substantial cost reduction and expenses optimisation programme in year 2010.

Stabilisation of the Bank also reflected in the reports of international rating agencies. Thus, on 30 July 2009, international rating agency *Moody's Investors Service* approved *Parex banka*'s long-term rating at the previous level with a stable outlook; thus, accomplishing the investigation process launched by *Moody's* in December 2008 with an initial assumption of a potential downgrade. In its credit opinion *Moody's* discussed *Parex banka*'s improved capital base and the new shareholder structure, as well as further support from the new shareholders, including the European Bank for Reconstruction and Development (the EBRD). *Moody's* also approved the previously assigned financial strength rating – *E*, with a stable outlook and short-term rating *Not-Prime*. The rating agency positively notes the accomplishments of the Bank in the stabilization process following the turbulences experienced in the fall of 2008, its cost optimisation efforts, as well as the participation of the EBRD in the Bank's shareholder structure. Additionally, *Moody's* strongly approves the state support to the Bank.

Financial Results

As at December 31, 2009, the loan portfolio of the Bank and the Group was worth LVL 1.45 and 1.66 billion respectively, with deposits of LVL 1.54 and 1.69 billion, total assets of LVL 2.47 and 2.60 billion, and capital and reserve volumes of LVL 153 and 139 million.

The deposit indicators and improvements in the Bank's liquidity (a 51% indicator in February 2010) show that customers are loyal to the Bank and that trust in the institution is increasing. In 2009, the Bank worked successfully to attract new clients and to develop new deposit products for private persons and legal entities.

In 2009, the Bank paid LVL 40.9 million to the State Treasury for its deposits, as well as to the Privatisation Agency as interest on its subordinated loan.

The Bank and the Group completed the year with net losses of LVL 111 and LVL 127 million respectively. As was the case in the entire bank sector, these results were largely affected by provisions to cover a loss in asset value – LVL 110 and LVL 120 million respectively.

Key elements in improving the Bank's financial indicators include a successful agreement on the restructuring of the Bank's syndicated loans in March of this year, as well as the involvement of the European Bank for Reconstruction and Development in the shareholder structure of the Bank, thus ensuring additional stability and growth prospects for the Bank.

The financial crisis has also had an adverse impact on the Bank's capital, which, starting from the end of 2008, led to a breach of several regulatory requirements (ratios) set by the FCMC. The Bank was in breach of the capital adequacy ratio, as well as the limits on foreign currency open positions. Further, mandatory reserve requirements in the Bank of Latvia were not met. Consequently, the Government of Latvia on 24 March 2009 decided to increase the Bank's capital, enabling most of these breaches to be remedied. Restoring an acceptable level of foreign currency open positions is not only dependent on the capital increase, but also on the Bank's ability to commence dealing once more on the international foreign exchange market, to which access has been very limited since the beginning of the liquidity crisis. The capital of *Parex banka* has been increased by means of previously made State Treasury deposit at the Bank; thus, reducing the amount of this deposit. Please refer to Note 27 for additional details on the capital increase.

The capital increase and the successful completion of the syndicated debt restructuring negotiations allow the Bank to start working on a more detailed strategy for the near-term, focusing on regaining customer trust, increasing the deposit base and gradually returning to the lending market. In this regard, one of the most urgent tasks for the management of the Bank is to take the necessary steps so that the FCMC will feel fully confident in lifting the remaining restrictions on the Bank's operations. The management of the Bank realises the importance of these efforts and believes that it will soon begin to produce positive results for its customers and other stakeholders.

Management and Supervisory body of *Parex banka*

The Management Board of the Bank took office on 5 December 2008 and is chaired by Nils Melngailis. Members of the Board are: Guntis Beļavskis, Senior Vice President and Head of Customer Services Division, Valters Ābele, Head of Credit Risk Division and Vladimirs Ivanovs, Vice President, Customer Service Department, and Roberts Stugis, Vice President supervising financial issues.

The Management of the Bank has named its strategic objectives, which include the restructuring of the Bank to ensure a more efficient and economical functioning of the institution, as well as the provision of independent funding and capital adequacy level to facilitate the repayment of the state aid in the shortest possible time.

New Supervisory Council of *Parex banka* was elected on 29 January 2010 during an extraordinary meeting of the Bank's Shareholders. The Council consists of the following members: Andžs Ūbelis, Michael J. Bourke (the EBRD), Laurence Phillips Adams (the EBRD), Kaspars Āboliņš and Juris Vaskāns.

The Management Board of the Bank is the executive body governing everyday processes at the Bank, while the Council is a supervisory body, representing shareholders' interests at the Bank in the periods between the shareholder meetings and supervising the Board's actions in order to ensure the Bank's further growth and development.

Restructuring and Development

On 8 May 2009, the Cabinet of Ministers approved *Parex banka's* restructuring plan, which was developed to assert the state support in the European Commission. The document gave an overview of the development plans of the Bank in line with the European Commission regulations on the state support during the aid provision period.

Parex banka has also defined its main strategic priorities: the restructuring of work organization to reach maximum efficiency and economy, as well as provision of independent bank's funding and capital adequacy. Furthermore, the improvement of risk control and management, lifting of the imposed restrictions and development of a new positioning plan in the market are also on the priority list. The document also gives an outline of the most important aspects of the Bank's business plan until 2013, including financial forecasts of balance sheet, profit and loss statement. Other strategic priorities included returning to normal operations and the provision of a full range services to Bank's customers, including lending. Furthermore, the Management of the Bank is dedicated to developing a new business strategy including investment in the development of new services to adapt successfully to changing customer needs.

In 2009, major work was devoted to organizing the Bank's business and dividing it into three major directions – retail services, corporate services, and private capital management, identifying priorities for development in each of three areas. *Parex banka's* management is working on the development of the Swiss bank's strategy within the framework of the proposed private capital management service development and in line with *Parex banka's* restructuring plan approved by the Latvian government.

Parex banka has strengthened its positions in the deposit market, as well as its customer base. Notwithstanding the sharp economic slowdown in Latvia and worldwide, the deposit amount in the segments of corporate customers and private individuals is stable – the number of corporate depositors has surpassed 18 thousand enterprises. Furthermore, circa 254 thousand private individuals, including more than 236 thousand Latvian residents have entrusted their assets to *Parex banka*. The total deposits at *Parex banka* have exceeded 1.54 billion lats, including 627 million lats in deposits from the State Treasury in the framework of state aid programme to *Parex banka*.

In 2009, *Parex banka* has added 16,080 new customers to its customer base. Currently, the bank has 379,971 customers, of those 5,134 legal entities and 94,862 individuals proved their trust in the Bank in 2009 by increasing the level of their partnership with the Bank.

In 2009, *Parex banka* established a subsidiary, SIA NIF ("Nekustamo īpašumu fonds", or "Real Estate Fund"), which will professionally manage assets that are not related to the Bank's core business. This applies to the Bank's real estate, problematic loans, and expropriated properties. Documents to register SIA NIF were submitted to the Latvian Company Register on 17 September 2009.


Parex banka has signed up to the Code of Conduct on housing loans, undertaking to implement it by 1 July 2010. The purpose of the Code of Conduct is to guarantee that consumers receive transparent and comparable information on housing loans in order to encourage cross-border competition. Once the Bank resumes mortgage lending, its customers will have a guarantee that *Parex banka* operates according to the best practice and standards of the European Union, providing complete information about lending terms before the conclusion of the agreement.

Significant recent events

On 25 January 2010, *Privatisation Agency* and *Parex banka* concluded an agreement with the international adviser Nomura International plc (hereinafter – *Nomura*). Within the framework of the agreement, *Nomura* will consult the Latvian Government, will prepare *Parex banka's* restructuring plan, following the approval of the restructuring plan by the government as a major shareholder, *Nomura's* task will be to provide the necessary consultations and support to the Bank for the implementation of the plan. Additionally, the consultant will assist the Management of the Bank in developing new strategy and business plan for *Parex banka* and its restructured units, as well as establish an effective management model for the newly established structures of the Bank. The last phase in the partnership with the consultant will be the successful sale of the restructured Bank and the units established in the process of the restructuring.

On 29 January 2010, in an extraordinary meeting of *Parex banka's* shareholders a decision was made to issue Bank's debt securities for the total value of EUR 175 million with a 2 year maturity and a 5% coupon. The bonds will be issued in several tranches. On 15 February 2010, the Bank concluded its first issue of debt securities amounting to EUR 17.7 million.

The issue of *Parex banka*'s debt securities will be aimed at facilitating economically favourable and legally stable deposit restructuring. *Parex banka*'s major depositors who currently have limited possibilities to handle their funds will be offered to acquire securities by means of their funds deposited at the Bank. The restructuring of the largest Bank's deposits will have a favourable effect on decisions regarding the cancellation of the imposed restrictions, as well as on the Bank's ability to attract investors and repay the state's investment. Lifting of the restrictions is one of the prerequisites to re-launch lending, which currently is an essential factor for the stimulation of general economic development.



Nils Melngailis
Chairman of the Management Board



Andžs Ūbelis
Chairman of the Council

Riga,
24 March 2010

Council of the Bank

Name	Position
Andžs Ūbelis	Chairman of the Council
Michael Joseph Bourke	Deputy chairman of the Council
Laurence Phillips Adams	Member of the Council
Kaspars Āboliņš	Member of the Council
Juris Vaskāns	Member of the Council

Management Board of the Bank

Name	Position
Nils Melngailis	Chairman of the Management Board, p.p.
Guntis Beļavskis	Member of the Management Board, p.p.
Roberts Stūģis	Member of the Management Board
Vladimirs Ivanovs	Member of the Management Board
Valters Ābele	Member of the Management Board

Since 29 June 2009 the EBRD is represented in Parex banka's Supervisory Council. A new Supervisory Council of Parex banka was elected during the annual General meeting of the Bank's Shareholders. The following members were elected to Parex banka's Council – Andžs Ūbelis, Michael J. Bourke, Laurence Phillips Adams (EBRD nominee), Kaspars Āboliņš and Carl Hakan Kallaker. Due to Carl Hakan Kallaker leaving his duties, the rest of the previous Council was reappointed on 28 August 2009 and Juris Vaskāns was appointed as the new member of the Council.

Changes in management bodies during the reporting year and until the signing of these financial statements:

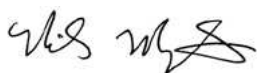
Name	Position	Date of changes	Type of changes
Andžs Ūbelis	Chairman of the Council	17.09.2009	Re-elected
Michael J. Bourke	Deputy Chairman of the Council	17.09.2009	Re-elected
Andžs Ūbelis	Member of the Council	28.08.2009	Reappointed
Michael J. Bourke	Member of the Council	28.08.2009	Reappointed
Kaspars Āboliņš	Member of the Council	28.08.2009	Reappointed
Laurence Phillips Adams	Member of the Council	28.08.2009	Reappointed
Juris Vaskāns	Member of the Council	28.08.2009	Appointed
Andžs Ūbelis	Chairman of the Council	28.08.2009	Removed
Michael J. Bourke	Deputy Chairman of the Council	28.08.2009	Removed
Kaspars Āboliņš	Member of the Council	28.08.2009	Removed
Carl Hakan Kallaker	Member of the Council	28.08.2009	Resigned
Laurence Phillips Adams	Member of the Council	28.08.2009	Removed
Andžs Ūbelis	Chairman of the Council	29.06.2009	Reappointed
Michael J. Bourke	Deputy Chairman of the Council	29.06.2009	Appointed
Kaspars Āboliņš	Member of the Council	29.06.2009	Reappointed
Carl Hakan Kallaker	Member of the Council	29.06.2009	Reappointed
Laurence Phillips Adams	Member of the Council	29.06.2009	Appointed
Rolands Paņko	Deputy Chairman of the Council	29.06.2009	Resigned
Gints Freimanis	Member of the Council	29.06.2009	Resigned
Žaneta Jaunzeme-Grende	Member of the Council	29.06.2009	Resigned

The Management of AS Parex banka (hereinafter – the Bank) are responsible for the preparation of the financial statements of the Bank as well as for the preparation of the consolidated financial statements of the Bank and its subsidiaries (hereinafter – the Group).

The financial statements set out on pages 10 to 86 are prepared in accordance with the source documents and present fairly the financial position of the Bank and the Group as at 31 December 2009 and 2008 and the results of their operations, changes in shareholders' equity and cash flows for the years then ended. The management report set out on pages 3 to 7 presents fairly the financial results of the reporting year and future prospects of the Bank and the Group.

The financial statements are prepared in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board 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 Parex banka are responsible for the maintenance of proper accounting records, the safeguarding of the Group's assets and the prevention and detection of fraud and other irregularities in the Group. They are also responsible for operating the Bank in compliance with the Law on Credit Institutions, regulations of the Financial and Capital Market Commission and other legislation of the Republic of Latvia applicable for credit institutions.



Nils Melngailis
Chairman of the Management Board



Andžs Ūbelis
Chairman of the Council

Riga,
24 March 2010

AS "PAREX BANKA" STATEMENTS OF INCOME
FOR THE YEARS ENDED 31 DECEMBER 2009 AND 2008



		LVL 000's			
	Notes	2009 Group	2008 Group	2009 Bank	2008 Bank
Interest income	3	172,310	228,337	153,562	202,292
Interest expense	3	(145,883)	(132,045)	(141,315)	(125,759)
Net interest income		26,427	96,292	12,247	76,533
Commission and fee income	4	28,160	47,186	21,588	38,298
Commission and fee expense	4	(8,588)	(11,374)	(6,944)	(10,875)
Net commission and fee income		19,572	35,812	14,644	27,423
(Loss) / gain on transactions with financial instruments, net	5	5,655	(3,362)	5,540	(4,657)
Other income	6	15,020	12,908	10,291	8,073
Other expense		(4,476)	(1,515)	(4,115)	(1,062)
Administrative expense	7,8	(71,524)	(109,092)	(50,352)	(82,638)
Amortisation and depreciation charge	18,19	(11,348)	(9,314)	(7,752)	(7,346)
Impairment charges and reversals, net	9	(119,699)	(159,732)	(109,693)	(146,655)
Loss on disposal of assets held for sale, net		(3,652)	(391)	-	-
Loss before taxation		(144,025)	(138,394)	(129,190)	(130,329)
Corporate income tax	10	17,015	7,424	18,080	6,321
Net loss for the year		(127,010)	(130,970)	(111,110)	(124,008)
Attributable to:					
Equity holders of the Bank		(127,010)	(130,970)	(111,110)	(124,008)
Minority interest		-	-	-	-
		(127,010)	(130,970)	(111,110)	(124,008)

The notes on pages 15 to 86 are an integral part of these financial statements.

AS "PAREX BANKA" STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED 31 DECEMBER 2009 AND 2008



	LVL 000's			
	2009 Group	2008 Group	2009 Bank	2008 Bank
Net loss for the year	<u>(127,010)</u>	<u>(130,970)</u>	<u>(111,110)</u>	<u>(124,008)</u>
Other comprehensive income:				
<i>Fair value revaluation reserve: held-to-maturity securities*</i>				
Reclassification of securities (incl. deferred tax)	-	(12,236)	-	(11,075)
Amortisation	2,449	1,071	2,166	935
Impairment of securities	565	1,883	565	1,883
Deferred income tax charged directly to equity	12	66	(22)	(22)
<i>Fair value revaluation reserve: available-for-sale securities</i>				
Reclassification of securities (incl. deferred tax)	-	12,236	-	11,075
Impairment of securities	2,585	5,501	2,585	5,501
Fair value revaluation reserve charged to statement of income	11	6,536	(15)	7,095
Change in fair value of available for sale securities	16,663	(31,375)	16,232	(31,344)
Deferred income tax charged directly to equity	(396)	413	(220)	301
Other comprehensive income / (loss) for the year	<u>21,889</u>	<u>(15,905)</u>	<u>21,291</u>	<u>(15,651)</u>
Total comprehensive loss for the year	<u><u>(105,121)</u></u>	<u><u>(146,875)</u></u>	<u><u>(89,819)</u></u>	<u><u>(139,659)</u></u>
Attributable to:				
Equity holders of the Bank	(105,121)	(146,875)	(89,819)	(139,659)
Minority interest	-	-	-	-
	<u>(105,121)</u>	<u>(146,875)</u>	<u>(89,819)</u>	<u>(139,659)</u>

*The reserve is attributable to available-for-sale securities that were reclassified to held-to-maturity securities. The reserve will be amortised to Income statement till the maturity of the securities.

In 2008, the Bank decided to reclassify part of available-for-sale securities to held-to-maturity portfolio. Please see Note 15 for more details on the reclassification. The accounting treatment of the revaluation reserve attributable to the securities reclassified is described in section *Financial instruments* of the Note 2 *Summary of significant accounting policies*.

The notes on pages 15 to 86 are an integral part of these financial statements.

AS "PAREX BANKA" BALANCE SHEETS AS AT 31 DECEMBER 2009 AND 2008



		LVL 000's			
	Notes	31/12/2009 Group	31/12/2008 Group	31/12/2009 Bank	31/12/2008 Bank
<u>Assets</u>					
Cash and deposits with central banks	11	157,502	116,350	142,259	95,179
Balances due from credit institutions	12	220,836	274,724	325,869	498,685
Securities held for trading:					
- fixed income	15	1,409	2,314	1,409	2,000
- shares and other non-fixed income	16	1,443	4,401	1,443	4,401
Derivative financial instruments	28	1,913	19,203	1,922	19,152
Financial assets designated at fair value through profit and loss		2,770	1,629	-	-
Available-for-sale securities:					
- fixed income	15	104,818	146,187	85,741	141,304
- shares and other non-fixed income	16	9,531	12,504	9,458	12,418
Loans and receivables to customers	13,14	1,660,368	2,036,001	1,445,406	1,744,871
Held-to-maturity securities	15	299,371	758,546	318,649	797,989
Current income tax assets	10	7,977	8,147	7,190	7,666
Non-current assets and disposal groups classified as held for sale	20	12,373	7,109	4	2,814
Fixed assets	19	52,495	60,492	12,545	20,238
Goodwill and intangible assets	18	3,294	4,048	585	782
Investments in subsidiaries	17	-	-	72,725	51,442
Investment property		878	-	-	-
Deferred income tax assets	10	31,492	12,199	28,801	9,679
Other assets	21	28,427	19,949	17,144	9,419
Total assets		<u>2,596,897</u>	<u>3,483,803</u>	<u>2,471,150</u>	<u>3,418,039</u>
<u>Liabilities</u>					
Derivative financial instruments	28	937	9,509	962	9,670
Financial liabilities designated at fair value through profit and loss		709	314	-	-
Financial liabilities measured at amortised cost:					
- balances due to credit institutions and central banks	23	552,466	1,189,621	572,782	1,261,440
- deposits from customers	24	1,687,849	2,022,994	1,540,669	1,901,886
- issued debt securities	22	90,551	88,982	90,742	88,712
- other financial liabilities		5,430	2,341	-	-
Current income tax liabilities	10	436	440	-	-
Deferred income tax liabilities	10	846	347	-	-
Other liabilities	25	14,774	37,227	9,370	25,883
Subordinated liabilities	26	103,949	52,957	103,956	52,960
Total liabilities		<u>2,457,947</u>	<u>3,404,732</u>	<u>2,318,481</u>	<u>3,340,551</u>
<u>Equity</u>					
Paid-in share capital	27	230,027	65,027	230,027	65,027
Share premium		12,694	12,694	12,694	12,694
Fair value revaluation reserve - held-to-maturity securities		(6,190)	(9,216)	(5,570)	(8,279)
Fair value revaluation reserve - available-for-sale securities		(6,128)	(24,991)	(6,409)	(24,991)
(Accumulated losses) / Retained earnings		<u>(91,453)</u>	<u>35,557</u>	<u>(78,073)</u>	<u>33,037</u>
Total shareholders' equity attributable to the shareholders of the Bank		<u>138,950</u>	<u>79,071</u>	<u>152,669</u>	<u>77,488</u>
Minority interest		-	-	-	-
Total equity		<u>138,950</u>	<u>79,071</u>	<u>152,669</u>	<u>77,488</u>
Total liabilities and equity		<u>2,596,897</u>	<u>3,483,803</u>	<u>2,471,150</u>	<u>3,418,039</u>

The notes on pages 15 to 86 are an integral part of these financial statements.

AS "PAREX BANKA" STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED 31 DECEMBER 2009 AND 2008



Changes in the Group's equity are as follows:

	LVL 000's					
	Attributable to equity holders of the Bank					
	Issued share capital	Share premium	Fair value revaluation reserve, attributable to:		Retained earnings	Total equity
			Held-to- maturity securities	Available- for-sale securities		
Balance as at 31 December 2007	65,027	12,694	-	(18,302)	166,527	225,946
Net loss for the period	-	-	-	-	(130,970)	(130,970)
Other comprehensive loss for the period	-	-	(9,216)	(6,689)	-	(15,905)
Balance as at 31 December 2008	65,027	12,694	(9,216)	(24,991)	35,557	79,071
Issue of new shares	165,000	-	-	-	-	165,000
Net loss for the period	-	-	-	-	(127,010)	(127,010)
Other comprehensive income for the period	-	-	3,026	18,863	-	21,889
Balance as at 31 December 2009	230,027	12,694	(6,190)	(6,128)	(91,453)	138,950

Changes in the Bank's equity are as follows:

	LVL 000's					Total equity
	Attributable to equity holders of the Bank					
	Issued share capital	Share premium	Fair value revaluation reserve, attributable to:		Retained earnings	
			Held-to- maturity securities	Available- for-sale securities		
Balance as at 31 December 2007	65,027	12,694	-	(17,619)	157,045	217,147
Net loss for the period	-	-	-	-	(124,008)	(124,008)
Other comprehensive loss for the period	-	-	(8,279)	(7,372)	-	(15,651)
Balance as at 31 December 2008	65,027	12,694	(8,279)	(24,991)	33,037	77,488
Issue of new shares	165,000	-	-	-	-	165,000
<i>Net loss for the period</i>	-	-	-	-	(111,110)	(111,110)
Other comprehensive income for the period	-	-	2,709	18,582	-	21,291
Balance as at 31 December 2009	230,027	12,694	(5,570)	(6,409)	(78,073)	152,669

The notes on pages 15 to 86 are an integral part of these financial statements.

AS PAREX BANKA STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED 31 DECEMBER 2009 AND 2008



		LVL 000's			
		2009	2008	2009	2008
Notes		Group	Group	Bank	Bank
Cash flows from operating activities					
		(144,025)	(138,394)	(129,190)	(130,329)
Loss before tax					
Amortisation of intangible assets, depreciation of fixed assets and investment property		11,348	9,314	7,752	7,346
Change in impairment allowances and other provisions		119,699	158,730	109,693	144,511
Other non-cash items		240	1,027	782	629
Cash generated before changes in assets and liabilities		(12,738)	30,677	(10,963)	22,157
Change in derivative financial instruments		8,718	(12,265)	8,522	(10,985)
(Increase)/ decrease in other assets		(4,589)	(1,934)	3,148	(215)
(Decrease) in other liabilities		(18,535)	(1,516)	(15,684)	(499)
Decrease in trading investments		3,117	37,354	3,549	36,388
(Increase)/ decrease in balances due from credit institutions		21,855	13,361	(167,816)	173,153
(Increase) / decrease in loans and receivables to customers		247,090	(130,802)	176,661	(110,801)
Increase / (decrease) in balances due to credit institutions and central banks		(33,436)	98,487	(20,617)	94,842
(Decrease) in deposits from customers		(132,807)	(58,971)	(158,879)	(7,242)
Cash generated from / (used in) operating activities before corporate income tax		78,675	(25,609)	(182,079)	196,798
Corporate income tax (paid)		(2,460)	(8,003)	(808)	(6,603)
Net cash flow generated from / (used in) operating activities		76,215	(33,612)	(182,887)	190,195
Cash flows from investing activities					
(Purchase) of intangible and fixed assets		(10,499)	(39,903)	(1,045)	(9,545)
Proceeds from disposal of intangible and fixed assets		1,284	1,503	648	779
Acquisitions and investments in subsidiaries		-	-	(21,675)	-
(Purchase) of held-to-maturity securities		-	(15,347)	-	(40,415)
Cash inflows from maturing held-to-maturity securities		37,361	33,392	59,251	32,842
(Purchase) of available-for-sale securities, net		59,401	(40,247)	71,117	(52,475)
Net cash flow from investing activities		87,547	(60,602)	108,296	(68,814)
Cash flows from financing activities					
Repayment/ repurchase of debt securities		-	(98,925)	-	(99,718)
Repayment of syndicated loans		(163,402)	(263,551)	(163,402)	(263,551)
Proceeds from received syndicated loans		-	193,271	-	193,271
Raised subordinated capital		12,928	24,844	12,932	24,847
Net cash flow from financing activities		(150,474)	(144,361)	(150,470)	(145,151)
Net cash flow for the year		13,288	(238,575)	(225,061)	(23,770)
Cash and cash equivalents at the beginning of the year	31	361,488	600,063	555,930	579,700
Cash and cash equivalents at the end of the year	31	374,776	361,488	330,869	555,930

Amounts of interest income and (expense) received/ (paid) are as follows:

		LVL 000's			
		2009	2008	2009	2008
		Group	Group	Bank	Bank
Interest income received during the year		159,507	222,273	143,886	198,703
Interest expense paid during the year		(169,533)	(129,758)	(146,982)	(123,024)

The notes on pages 15 to 86 are an integral part of these financial statements.



Figures in parenthesis represent amounts as at 31 December 2008 or for year ended 31 December 2008, if not stated otherwise. If not mentioned otherwise, referral to Group's policies and procedures should be also considered as referral to the respective Bank's policies and procedures.

AUTHORISATION OF THE FINANCIAL STATEMENTS

These financial statements have been authorised for issuance by the Management on 24 March 2010. In accordance with the Commercial Law of the Republic of Latvia, the shareholders' meeting has the right to make decision on approval of the financial statements.

NOTE 1. GENERAL INFORMATION

AS Parex banka (hereinafter – the Bank) was registered as a joint stock company on 14 May 1992. The Bank commenced its operations in June 1992.

The Bank's head office and three main branches are located in Riga, Latvia. As of 14 September 2009, the legal address of the Bank has been changed to Republikas laukums 2a, Riga, LV-1522 from Smilšu 3, Riga, LV-1522. As at 31 December 2009, the Bank was operating a total of 63 (74) branches and client service centres in Riga and throughout Latvia. The Bank has 12 (11) foreign branches and client service centres – in Tallinn (Estonia), Narva (Estonia), Tartu (Estonia), Berlin (Germany), Hamburg (Germany), Munich (Germany), Helsinki (Finland), Stockholm (Sweden) and Goteborg (Sweden). The Bank owns directly and indirectly 35 (29) subsidiaries, which operate in various financial markets sectors. The Bank is parent company of the Group.

The Bank's main areas of operation include accepting deposits from customers, granting short-term and long-term loans to the State Treasury of Latvia, local municipalities, corporate customers, private individuals and other credit institutions, issuing and servicing payment cards, dealing with finance lease and foreign exchange transactions. The Bank offers its clients also trust management and investment banking services, performs local and international payments, as well as provides a wide range of other financial services.

As at 31 December 2009, the Group had 2,868 (3,593) employees.

Impact of financial crisis on the Group and Bank

The collapse of Lehman Brothers in mid-September 2008 and the unprecedented events in subsequent weeks intensified the turmoil in global financial markets leading to increased public uncertainty about the stability of the Latvian financial sector and, in particular, privately owned banks, which did not enjoy support from larger international financial institutions. Notwithstanding the continued growth in the deposit base until the end of September 2008, the Bank thereafter experienced deposit outflows as well as a decrease in the liquidity of its securities portfolio, part of which was held as a liquidity cushion. As a result, at the end of October 2008, the Bank applied to the Government of the Republic of Latvia for support. On 10 November 2008, prior to providing the liquidity support, the State and State Joint-Stock Company "Latvijas Hipotēku un zemes banka" (*Mortgage and Land Bank of Latvia*) entered into an agreement with the major shareholders of the Bank Valērijs Kargins and Viktors Krasovickis for the sale of 51% of their shareholding for a symbolic price of 2 lats to the *Mortgage and Land Bank of Latvia*. The initial response to the takeover was a significant increase in the outflows of deposits during the first days after the announcement, mainly due to the lack of public certainty as to whether the State support was temporary or permanent.

On 1 December 2008, with the aim of stabilising the situation in the Bank the Cabinet of Ministers of the Republic of Latvia and the Financial and Capital Market Commission (FCMC), as a temporary measure under the Credit Institutions Law of Latvia, jointly decided to impose withdrawal restrictions on the Bank's deposits. In order to further stabilise *Parex banka*, a decision to increase the State's shareholding was made and amendments to the agreement concluded on 10 November 2008 were made on 3 December 2008. Under the terms of the amendment, a further 33.83% of *Parex banka's* shares were sold by the former major shareholders to the state-owned *Mortgage and Land Bank of Latvia*, increasing its share to 84.83%. Following this initial Government involvement, the Bank has received further liquidity support from the State Treasury of the Republic of Latvia when necessary. On 24 February 2009, the Government of Latvia decided to transfer the shares of *Parex banka* owned by *Mortgage and Land Bank of Latvia* to the *Privatisation Agency*, to ensure more optimal management of the State's investment and prepare the Bank for a capital increase and future sale. Pursuant to this decision the *Privatisation Agency* acquired *Parex banka's* shares owned by *Mortgage and Land Bank of Latvia*, and respective amendments were made in the shareholders' register on 27 February 2009.

On 24 March 2009, the Cabinet of Ministers resolved to strengthen the capital of the Bank by LVL 227 million, consisting of LVL 165 million share capital and LVL 62 million subordinated loans. On 11 May 2009, the European Commission approved a share capital increase of LVL 140,750 thousand and a subordinated loan amounting to LVL 50,270 thousand. On 22 May 2009, the *Privatisation Agency* paid up the respective capital increase and issued subordinated loan.

Furthermore, on 16 April 2009 the *European Bank for Reconstruction and Development* (EBRD) has signed an agreement with the *Privatisation Agency* to purchase 25% of the Bank's share capital, which will follow the increase of the capital by the State. The closing of this transaction took place on 3 September 2009 and the EBRD became a shareholder in the Bank owning 51,444,325 voting shares.

On 29 October 2009 the Bank's capital was increased further by LVL 24.25 million. The increase was carried out by the largest shareholder of the Bank the *Privatisation Agency* by purchase of a corresponding amount of non-voting shares.

Since the end of 2008, the Bank has resolved certain of the significant uncertainties in respect to the Group's ability to successfully cope with market challenges, continue its operations on a going concern basis and return to normal business conditions. The most important of these are:

- Syndicated loan repayment has been restructured and the repayment of the first and second part of the principal has been made;
- Stabilised and constantly improving liquidity;
- A decision has been made to strengthen the Bank's capital base with an injection amounting to LVL 227 million; and
- EBRD became a 25% shareholder (voting rights) of the Bank.

Nevertheless, the economic environment in the Group's main markets for the years 2010 is going to be very difficult. On its way to fully restore the level of business activity and ensure further development, the Group will face many challenges, the most important of these being regaining and continuously strengthening customer confidence. Even though a number of significant steps towards the stabilisation of the Bank have already been taken by the Bank in 2009 as mentioned previously, Management acknowledge that strengthening customer relationships and their confidence in the Bank will remain a priority in the forthcoming years. It will enable the Group to strengthen its liquidity position and return to its normal course of business.

As mentioned previously, on 1 December 2008, the Financial and Capital Markets Commission (FCMC) and the Cabinet of Ministers imposed restrictions on deposit withdrawals from AS Parex banka (Latvia), applicable to all customer deposits with the Bank as at that date. On 19 June 2009 the restrictions were prolonged to 1 December 2009 and, recently, on 13 November 2009 the FCMC resolved to extend these restrictions till 30 June 2010. Nevertheless, during 2009 the restrictions have been softened gradually since they were first imposed in December 2008. Since June 2009, the restrictions on outgoing money transfers subject to business-purpose checks have been reduced, since October the unused withdrawal limits became transferable (accumulate) from one month to the next month and since November state and municipal entities do not have any limits, according to the same FCMC resolutions, thus facilitating certain client money transfers.

The management of the Bank believes that restrictions will be fully lifted only after sufficient liquidity buffer is built to meet any potential additional cash requirements arising from the full lifting of restrictions. The management are working on various options to accumulate the aforementioned cash resources. During 2009, the level of deposits restricted has reduced significantly and as at 31 December 2009 amounts to LVL 280 million (LVL 611 million) representing 17% (30%) of total deposits and 27% (46%) of customer deposits without State Treasury deposits. The management recognise that there is uncertainty as to the potential effect of restrictions removal on the overall Bank's liquidity position. Nevertheless, the management believes that the restructuring measures (e.g. restructuring the restricted deposits into fixed-term Eurobonds) that has been already started in 2010 will address the aforementioned uncertainty.

On 8 May 2009, the Cabinet of Ministers approved *Parex banka's* restructuring plan (further EC restructuring plan), which was developed to assert the state support and it was submitted to the European Commission. On 22 September 2009, revised EC restructuring plan was submitted. In the meantime, the management of the Bank continued the work on developing additional alternatives for the restructuring of the Bank. On 25 January 2010, Privatisation Agency appointed Nomura International Plc (further – Nomura) as the strategic consultant in respect of the restructuring as well as the sale of the Bank. On 23 March 2010, the Cabinet of Ministers approved the restructuring principles/framework presented by Nomura which is to restructure strategic assets out in a new entity to enable the Bank to continue in business on a commercial basis and for it to be less dependant on State support. Nevertheless, the in-depth assessment of the potential restructuring implications continues. Further, the actual restructuring process will commence only after the approval of the European Commission is received. Thus, as at the date of signing these financial statements the potential effect of the restructuring, if any, on the Group's and Bank's financial position is unclear.

The financial statements have been prepared on a going concern basis. The validity of this assumption is dependant upon the continuity of State support and on-going roll-overs in maturity of existing State Treasury deposits, as well as the effect, if any, of the Bank's restructuring process outcome. It can not be excluded that the existence of these uncertainties may cast doubt on the ability of the Group to continue to operate on a going concern basis for the foreseeable future. If the Group were unable to continue as a going concern, adjustments may have to be made to reduce the monetary value of assets to their recoverable amounts and provide for further liabilities that might arise.

Management of the Bank is positive that the Bank, taking into account the support from its shareholders, if such would be needed, is well positioned to resolve the aforementioned uncertainties and that the Group and the Bank will have adequate resources to restore the normal course of business in the foreseeable future. For these reasons, the Management continue to adopt the going concern basis in preparing the annual report and financial statements.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Certain new IFRSs became effective for the Group from 1 January 2009. Listed below are those new or amended standards or interpretations which are relevant to the Group's operations and the nature of their impact on the Group's accounting policies.

IAS 1, Presentation of Financial Statements, revised in September 2007. The main change in IAS 1 is the replacement of the income statement by a statement of comprehensive income which includes all non-owner changes in equity, such as the revaluation of available-for-sale financial assets. Alternatively, entities are allowed to present two statements: a separate income statement and a statement of comprehensive income. The Group has elected to present a separate income statement and a statement of comprehensive income. The revised IAS 1 also introduces a requirement to present a statement of financial position (balance sheet) at the beginning of the earliest comparative period whenever the entity restates comparatives due to reclassifications, changes in accounting policies, or corrections of errors. The revised IAS 1 had an impact on the presentation of the Group's financial statements but had no impact on the recognition or measurement of specific transactions and balances.

Improving Disclosures about Financial Instruments - Amendment to IFRS 7, Financial Instruments: Disclosures, issued in March 2009. The amendment requires enhanced disclosures about fair value measurements and liquidity risk. The entity is required to disclose an analysis of financial instruments using a three-level fair value measurement hierarchy. The amendment (a) clarifies that the maturity analysis of liabilities should include issued financial guarantee contracts at the maximum amount of the guarantee in the earliest period in which the guarantee could be called; and (b) requires disclosure of remaining contractual maturities of financial derivatives if the contractual maturities are essential for an understanding of the timing of the cash flows. An entity will further have to disclose a maturity analysis of financial assets it holds for managing liquidity risk, if that information is necessary to enable users of its financial statements to evaluate the nature and extent of liquidity risk. The enhanced disclosures are included in these financial statements.

IFRS 8, Operating Segments. The standard applies to entities whose debt or equity instruments are traded in a public market or that file, or are in the process of filing, their financial statements with a regulatory organisation for the purpose of issuing any class of instruments in a public market. IFRS 8 requires an entity to report financial and descriptive information about its operating segments, with segment information presented on a similar basis to that used for internal reporting purposes.

In accordance with the adopted of IFRS 8 the Group has only one segment – bank in Latvia. There has been no further impact on the measurement of the Group's assets and liabilities. Comparative segment disclosures have been restated to conform to the presentation in the current period.

Improvements to International Financial Reporting Standards (issued in May 2008 endorsed by the EU on 23 January 2009; most of the amendments are effective for annual periods beginning on or after 1 January 2009). The amendments consist of a mixture of substantive changes, clarifications, and changes in terminology in various standards. The substantive changes relate to the following areas: classification as held for sale under IFRS 5 in case of a loss of control over a subsidiary; possibility of presentation of financial instruments held for trading as non-current under IAS 1; accounting for sale of IAS 16 assets which were previously held for rental and classification of the related cash flows under IAS 7 as cash flows from operating activities; clarification of definition of a curtailment under IAS 19; accounting for below market interest rate government loans in accordance with IAS 20; making the definition of borrowing costs in IAS 23 consistent with the effective interest method; clarification of accounting for subsidiaries held for sale under IAS 27 and IFRS 5; reduction in the disclosure requirements relating to associates and joint ventures under IAS 28 and IAS 31; enhancement of disclosures required by IAS 36; clarification of accounting for advertising costs under IAS 38; amending the definition of the fair value through profit or loss category to be consistent with hedge accounting under IAS 39; introduction of accounting for investment properties under construction in accordance with IAS 40; and reduction in restrictions over manner of determining fair value of biological assets under IAS 41. Further amendments made to IAS 8, 10, 18, 20, 29, 34, 40, 41 and to IFRS 7 represent terminology or editorial changes only, which the IASB believes have no or minimal effect on accounting. The amendments did not have a material effect on these financial statements

The following new and amended IFRSs and interpretations became effective in 2009, but are not relevant for the Group's operations and did not have an impact on these financial statements:

- IAS 23, Borrowing Costs, revised in March 2007.
- Puttable Financial Instruments and Obligations Arising on Liquidation—IAS 32 and IAS 1 Amendment.
- Vesting Conditions and Cancellations—Amendment to IFRS 2, Share-based Payment.
- IFRIC 13, Customer Loyalty Programmes (effective 1 July 2008 but the EU endorsed for use from 1 January 2009).
- IFRIC 14, IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction (effective 1 January 2008 but the EU endorsed for use from 1 January 2009).
- Embedded Derivatives – Amendments to IFRIC 9 and IAS 39.

Certain new standards and interpretations have been published that are mandatory for the Group's accounting periods beginning on or after 1 July 2009 or later periods and which the Group has not early adopted:

IAS 27, Consolidated and Separate Financial Statements (revised January 2008; effective for annual periods beginning on or after 1 July 2009). The revised IAS 27 will require an entity to attribute total comprehensive income to the owners of the parent and to the non-controlling interests (previously “minority interests”) even if this results in the non-controlling interests having a deficit balance (the current standard requires the excess losses to be allocated to the owners of the parent in most cases). The revised standard specifies that changes in a parent's ownership interest in a subsidiary that do not result in the loss of control must be accounted for as equity transactions. It also specifies how an entity should measure any gain or loss arising on the loss of control of a subsidiary. At the date when control is lost, any investment retained in the former subsidiary will have to be measured at its fair value. The Group does not expect the amended standard to have a material effect on its financial statements.

IFRS 3, Business Combinations (revised January 2008; effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009). The revised IFRS 3 will allow entities to choose to measure non-controlling interests using the existing IFRS 3 method (proportionate share of the acquiree's identifiable net assets) or at fair value. The revised IFRS 3 is more detailed in providing guidance on the application of the purchase method to business combinations. The requirement to measure at fair value every asset and liability at each step in a step acquisition for the purposes of calculating a portion of goodwill has been removed. Instead, in a business combination achieved in stages, the acquirer will have to remeasure its previously held equity interest in the acquiree at its acquisition-date fair value and recognise the resulting gain or loss, if any, in profit or loss for the year. Acquisition-related costs will be accounted for separately from the business combination and therefore recognised as expenses rather than included in goodwill. An acquirer will have to recognise at the acquisition date a liability for any contingent purchase consideration. Changes in the value of that liability after the acquisition date will be recognised in accordance with other applicable IFRSs, as appropriate, rather than by adjusting goodwill. The revised IFRS 3 brings into its scope business combinations involving only mutual entities and business combinations achieved by contract alone. The Group is assessing the impact of the amended standard on its financial statements.

Certain new standards and interpretations have been published that become effective for the accounting periods beginning on or after 1 July 2009 or later periods and which are not relevant to the Group or are not yet endorsed by the EU:

- Classification of Rights Issues – Amendment to IAS 32 (issued 8 October 2009; effective for annual periods beginning on or after 1 February 2010).
- IFRS 1, First-time Adoption of International Financial Reporting Standards (following an amendment in December 2008, effective for the first IFRS financial statements for a period beginning on or after 1 July 2009).
- Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate—IFRS 1 and IAS 27 Amendment (issued in May 2008, effective from periods beginning on or after 1 July 2009).
- Additional Exemptions for First-time Adopters – Amendments to IFRS 1, First-time Adoption of IFRS (effective for annual periods beginning on or after 1 January 2010, not yet endorsed by the EU).
- Group Cash-settled Share-based Payment Transactions – Amendments to IFRS 2, Share-based Payment (effective for annual periods beginning on or after 1 January 2010, not yet endorsed by the EU).
- Eligible Hedged Items—Amendment to IAS 39, Financial Instruments: Recognition and Measurement (effective with retrospective application for annual periods beginning on or after 1 July 2009).
- Amendment to IAS 24, Related Party Disclosures (effective for annual periods beginning on or after 1 January 2011, not yet endorsed by the EU).
- IFRS 9, Financial Instruments Part 1: Classification and Measurement (not yet endorsed by the EU).
- Improvements to International Financial Reporting Standards (issued in April 2009; amendments to IFRS 2, IAS 38, IFRIC 9 and IFRIC 16 are effective for annual periods beginning on or after 1 July 2009; amendments to IFRS 5, IFRS 8, IAS 1, IAS 7, IAS 17, IAS 36 and IAS 39 are effective for annual periods beginning on or after 1 January 2010, not yet endorsed by the EU).
- IFRIC 12, ‘Service concession arrangements’ (endorsed by the EU for periods beginning 30 March 2009).
- Amendment to IFRIC 14, ‘Payments of a minimum funding requirement’ (effective for annual periods beginning on or after 1 January 2011, not yet endorsed by the EU).
- IFRIC 15, Agreements for the Construction of Real Estate (effective 1 January 2009, the EU endorsed from 1 January 2010).
- IFRIC 16, Hedges of a Net Investment in a Foreign Operation (effective 1 October 2008 but the EU endorsed from 1 July 2009).
- IFRIC 17, Distributions of Non-Cash Assets to Owners (effective for annual periods beginning on or after 1 July 2009).
- IFRIC 18, Transfers of Assets from Customers (effective for annual periods beginning on or after 1 July 2009, the EU endorsed from annual periods beginning on or after 31 October 2009).
- IFRIC 19, Extinguishing financial liabilities with equity instruments (effective for annual periods beginning on or after 1 July 2010, not yet endorsed by the EU).

a) *Basis of preparation*

These financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) as adopted in the European Union. The financial statements are prepared under the historical cost convention, except for available-for-sale financial assets, financial assets and financial liabilities held at fair value through profit or loss, trading securities and all derivative contracts, which have been measured at fair value.

The preparation of financial statements in conformity with IFRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on Management's best knowledge of current events and actions, actual results ultimately may differ from those estimates.

b) *Functional and Presentation Currency*

The functional currency of each of the Group's consolidated entities is the currency of the primary economic environment in which the entity operates. The functional currency of the Bank and its Latvian subsidiaries, and the Group's presentation currency, is the national currency of the Republic of Latvia, Latvian lats ("LVL"). The accompanying financial statements are presented in thousands of Lats (LVL 000's).

c) *Basis of Consolidation*

As at 31 December 2009 and 2008, the Bank had a number of investments in subsidiaries, in which the Bank held directly and indirectly more than 50% of the shares and voting rights, and accordingly, had the ability to exercise control. The investments in the subsidiaries are presented in the Bank's financial statements at acquisition cost. More detailed information on the group's subsidiaries is presented in Note 17.

The financial statements of AS Parex banka and its subsidiaries are consolidated in the Group's financial statements on a line by line basis by adding together like items of assets and liabilities as well as income and expenses. For the purposes of consolidation, intra-group balances and intra-group transactions, including interest income and expense as well as unrealised profits and loss resulting from intra-group transactions, are eliminated in the Group's financial statements. However, intra-group losses may indicate an impairment that requires recognition in the Group's financial statements.

d) *Income and Expense Recognition*

Interest income and expense items are recognised on an accrual basis using the effective interest rate.

Commissions in respect of the acquisition of financial assets or the issue of financial liabilities that are not at fair value through profit or loss are deferred and recognised as an adjustment to the effective yield on the respective asset or liability. Other commissions and fees are credited and/ or charged to the statement of income as services are provided or on the execution of a significant act, as applicable, under the line "commission and fee income" or "commission and fee expense", as appropriate.

Penalty income is recognised on cash-received basis.

e) *Foreign Currency Translation*

Transactions denominated in foreign currencies are recorded in Lats at actual rates of exchange effective at the date of the transaction. Non-monetary items that are measured at fair value in a foreign currency, such as investments in equity instruments, are translated using the exchange rates at the date, when the fair value was determined. Monetary assets and liabilities denominated in foreign currencies are translated into Lats at the official rate of exchange prevailing at the end of the year. Any gain or loss resulting from a change in rates of exchange subsequent to the date of the transaction is included in the statement of income as a profit or loss from revaluation of foreign currency positions.

The results and financial position of all the Group's entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;
- income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions).

f) *Taxation*

For the year ended 31 December 2009 corporate income tax is applied at the rate of 15% (2008: 15%) on taxable income generated by the Bank for the taxation period.

Deferred corporate income tax arising from temporary differences in the timing of the recognition of items in the tax returns and these financial statements is assessed using the balance sheet liability method. The deferred corporate income tax is determined based on the tax rates that are expected to apply when the temporary differences reverse based on tax rates enacted or substantively enacted by the balance sheet date. The principal temporary differences arise from differing rates of accounting and tax depreciation on the fixed assets, revaluation of securities, as well as the treatment of collective impairment allowances and vacation pay reserve.

The carrying amount of deferred corporate income tax asset, if any, is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised. The future taxable profits and the amount of tax benefits that are probable in the future are based on a medium term financial forecast prepared by management and extrapolated results thereafter. The financial forecast is based on management expectations that are believed to be reasonable under the circumstances.

g) Financial instruments

The Group recognises financial asset on its balance sheet when, and only when, the Group becomes a party to the contractual provisions of the instrument.

Financial assets in the scope of IAS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale financial assets, as appropriate. At initial recognition, the financial assets are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable incremental transaction costs. The classification of investments between the categories is determined at acquisition based on the guidelines established by the Management.

All "regular way" purchases and sales of investments are recognised using settlement date accounting. The settlement date is the date when an asset is delivered to or by the Group. Settlement date accounting refers to the recognition of an asset on the day it is transferred to the Group and to the derecognition of an asset, on the day that it is transferred by the Group. All other purchases or sales are recognised as derivative instruments until settlement occurs.

Financial assets and liabilities held for trading

Financial assets and liabilities classified as held for trading are included in the category "financial assets/ liabilities at fair value through profit or loss". Financial assets and/ or liabilities are classified as held for trading if they are either acquired for generating a profit from short-term fluctuations in price or dealer's margin, or are included in a portfolio in which a pattern of short-term profit taking exists. Held for trading financial assets and liabilities are subsequently re-measured at fair value based on available market prices or quotes of brokers. The result of re-measuring trading financial assets and liabilities at fair value is charged directly to the statement of income.

Financial assets/ liabilities designated at fair value through profit and loss

Included in this category are (a) unit-linked investment contract liabilities and respective investments and (b) certain securities, which are managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy. According to unit-linked investment contract term, the credit risk associated with the investments made by the insurance underwriter is fully attributable to the counterparty entering the insurance agreement and not the underwriter. As such, by designating both assets acquired and liabilities undertaken at fair value through profit and loss, potential accounting mismatch is avoided.

Excluding interest on interest rate swaps, interest on financial assets at fair value through profit or loss held on own account is included in net interest income. Revaluation and trading gains and losses arising from changes in fair value of the respective assets, as well as interest on interest rate swaps are included directly in the income statement's line "(Loss)/gain on transactions with financial instruments, net".

Held to maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held to maturity if the Group has both the positive intent and ability to hold these investments to maturity. Held-to-maturity financial assets are carried at amortised cost using the effective interest rate method, less any allowance for impairment.

A financial asset is impaired if its carrying amount is greater than its estimated recoverable amount. The amount of the impairment loss for assets carried at amortised cost is calculated as the difference between the asset's carrying amount and the present value of expected future cash flows discounted at the financial instrument's original effective interest rate.

When available-for-sale assets are reclassified to held-to-maturity category, the fair value of the reclassified available-for-sale asset



as at the date of reclassification further becomes the amortised cost. The fair value as of the date of reclassification is the deemed cost of the reclassified assets. The fair value revaluation reserve attributable to reclassified assets are amortised until the asset's maturity using effective interest rate method. If there is objective evidence that the value of reclassified assets has been impaired, the unamortised negative fair value revaluation reserve that has been recognised directly in equity is charged to the statement of income.

Available for sale financial assets

Available for sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the three preceding categories. The Group's available for sale financial assets are intended to be held for an undefined period of time and may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

Available for sale financial assets are subsequently re-measured at fair value based on available market prices or quotes of brokers. The result of fair value revaluation of available for sale securities is recognised in other comprehensive income statement. The difference between the initial carrying amount and amortised cost determined by the effective interest rate method is treated as interest income. Dividends on available-for-sale equity instruments are recognised in the income statement. When the securities are disposed of, the related accumulated fair value revaluation is included in the statement of income as profit/ (loss) from sale of securities available for sale.

If an available-for-sale financial asset is determined to be impaired, the cumulative gain or loss previously recognised in the statement of comprehensive income is recognised in the income statement. However, interest is calculated using the effective interest method, and foreign currency gains and losses on monetary assets classified as available for sale are recognised in the consolidated income statement.

In the case of equity investments classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is objective evidence of impairment resulting in the recognition of an impairment loss. If any such evidence exists for available-for sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the income statement.

Derivative Financial Instruments

In the ordinary course of business, the Group engages as a party to contracts for forward foreign exchange rate, currency and interest rate swap instruments and other derivative financial instruments. Except for designated and effective hedging instruments, all derivatives are classified as held-for-trading. The accounting treatment of derivatives designated as hedging instruments is described further in sub-section "Hedge accounting".

Subsequent to initial recognition, outstanding forward foreign exchange rate contracts, currency swaps and other derivative financial instruments are carried in the balance sheet at their fair value. The fair value of these instruments is recognised on the balance sheet under designated assets and liabilities caption "Derivative financial instruments".

Gains or losses from changes in the fair value of outstanding forward foreign exchange rate contracts, currency and interest rate swaps and other derivative financial instruments, which are not designated as hedging instruments, are recognised in the statement of income as they arise.

Hedge accounting

In order to manage particular risks arising from changes in interest rates the Bank uses derivative instruments and applies hedge accounting for transactions meeting the specified criteria.

At inception of the hedge relationship, a formal documentation is prepared of the relationship between the hedged item and the hedging instrument, including the objective and strategy for undertaking the hedge and the method that will be used to assess the effectiveness of the hedging relationship.

Further, at the inception of the hedge relationship, a formal assessment is undertaken to ensure that the hedge relationship is expected to be highly effective. A hedge is considered to be highly effective if the changes in fair value or cash flows attributable to the hedged risk during the period for which the hedge is designated are expected to offset in a range of 80% to 125%.

For the purposes of hedge accounting, hedges are classified into two categories: (a) fair value hedges which hedge the exposure to changes in the fair value of a recognised asset or liability; and (b) cash flow hedges which hedge exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a forecasted transaction.

In relation to hedges (fair value and cash flow hedges), which meet the conditions for hedge accounting, any gain or loss from re-measuring the hedging instrument to fair value is recognised immediately in the statement of income except for the fair value change in relation to the effective part of a cash flow hedge, which is recognised directly in equity. For fair value hedges the hedged item is adjusted for fair value changes relating to the risk being hedged and the difference is recognised in the statement of income. Where the adjustment relates to a hedged interest-bearing financial instrument and the hedge instrument is terminated or designated, the adjustment is amortised to the statement of income on a systematic basis using effective interest rate so that it is fully amortised by its maturity date.

Dollar-offset method is used to calculate the retrospective and prospective effectiveness of the hedging relationships.

For derivatives, which do not qualify for hedge accounting, any gains or losses arising from changes in the fair value are taken directly to the statement of income for the period.

Hedge accounting is discontinued prospectively when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting.

Own credit risk in valuations of derivative liabilities

The Group's own credit changes are reflected in valuations of such derivative liabilities, where the Group's own credit risk would be considered by market participants and excludes derivatives for which it is established market practice not to include an entity-specific adjustment for own credit, also referred to as counterparty close out approach. This amount represents the estimated difference in the market value of identical obligations issued by a riskless intermediary, relative to the market value of those obligations issued by the Group, as judged from the perspective of the holders of those obligations. Own credit changes were calculated based on credit default swap spreads. At 31 December 2009, the own credit gain recognised on financial liabilities at fair value still held at reporting date, amounts to LVL 0 (2008: LVL 766 thousand).

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in income when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Loans and receivables are recognised on drawdown. From the date of signing a contractual agreement till drawdown they are accounted for as loan commitments off balance sheet.

When the loans or receivables cannot be recovered, they are written-off and charged against impairment for credit losses. The management of the Group makes the decision on writing-off loans. Recoveries of loans previously written-off are credited to the statement of income.

Included in the category of "loans and receivables" are such financial instruments: a) cash and deposits with central banks, b) balances due from credit institutions and c) loans and receivables to customers.

Issued debt, subordinated debt and other borrowed funds

The Group recognises financial liabilities on its balance on drawdown.

After initial measurement, being fair value plus directly attributable transaction costs, debt issued, subordinated debt and borrowings are measured at amortised cost and any difference between net proceeds and value at redemption is recognised in the statement of income over the period of borrowings using the effective interest rate.

h) Sale and Repurchase Agreements

These 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 balance sheet and are subject to the Group's usual accounting policies, with the purchase price received included as a liability owed to the transferee.

Where the Group is the transferee, the assets are not included in the Group's balance sheet, but the purchase price paid by it to the transferor is included as an asset. Interest income or expense arising from outstanding sale and repurchase agreements is recognised in the statement of income over the term of the agreement.

i) *Derecognition of Financial Assets and Liabilities*

Financial assets

A financial asset (or, where applicable a 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 has transferred its rights to receive cash flows from the asset, or retained the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a ‘pass-through’ arrangement; and
- the Group either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has 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 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 could be required to repay.

Where continuing involvement takes the form of a written and/ or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group’s continuing involvement is the amount of the transferred asset that the Group may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the Group’s continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Collateral (shares and bonds) furnished by the Group under standard repurchase agreements and securities lending and borrowing transactions is not derecognised because the Group retains substantially all the risks and rewards on the basis of the predetermined repurchase price, and the criteria for derecognition are therefore not met.

Financial liabilities

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.

j) *Leases*

Finance leases – Group as lessor

Finance leases, which transfer substantially all the risks and rewards incidental to ownership of the assets, are recognised as assets 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.

For the purposes of these financial statements, finance lease receivables are included in loans and receivables to customers.

Operating leases – Group as lessor

The Group presents assets subject to operating leases in the balance sheets according to the nature of the asset. Lease income from operating leases is recognized in statement of income on a straight-line basis over the lease term as other income. The aggregate cost of incentives provided to lessees is recognized as a reduction of rental income over the lease term on a straight-line basis. Initial direct costs incurred specifically to earn revenues from an operating lease are added to the carrying amount of the leased asset.

The depreciation policy for depreciable leased assets is consistent with the lessor’s normal depreciation policy for similar assets, and depreciation is calculated in accordance with accounting policies, used for the Group’s property, plant and equipment.

Operating leases – Group as lessee

Leases of assets under which substantially all the risks and rewards of ownership are retained by the lessor are classified as operating leases. Lease payments under an operating lease are recognized as expenses on a straight-line basis over the lease term and included into administrative expenses.

k) *Impairment of loans and receivables to customers*

The Group has granted commercial and consumer loans to customers throughout its market area. The economic conditions of the market the Group operates in may have an impact on the borrowers' ability to repay their debts. The Management of the Group have considered both specific and portfolio-level risks in determining the balance of impairment allowance for incurred credit losses.

The Management of the Group assess at each balance sheet date whether there is objective evidence that a loan or portfolio of loans and receivables to customers is impaired. A loan or portfolio of loans and receivables to customers is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more loss events that occurred after the initial recognition of the loan and that loss event (or events) has had an impact such that the estimated present value of future cash flows is less than the current carrying value of the loan or portfolio of loans and receivables to customers, and can be reliably estimated.

Objective evidence that a loan or portfolio of loans and receivables to customers is potentially impaired includes the following observable data that comes to the attention of the Group:

- significant financial difficulty of the borrower;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- the granting to the borrower of a concession, for economic or legal reasons relating to the borrower's financial difficulty, that the Group would not otherwise consider;
- it becoming probable that the insolvency process may be initiated against the borrower, or the borrower will enter other financial reorganisation;
- the worsening of economic conditions in the market segment, where the borrower operates; or
- observable data indicating there is a measurable decrease in the estimated future cash flows from a portfolio of loans and receivables to customers since the initial recognition of those of loans and receivables, although the decrease cannot yet be identified with the individual loans in the portfolio, including:
 - adverse changes in the payment status of borrowers in the portfolio; or
 - national or local economic conditions that correlate with defaults on the loans and receivables in the portfolio.

The Group first assesses whether objective evidence of impairment exists individually for loans and receivables that are individually significant, and individually or collectively for loans and receivables that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed loan, whether significant or not, it includes that loan in a group of loans and receivables with similar credit risk characteristics and collectively assesses them for impairment. Collectively assessed impairment losses represent an interim step pending the identification of impairment losses on individual loans in a group of loans and receivables. As soon as information is available that specifically identifies losses on individually impaired loans in a group, those loans are removed from the group. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

For loans and receivables, the amount of impairment loss is measured as the difference between the loan's carrying amount and the present value of estimated future cash flows discounted at the loan's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. The calculation of the present value of the estimated future cash flows of a collateralised loan reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable. The amount of the loss is recognised in the statement of income.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was initially recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of the impairment loss is recognised in the statement of income, to the extent that the carrying value of the loan does not exceed what its amortised cost would have been absent the impairment at the reversal date.

When a borrower fails to make a contractually due payment of interest or principal, but the Group believes that impairment is not appropriate on the basis of the level of security/ collateral available and/ or the stage of collections of amounts owed to the Group, the carrying amount of the loan is classified as past due but not impaired.

When loans and receivables cannot be recovered, they are written off and charged against impairment allowance. They are not written off until the necessary legal procedures have been completed and the amount of the loss is finally determined. Subsequent recoveries of amounts previously written off are reported in the statement of income as other operating income.

l) Impairment of available-for-sale and held-to-maturity securities

Evidence of impairment is assessed by reference to the most up to date market valuations, market depth of the respective security, past trading performance and all other available information. The determination of whether or not objective evidence of impairment is present requires the exercise of management judgement. If the Group does not have market valuations, the evidence of impairment is assessed based on credit risk triggers (event of insolvency, any delay of payments, restructuring of debt) and individual credit risk analysis of the issuer.

m) Business combinations and goodwill

Business combinations are accounted for using the purchase method of accounting, which, in essence, involves recognizing identifiable assets, liabilities and contingent liabilities of the acquired business at fair value. Any excess of the cost of acquisition over the fair value of identifiable net assets acquired is recognized as goodwill. If the cost of acquisition is less than fair value of the identifiable net assets acquired, the discount on acquisition is recognized in the income statement in the year of acquisition.

Following the initial recognition, in Group accounts the goodwill arising from the business combinations is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment at each reporting date, or more frequently if events or changes in circumstances indicate that the carrying amount of the goodwill may be impaired.

n) Intangible Assets

Intangible assets comprise software and capitalised costs relating to leasehold rights. The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition. Subsequent the initial recognition, intangible assets are carried at cost less accumulated amortisation and any accumulated impairment loss.

Leasehold rights are amortised over the remaining lease contract on a straight-line basis. Annual amortisation rates applied on a straight-line basis to software and other intangible assets range from 7% to 50%. All intangible assets, except for goodwill, are with definite lives.

o) Fixed Assets

Fixed assets are recorded at historical cost less accumulated depreciation less any impairment losses. Fixed assets are periodically reviewed for impairment. If the recoverable value of a fixed asset is lower than its carrying amount, the respective asset is written down to its recoverable amount.

Depreciation is calculated using the straight-line method based on the estimated useful life of the asset. The following depreciation rates have been applied:

<u>Category</u>	<u>Annual depreciation rate</u>
Buildings	2%
Transport vehicles	20%
Other fixed assets	20% - 33%

Leasehold improvements are capitalised and depreciated over the remaining lease contract period on a straight-line basis. Assets under construction are not depreciated.

Certain reconstruction and renovation costs of buildings, which improve their quality and performance, are capitalised and amortised over the estimated useful life on a straight-line basis.

Maintenance and repair costs are charged to the statement of income as incurred.

p) Assets held for sale

The Group from time to time repossesses from its customers certain assets serving as collateral, when the customer cannot otherwise meet his payment obligations and other loan work-out measures have been unsuccessful. Such assets are classified as held for sale, because they are acquired primarily for the purpose of selling them in the near term. Assets classified as held for sale are stated at the lower of their carrying amount and fair value less costs to sell. At least at each reporting date, the Group assesses, whether the value of the repossessed assets is impaired. The impairment loss reduces carrying amount of the asset and is included in the income statement's line "Impairment charges and reversals, net".

q) *Provisions*

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

r) *Off-balance Sheet Financial Commitments and Contingent Liabilities*

In the ordinary course of business, the Group is involved with off-balance sheet financial commitments and contingent liabilities comprising commitments to extend loans and receivables to customers, commitments for unutilised credit lines or credit card limits, financial guarantees and 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 recognized on drawdown; and
- financial guarantees and letters of credit are recognized when the related fee received as consideration is recognized.

Commitments to extend loans and receivables and commitments for unutilised credit lines or credit card limits represent contractual commitments to make loans and revolving credits. Commitments generally have fixed expiration dates, or other termination clauses. Since commitments may expire without being drawn upon, the total contract amounts do not necessarily represent future cash requirements.

On initial recognition financial guarantee contracts are measured at fair value. Subsequently, they are carried at the higher of the amount initially recognised less cumulative amortisation over the life of the guarantee and the amount determined in accordance with the accounting policy for provisions when enforcement of the guarantee has become probable.

The methodology for provisioning against possible losses arising from off-balance sheet financial commitments and contingent liabilities is consistent with that described in paragraph q).

s) *Trust Activities*

Funds managed by the Group on behalf of individuals, corporate customers, trusts and other institutions are not regarded as assets of the Group and, therefore, are not separately included in the balance sheet. Funds under trust management are presented in these financial statements only for disclosure purposes.

t) *Fair Values of Financial Assets and Liabilities*

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable and willing parties in an arm's length transaction. Where available and reasonably reliable, fair values are determined by reference to observable market prices. Where representative market prices are not available or are unreliable, fair values are determined by using valuation techniques which refer to observable market data. These include prices obtained from independent market surveys, comparisons with similar financial instruments, discounted cash flow analyses and other valuation techniques commonly accepted and used by market participants.

Future events may occur which will cause the assumptions used in arriving at the estimates to change. The effect of any changes in estimates will be recorded in the financial statements, when determinable. Further, changes and movement in market conditions may affect accuracy of the fair value calculations so that the actual outcome of the transactions is different from the one reported in the financial statements. Also, when changed, management estimates used in preparing these financial statements could impact the reported result of the Group.

u) *Cash and Cash Equivalents*

For the purpose of presentation in the statement of cash flows, cash and cash equivalents are defined as the amounts comprising cash and demand deposits with central banks and other credit institutions with an insignificant risk of changes in value and a remaining maturity of not more 3 months from the date of acquisition, less demand deposits due to credit institutions.

v) *Offsetting*

Financial assets and liabilities are offset and the net amount is reported in the balance sheet when there is a currently enforceable legal right to set off the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously.

w) *Use of estimates in the preparation of financial statements*

The preparation of financial statements in conformity with International Financial Reporting Standards as adopted by EU, requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses and disclosure of contingencies. The management has applied reasonable and prudent estimates and judgments in preparing these financial statements. The significant areas of estimation used in the preparation of the accompanying financial statements relate to evaluation of impairment for financial assets losses, determining fair values of the financial assets and liabilities and estimating future periods' taxable profit in order to assess amount of deferred tax assets that can be utilised and, as such, recognised.

Impairment of loans

The Group regularly reviews its loans and receivables to assess impairment. The estimation of potential impairment losses is inherently uncertain and dependant upon many factors. On an on-going basis potential issues are identified promptly as a result of individual loans being regularly monitored. Impairment losses are calculated on an individual basis with reference to expected future cash flows including those arising from the realisation of collateral. The Group uses its experienced judgement to estimate the amount of any impairment loss considering matters such as future economic conditions and the resulting trading performance of the borrower and the value of collateral, for which there may not be a readily accessible market. As a result, the impairment losses can be subject to significant variation as time progresses and the circumstances become clearer. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

In addition, the Group estimates collective impairment losses to cover losses inherent in the loan portfolio where there is objective evidence to suggest that it contains impaired loans, although the individual impaired loans cannot yet be identified. The collective impairment losses take account of observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans and receivables with similar credit risk characteristics, although the decrease cannot yet be identified with the individual loans in the portfolio.

Future cash flows in a portfolio of loans and receivables that are collectively evaluated for impairment are estimated on the basis of historical loss experience for loans and receivables with credit risk characteristics similar to those in the portfolio. Historical loss experience is adjusted for current observable market data using the Group's experienced judgement to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

The future credit quality of the loan portfolio for which the collective impairment losses are estimated is subject to uncertainties that could cause actual credit losses to differ materially from reported impairment losses. These uncertainties include factors such as international and local economic conditions, borrower specific factors, industry and market trends, interest rates, unemployment rates and other external factors. Changes in the Bank's LGD ratio by 500 basis points would result in increase/ decrease in collectively assessed impairment by ca. LVL 12.6 million (2008: LVL 4.1 million). 5% increase in collateral realisation values would result in LVL 5.0 million (2008: LVL 4.9 million) decrease in the Bank's specific impairment level, whereas 5% decrease in the respective values would result in LVL 16.6 million (2008: LVL 5.5 million) increase in the Bank's specific impairment level.

Impairment of securities

The Group makes various estimates to determine the value of securities assessed for impairment. When the value of securities, for which loss event have occurred, is assessed for impairment, an estimate is made involving factors such as liquidity (quoted prices and volumes from several reliable providers as well as judgemental evaluation), spreads (estimation of securities' spreads and spreads on securities rated Caa1 and below), ratings (subordination) and loss-given-default (LGD) rates.

The future credit quality of the securities for which the impairment losses are estimated is subject to uncertainties that could cause actual credit losses to differ materially from reported impairment losses. These uncertainties include factors such as international, regional and local economic conditions, issuer specific factors, market activity and depth, interest rates and other external factors. As at 31 December 2009, increase in credit spread delta by 200 basis points would result in additional LVL 6.4 million (2008: LVL 5.6 million) impairment for the Bank, whereas 200 basis points decrease would result in reversal of the Bank's impairment by LVL 0.5 million (2008: 0.5 million).

Deferred tax asset

The future taxable profits and the amount of tax benefits that are probable in the future are based on a medium term financial forecast prepared by management and extrapolated results thereafter. Given the uncertainties in relation to the restructuring process, the medium term financial forecast was prepared on the basis that the Bank continues the operations on as-is basis, i.e. no restructuring takes place. The aforementioned forecasts indicate that the Bank will have sufficient taxable profits in the future periods to fully realise the deferred tax asset. There is uncertainty regarding the effect, if any, of the Bank's restructuring on the possibility to utilise the accumulated tax losses and accordingly on the recoverability of deferred tax asset. However, the management believes that the Bank will be able to utilise the unused tax losses and accordingly the related deferred tax assets are recognised in these financial statements.

x) *Staff costs and related contributions*

The Group and the Bank pays social security contributions to state pension insurance and to the state funded pension scheme in accordance with Latvian and relevant foreign regulations. In accordance with the Rules of the Cabinet of Ministers of Latvia 69% (2008: 71%) of the social insurance contributions are used to fund the state defined contribution pension system. State funded pension scheme is a defined contribution plan under which the Group and the Bank pay fixed contributions determined by law and will have no legal or constructive obligation to pay further contributions if the state pension insurance system or state funded pension scheme are not able to settle their liabilities to employees. The social security contributions are accrued in the year in which the associated services are rendered by the employees of the group.

y) *Segment reporting*

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker is the person or group that allocates resources to and assesses the performance of the operating segments of an entity. The Bank has determined the Management board of the Bank as its chief operating decision maker.

The expenses and revenue from external parties reported to the Bank's Management Board are measured in a manner consistent with that in the consolidated income statement.

In accordance with IFRS 8, the Group has only one segment – bank in Latvia, i.e. parent bank.

z) *Events after the balance sheet date*

Post-year-end events that provide additional information about the Bank's position at the balance sheet date (adjusting events) are reflected in the financial statements. Post-year-end events that are not adjusting events are disclosed in the notes if material.

NOTE 3. INTEREST INCOME AND EXPENSE

	LVL 000's			
	2009 Group	2008 Group	2009 Bank	2008 Bank
Interest income:				
- interest on financial assets measured at amortised cost:				
163,820	207,091	145,630	181,864	
<i>- interest on loans and receivables to customers</i>	<i>134,620</i>	<i>179,973</i>	<i>107,563</i>	<i>143,375</i>
<i>- interest on balances due from credit institutions and central banks</i>	<i>2,411</i>	<i>15,090</i>	<i>8,428</i>	<i>22,417</i>
<i>- interest on held-to-maturity securities</i>	<i>26,789</i>	<i>12,028</i>	<i>29,639</i>	<i>16,072</i>
- interest income on financial assets designated at fair value through profit or loss	91	32	-	-
- interest on held for trading securities	1,264	290	1,257	242
- interest on available-for-sale securities	7,135	20,924	6,675	20,186
Total interest income	172,310	228,337	153,562	202,292
Interest expense:				
- interest on financial liabilities measured at amortised cost:				
- interest on deposits from customers	(84,963)	(78,200)	(80,115)	(72,479)
- interest on balances due to credit institutions and central banks	(45,041)	(42,357)	(45,387)	(41,971)
- interest on issued debt securities	(5,236)	(7,172)	(5,232)	(7,164)
- interest on subordinated liabilities	(10,581)	(4,145)	(10,581)	(4,145)
- interest on other financial liabilities	(56)	(171)	-	-
- other interest expense	(6)	-	-	-
Total interest expense	(145,883)	(132,045)	(141,315)	(125,759)
Net interest income	26,427	96,292	12,247	76,533

In 2008, the Bank reclassified interest income and expenses in amount of LVL 1,742 thousand, respectively to income statements line “(Loss)/gains on transactions with financial instruments, net” (see Note 5). The amounts related to interest rate swaps used as hedging instruments.

The LVL 320 thousand reclassification from interest income and expenses to other operating income in 2008 is attributable to SIA Parex Lizings un Faktoring's operating lease income (see Note 6).

	LVL 000's			
	2009 Group	2008 Group	2009 Bank	2008 Bank
Interest income recognised on impaired assets	22,619	1,229	21,187	133

NOTE 4. COMMISSION AND FEE INCOME AND EXPENSE

	LVL 000's			
	2009 Group	2008 Group	2009 Bank	2008 Bank
Commission and fee income:				
- transactions with settlement cards	14,354	21,389	13,316	20,312
- payment transfer fee	5,130	9,682	4,116	8,490
- custody, trust and asset management fees	3,376	5,404	116	508
- securities, financial instrument brokerage fees	1,088	2,407	995	2,286
- cash disbursement/ transaction commission	1,089	1,939	824	1,636
- cash collection	836	1,141	836	1,141
- service fee for account maintenance	528	782	415	692
- letters of credit and guarantees	291	693	192	597
- review of loan applications and collateral evaluation	100	550	93	476
- other fees	1,368	3,199	685	2,160
Total commission and fee income	28,160	47,186	21,588	38,298



	LVL 000's			
	2009 Group	2008 Group	2009 Bank	2008 Bank
Commission and fee expense:				
- fees related to settlement card operations	(5,982)	(7,356)	(5,151)	(6,821)
- fees related to correspondent accounts	(1,447)	(2,772)	(1,143)	(2,480)
- brokerage and custodian fees:	(547)	(1,005)	(637)	(1,475)
- securities, financial instrument brokerage fees	(412)	(791)	(266)	(533)
- custody, trust and asset management fees	(135)	(214)	(371)	(942)
- other fees	(612)	(241)	(13)	(99)
Total commission and fee expense	(8,588)	(11,374)	(6,944)	(10,875)
Net commission and fee income	19,572	35,812	14,644	27,423

Commission and fee income and expense from financial instruments not at fair value through profit and loss, other than amounts included in determining the effective interest rate, can be specified as follows:

	LVL 000's			
	2009 Group	2008 Group	2009 Bank	2008 Bank
Commission and fee income	28,160	47,186	21,588	38,298
Commission and fee expense	(8,588)	(11,370)	(6,944)	(10,869)

NOTE 5. (LOSS)/ GAIN ON TRANSACTIONS WITH FINANCIAL INSTRUMENTS, NET

	LVL 000's			
	2009 Group	2008 Group	2009 Bank	2008 Bank
Gain/ (loss) from trading and revaluation of securities held for trading purposes, net	1,792	(9,660)	1,778	(9,571)
Gain/ (loss) from disposal of available for sale securities, net	(11)	(8,080)	15	(7,095)
Gain/ (loss) on financial assets measured at amortised cost, net	(327)	-	-	-
Gain/ (loss) on financial liabilities measured at amortised cost, net	-	3,770	-	3,770
Gain from foreign exchange trading and revaluation of open positions, net	2,644	6,701	2,256	4,212
Gain/ (loss) from trading and revaluation of other derivatives, net	1,557	3,907	1,491	4,027
Gain on trading with financial instruments, net	5,655	(3,362)	5,540	(4,657)

	LVL 000's			
	2009 Group	2008 Group	2009 Bank	2008 Bank
Net gain/ (loss) on financial instruments not at fair value through profit or loss	(338)	(4,310)	15	(3,325)
Net gain/ (loss) on financial instruments at fair value through profit or loss	5,993	948	5,525	(1,332)
Total gain/ (loss) on financial instruments, net	5,655	(3,362)	5,540	(4,657)

NOTE 6. OTHER OPERATING INCOME

	LVL 000's			
	2009 Group	2008 Group	2009 Bank	2008 Bank
Penalties received	10,298	8,967	7,972	7,032
Dividends received	160	360	160	358
Other income *	4,562	3,581	2,159	683
Total other operating income	15,020	12,908	10,291	8,073

* please refer to Note 17 for description on income recognised as a result of terminated agreement in relation to the sale of Bank's subsidiary AP Anlage & Privatbank AG (Switzerland).

The LVL 320 thousand reclassification from interest income and expenses to other operating income in 2008 is attributable to SIA Parex Lizings un Faktoring's operating lease income (see Note 3).

NOTE 7. ADMINISTRATIVE EXPENSE

	LVL 000's			
	2009 Group	2008 Group	2009 Bank	2008 Bank
Personnel expense	45,722	66,491	31,544	50,227
Rent for premises	5,279	5,957	4,573	3,708
Consulting and professional fees	3,773	2,858	2,991	2,249
Non-refundable value added tax	3,047	3,682	2,436	2,908
IT equipment and software related expense	2,504	2,939	1,266	1,350
Communications (telephone, mail, etc.)	2,304	2,845	1,699	2,106
Advertising, marketing and sponsorship	1,409	7,204	1,154	6,036
Repairs and maintenance	1,061	2,625	592	2,095
Business travel expense	650	4,938	405	4,471
Office expense	510	1,326	335	793
Real estate and other taxes	464	258	56	47
Insurance	398	445	170	204
Representation	256	1,210	223	999
Security	240	703	164	589
Other administrative expense	3,907	5,611	2,744	4,856
Total administrative expense	71,524	109,092	50,352	82,638

NOTE 8. PERSONNEL EXPENSE

Personnel expense has been presented in these financial statements within administrative expense. Personnel expense includes remuneration for work to the personnel and related social security contributions and bonuses and other short-term benefits costs.

	LVL 000's			
	2009 Group	2008 Group	2009 Bank	2008 Bank
Remuneration (incl. bonuses):				
- management	2,967	4,904	739	2,739
- other personnel	34,051	50,996	24,565	39,828
Total remuneration for work	37,018	55,900	25,304	42,567
Social security contributions:				
- management	515	372	178	86
- other personnel	8,189	10,219	6,062	7,574
Total social security contributions	8,704	10,591	6,240	7,660
Total personnel expense	45,722	66,491	31,544	50,227
Average number of personnel during the year	3,127	3,819	2,167	2,688

NOTE 9. IMPAIRMENT OF ASSETS AND CHANGES IN IMPAIRMENT ALLOWANCES

An analysis of the change in allowances for impairment of loans and receivables and provisions for off-balance sheet commitments is presented as follows:

	LVL 000's			
	2009 Group	2008 Group	2009 Bank	2008 Bank
Total allowance for impairment at the beginning of the year, including:	116,463	14,134	115,199	10,558
- loans - specifically assessed impairment	101,797	6,436	104,391	3,988
- loans - collectively assessed impairment	13,656	7,698	9,798	6,570
- off-balance sheet commitments - specifically assessed impairment	1,010	-	1,010	-
Charge:	130,537	108,925	125,935	108,447
- loans - specifically assessed impairment	96,644	101,662	96,085	104,209
- loans - collectively assessed impairment	33,893	6,253	29,850	3,228
- off-balance sheet commitments - specifically assessed impairment	-	1,010	-	1,010
Release:	(11,046)	(1,658)	(13,415)	(33)
- loans - specifically assessed impairment	(9,327)	(1,482)	(12,586)	(33)
- loans - collectively assessed impairment	(890)	(176)	-	-
- off-balance sheet commitments - specifically assessed impairment	(829)	-	(829)	-
Provision charged to the statement of income, net, including:	119,491	107,267	112,520	108,414
- loans - specifically assessed impairment	87,317	100,180	83,499	104,176
- loans - collectively assessed impairment	33,003	6,077	29,850	3,228
- off-balance sheet commitments - specifically assessed impairment	(829)	1,010	(829)	1,010
Change of allowance due to write-offs, net	(491)	(4,571)	(37)	(3,793)
Effect of changes in currency exchange rates:	(769)	(367)	(656)	20
- loans - specifically assessed impairment	(721)	(248)	(660)	20
- loans - collectively assessed impairment	(52)	(119)	-	-
- off-balance sheet commitments - specifically assessed impairment	4	-	4	-
Total allowance for impairment at the end of the year, including:	234,694	116,463	227,026	115,199
- loans - specifically assessed impairment	187,902	101,797	187,193	104,391
- loans - collectively assessed impairment	46,607	13,656	39,648	9,798
- off-balance sheet commitments - specifically assessed impairment	185	1,010	185	1,010

An analysis of the change in impairment of other assets is presented as follows:

	LVL 000's			
	2009 Group	2008 Group	2009 Bank	2008 Bank
Total allowance for impairment at the beginning of the year, including:	51,330	790	37,106	789
- available-for-sale securities	5,948	423	5,948	423
- held-to-maturity securities	22,828	199	22,828	199
- due from credit institutions	1,343	-	1,343	-
- other financial and non-financial assets	21,211	168	6,987	167
Charge:	14,059	45,081	10,772	30,857
- available-for-sale securities	3,839	15	3,839	15
- held-to-maturity securities	2,296	22,611	2,296	22,611
- due from credit institutions	-	1,343	-	1,343
- other financial and non-financial assets	7,924	21,112	4,637	6,888
Charge from equity reserves due to impairment*	(3,150)	7,384	(3,150)	7,384
- available-for-sale securities	(2,585)	5,501	(2,585)	5,501
- held-to-maturity securities	(565)	1,883	(565)	1,883
Release:	(13,851)	-	(13,599)	-
- available-for-sale securities	(4,084)	-	(4,084)	-
- held-to-maturity securities	(8,150)	-	(8,150)	-
- due from credit institutions	(1,021)	-	(1,021)	-
- other financial and non-financial assets	(596)	-	(344)	-
Provision charged to the statement of income, net, including:	208	52,465	(2,827)	38,241
- available-for-sale securities	(245)	5,516	(245)	5,516
- held-to-maturity securities	(5,854)	24,494	(5,854)	24,494
- due from credit institutions	(1,021)	1,343	(1,021)	1,343
- other financial and non-financial assets	7,328	21,112	4,293	6,888
Change of allowance due to write-offs, net:	(2,753)	(30)	(2,753)	(30)
- available-for-sale securities	(2,692)	-	(2,692)	-
- held-to-maturity securities	-	-	-	-
- other financial and non-financial assets	(61)	(30)	(61)	(30)
Effect of changes in currency exchange rates:	(1,817)	(12)	(1,859)	(11)
- available-for-sale securities	16	9	16	9
- held-to-maturity securities	(1,891)	18	(1,891)	18
- due from credit institutions	22	-	22	-
- other financial and non-financial assets	36	(39)	(6)	(38)
Total allowance for impairment at the end of the year, including:	43,818	51,330	26,517	37,106
- available-for-sale securities	442	5,948	442	5,948
- held-to-maturity securities*	14,518	22,828	14,518	22,828
- due from credit institutions	344	1,343	344	1,343
- other financial and non-financial assets	28,514	21,211	11,213	6,987

* In calculation of outstanding balance sheet amount at the end of the period do not include the amounts relating to fair value revaluation reserves in equity and charged to income statement due to impairment of securities, as the allowance account for impairing the available-for-sale securities is not used. Instead, the carrying amount of the available-for-sale securities is reduced directly by the impairment charge.

NOTE 10. TAXATION

Corporate income tax expense comprises the following items:

	LVL 000's			
	2009 Group	2008 Group	2009 Bank	2008 Bank
Current corporate income tax	1,055	1,190	-	-
Deferred income tax	(19,178)	(10,863)	(19,364)	(8,570)
Tax withheld abroad	1,418	2,147	1,418	2,147
Prior year adjustments	(310)	102	(134)	102
Total corporate income tax expense	(17,015)	(7,424)	(18,080)	(6,321)

The reconciliation of the Bank's and the Group's pre-tax loss for the year to the corporate income tax expense for the year may be specified as follows:

	LVL 000's			
	2009 Group	2008 Group	2009 Bank	2008 Bank
Loss before corporate income tax	(144,025)	(138,394)	(129,190)	(130,329)
Corporate income tax (at standard rate)*	(21,604)	(20,759)	(19,379)	(19,549)
Permanent differences, net	(3,618)	5,655	(4,505)	7,188
Prior year adjustments	(310)	102	(134)	102
Unrecognised deferred tax assets	8,517	7,578	5,938	5,938
Total effective corporate income tax	(17,015)	(7,424)	(18,080)	(6,321)

* standard rate for the year ended 31 December 2009 was 15% (2008: 15%).

The movements in deferred corporate income tax liability can be specified as follows:

	LVL 000's			
	2009 Group	2008 Group	2009 Bank	2008 Bank
As at 1 January	(11,852)	(510)	(9,679)	(830)
Charge to statement of income	(19,178)	(10,863)	(19,364)	(8,570)
Charge to statement of comprehensive income**	384	(479)	242	(279)
Total deferred income tax (asset) at the end of the year	(30,646)	(11,852)	(28,801)	(9,679)

Deferred corporate income tax assets and liabilities can be specified as follows:

	LVL 000's			
	2009 Group	2008 Group	2009 Bank	2008 Bank
<i>Deferred tax liabilities:</i>				
Accumulated excess of tax depreciation over accounting depreciation	1,249	1,113	286	882
Revaluation of securities and derivatives**	-	284	-	176
Other deferred tax liabilities	189	474	-	-
<i>Deferred tax assets:</i>				
Vacation pay accrual	(349)	(974)	(324)	(877)
Revaluation of securities and derivatives**	(47)	-	(3)	-
Non-taxable impairment allowance	(7,632)	(1,843)	(6,333)	(1,470)
Unutilised tax losses	(29,861)	(15,285)	(28,365)	(13,129)
Other deferred tax assets	(2,712)	(3,199)	-	(1,199)
Net deferred corporate income tax (asset)	(39,163)	(19,430)	(34,739)	(15,617)
Unrecognised deferred tax asset	8,517	7,578	5,938	5,938
Recognised deferred corporate income tax (asset)	(30,646)	(11,852)	(28,801)	(9,679)

** all changes in deferred tax liability that are charged directly to statement of comprehensive income are related to revaluation of securities.

The Bank expects to realise deferred tax asset in a term that exceeds 1 year.

The movements in tax accounts of the Bank during 2009 can be specified as follows:

	LVL 000's			
	Balance as at 31/12/2008	Calculated in 2009	Paid in 2009	Balance as at 31/12/2009
Corporate income tax	7,666	(1,284)	808	7,190
<i>including corporate income tax withheld abroad</i>	-	(1,418)	1,418	-
Social security contributions	(785)	(10,240)	10,437	(588)
Personal income tax	(525)	(6,806)	6,493	(838)
Value added tax	543	(450)	(6)	87
Real estate tax	-	(43)	43	-
Total tax (payable)/ receivable	6,899	(18,823)	17,775	5,851

NOTE 11. CASH AND DEPOSITS WITH CENTRAL BANKS

	LVL 000's			
	31/12/2009 Group	31/12/2008 Group	31/12/2009 Bank	31/12/2008 Bank
Cash	38,543	51,924	35,098	46,538
Deposits with the Bank of Latvia	101,671	36,616	101,671	32,616
Demand deposits with other central banks	17,288	27,810	5,490	16,025
Total cash and deposits with central banks	157,502	116,350	142,259	95,179

According to the resolution of the Council of the Bank of Latvia, credit institutions should comply with the compulsory reserve requirement calculated on the basis of attracted funding. The Bank's compulsory reserve must be exceeded by a credit institution's average monthly LVL balance on its correspondent account with the Bank of Latvia. Similar requirements also apply to the funding attracted by the Bank's branch in Estonia and Germany. During the reporting year, the Bank was in compliance with these requirements of the Bank of Estonia and Germany's Bundesbank.

Due to difficult liquidity situation as from November 2008 till September 2009, the Bank was unable to hold sufficient balances with the Bank of Latvia to meet the mandatory reserve requirement. As a result, the Bank sustained penalties in amount of LVL 2,941 thousand (2008: LVL 1,245 thousand).

Demand deposits with other central banks include balances with central banks of Lithuania, Estonia, Germany and Switzerland. As at 31 December 2009 and 2008, none of the amounts due from central banks were past due.

NOTE 12. BALANCES DUE FROM CREDIT INSTITUTIONS

	LVL 000's			
	31/12/2009 Group	31/12/2008 Group	31/12/2009 Bank	31/12/2008 Bank
Due from credit institutions registered in OECD countries	199,566	243,276	172,487	196,371
Due from credit institutions registered in Latvia	10,462	7,654	9,839	6,273
Due from credit institutions registered in other non-OECD countries	11,152	25,137	143,887	297,384
Total gross balances due from credit institutions	221,180	276,067	326,213	500,028
<i>Incl. impaired balances</i>	490	1,741	490	1,741
Impairment allowance	(344)	(1,343)	(344)	(1,343)
Total net balances due from credit institutions	220,836	274,724	325,869	498,685

As at 31 December 2009, the Bank had inter-bank deposits with 1 (2008: 3) Latvian credit institutions and 6 (2008: 2) OECD region credit institutions. Corresponding balances comprised 100% (2008: 0%) and 70% (2008: 21%) of total balances due from credit institutions registered in Latvia and OECD, respectively. As at 31 December 2009 and 2008, none of the amounts due from credit institutions were past due.

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The Bank's balances with its subsidiary Parex Bankas (Lithuania) accounted for 99% (2008: 96%) of the total balances due from credit institutions registered in other non-OECD countries.

	LVL 000's			
	31/12/2009 Group	31/12/2008 Group	31/12/2009 Bank	31/12/2008 Bank
Correspondent accounts (nostro)	68,189	64,629	52,399	43,490
Overnight deposits	140,306	29,815	131,432	70,757
Total demand deposits	208,495	94,444	183,831	114,247
<i>Term deposits with credit institutions:</i>				
due within 1 month	7,859	140,997	491	335,439
due within 1-3 months	3,915	22,350	17,901	21,468
due within 3-6 months	459	15,475	123,990	26,215
due within 6-12 months	54	2,320	-	1,005
due within 1-5 years	398	481	-	1,654
Total term deposits	12,685	181,623	142,382	385,781
Total gross balances due from credit institutions	221,180	276,067	326,213	500,028
Impairment allowance	(344)	(1,343)	(344)	(1,343)
Total net balances due from credit institutions	220,836	274,724	325,869	498,685

The above balances represent a maximum credit risk exposure to the Group and the Bank respectively.

NOTE 13. LOANS AND RECEIVABLES TO CUSTOMERS

The following table represents the current classes of the Group's loans:

	Group, LVL 000's					
	31/12/2009			31/12/2008		
	Balance sheet amount	Off- balance sheet credit exposure	Total gross credit exposure	Balance sheet amount	Off-balance sheet credit exposure	Total credit exposure
Regular loans	1,496,432	2,082	1,498,514	1,531,233	33,267	1,564,500
Utilised credit lines	131,403	43,090	174,493	211,351	31,172	242,523
Finance leases	146,308	-	146,308	245,068	576	245,644
Debit balances on settlement cards	90,675	72,985	163,660	105,483	106,006	211,489
Overdraft facilities	7,436	7,917	15,353	30,000	8,052	38,052
Loans under reverse repurchase agreements	599	-	599	1,248	-	1,248
Factoring	15,480	14	15,494	22,993	559	23,552
Due from investment and brokerage firms	6,544	-	6,544	4,078	-	4,078
Total loans and receivables to customers	1,894,877	126,088	2,020,965	2,151,454	179,632	2,331,086
Impairment allowance	(234,509)	(185)	(234,694)	(115,453)	(1,010)	(116,463)
Total net loans and receivables to customers	1,660,368	125,903	1,786,271	2,036,001	178,622	2,214,623

Off-balance sheet credit exposure comprises various committed financing facilities to the borrowers.

The following table represents the current classes of the Bank's loans:

	Bank, LVL 000's					
	31/12/2009			31/12/2008		
	Balance sheet amount	Off-balance sheet credit exposure	Total gross credit exposure	Balance sheet amount	Off-balance sheet credit exposure	Total credit exposure
Regular loans	1,336,857	1,158	1,338,015	1,338,251	29,125	1,367,376
Utilised credit lines	224,301	92,550	316,851	365,078	67,445	432,523
Debit balances on settlement cards	81,390	61,411	142,801	96,708	93,131	189,839
Overdraft facilities	7,731	11,204	18,935	31,099	8,866	39,965
Loans under reverse repurchase agreements	-	-	-	586	70,882	71,468
Factoring	14,077	-	14,077	18,964	69	19,033
Due from investment and brokerage firms	6,468	-	6,468	6,770	-	6,770
Finance leases	1,423	-	1,423	1,604	-	1,604
Total loans and receivables to customers	1,672,247	166,323	1,838,570	1,859,060	269,518	2,128,578
Impairment allowance	(226,841)	(185)	(227,026)	(114,189)	(1,010)	(115,199)
Total net loans and receivables to customers	1,445,406	166,138	1,611,544	1,744,871	268,508	2,013,379

As at 31 December 2009, loans and receivables to customers totalling LVL 29,157 thousand (2008: LVL 39,770 thousand) or 1.6% (2008: 1.8%) of the Group's total portfolio of net loans and receivables to customers were classified as zero risk, as these were collateralised by deposits (see Note 24).

Included in the aforementioned loans are loan balances of former related parties with original agreement currency of EUR and USD amounting to LVL 14,080 thousand (2008: LVL 14,123 thousand) and LVL 14,958 thousand (2008: LVL 15,346 thousand), respectively. The average year-end interest rate of these loans is 2.1% (2008: 4.8%). These loans are collateralised with LVL-denominated deposits amounting to LVL 28,006 thousand (2008: LVL 28,007 thousand) and with the average year-end interest rate of 7.9% (2008: 9.6%). These transactions were entered into by previous executive management of the Bank. In 2009, the net interest expense arising from the aforementioned transactions with former related parties amounted to LVL 2.0 million. These transactions and their cash flows are distinct from each other, thus presented on gross basis.

The table below provides information about loans with renegotiated terms:

	LVL 000's			
	31/12/2009 Group	31/12/2008 Group	31/12/2009 Bank	31/12/2008 Bank
Carrying amount of restructured loans	451,995	341,179	451,208	347,063

Loans and advances by customer profile may be specified as follows:

	LVL 000's			
	31/12/2009 Group	31/12/2008 Group	31/12/2009 Bank	31/12/2008 Bank
Privately held companies	1,111,524	1,291,870	1,077,302	1,212,122
Private individuals	734,115	813,312	554,336	605,771
State owned enterprises	27,845	23,184	20,990	20,141
Public and religious institutions	9,235	10,529	8,966	9,648
Municipality owned enterprises	8,280	7,768	7,642	7,665
Local municipalities	3,876	4,756	3,009	3,678
Government	2	35	2	35
Total gross loans and receivables to customers	1,894,877	2,151,454	1,672,247	1,859,060
Impairment allowance	(234,509)	(115,453)	(226,841)	(114,189)
Total net loans and receivables to customers	1,660,368	2,036,001	1,445,406	1,744,871

The borrowers' industry analysis of the gross portfolio of loans and receivables to corporate customers before impairment allowance may be specified as follows:

	LVL 000's			
	31/12/2009 Group	31/12/2008 Group	31/12/2009 Bank	31/12/2008 Bank
Real estate purchase and management	435,752	441,031	438,358	437,238
Transport and communications	201,671	244,844	165,896	187,903
Trade	157,239	234,289	114,305	158,726
Construction	69,552	89,789	32,662	35,100
Manufacturing	67,819	73,789	54,130	50,643
Electricity, gas and water supply	55,046	63,724	53,945	62,213
Hotels, restaurants	52,663	44,783	49,968	41,699
Financial intermediation	44,566	39,600	169,539	235,558
Agriculture and forestry	16,454	21,811	3,230	3,098
Other industries	60,000	84,482	35,878	41,111
Total gross loans and receivables to corporate customers	1,160,762	1,338,142	1,117,911	1,253,289

The following table represents geographical profile of the portfolio of loans and receivables to customers analysed by the place of customers' reported residence:

	LVL 000's			
	31/12/2009 Group	31/12/2008 Group	31/12/2009 Bank	31/12/2008 Bank
Latvian residents	1,049,126	1,122,555	1,113,614	1,180,304
OECD region residents	43,703	54,260	41,170	49,375
Non-OECD region residents	802,048	974,639	517,463	629,381
Total gross loans and receivables to customers	1,894,877	2,151,454	1,672,247	1,859,060
Impairment allowance	(234,509)	(115,453)	(226,841)	(114,189)
Total net loans and receivables to customers	1,660,368	2,036,001	1,445,406	1,744,871

NOTE 14. LEASES

The following table represents finance leases analysed by type of assets:

	LVL 000's			
	31/12/2009 Group	31/12/2008 Group	31/12/2009 Bank	31/12/2008 Bank
Transport vehicles	110,426	192,568	214	369
Real estate	6,121	6,691	1,142	1,158
Manufacturing equipment	9,361	15,836	27	27
Other	20,400	29,973	40	50
Total present value of finance lease payments, excluding impairment	146,308	245,068	1,423	1,604
Impairment allowance	(12,620)	(8,744)	(96)	(80)
Net present value of finance lease payments	133,688	236,324	1,327	1,524

The following table represents reconciliation between the gross investment in the finance leases and the present value of minimum lease payments receivable:

	LVL 000's			
	31/12/2009 Group	31/12/2008 Group	31/12/2009 Bank	31/12/2008 Bank
Gross investment in finance leases receivable:				
within 1 year	46,243	58,609	208	357
later than 1 year and no later than in 5 years	115,064	209,207	1,380	1,635
later than in 5 years	6,194	31,494	-	-
Total gross investment in finance leases	167,501	299,310	1,588	1,992
Unearned finance income receivable:				
within 1 year	9,685	20,784	61	88
later than 1 year and no later than in 5 years	11,095	30,490	104	300
later than in 5 years	413	2,968	-	-
Total	21,193	54,242	165	388
Present value of minimum lease payments receivable:				
within 1 year	36,558	37,825	147	269
later than 1 year and no later than in 5 years	103,969	178,717	1,276	1,335
later than in 5 years	5,781	28,526	-	-
Total	146,308	245,068	1,423	1,604

NOTE 15. FIXED INCOME SECURITIES

The Group's fixed income securities are further split as follows:

	LVL 000's							
	31/12/2009				31/12/2008			
	Held to maturity	Available for sale	Held for trading	Total	Held to maturity	Available for sale	Held for trading	Total
Government bonds*	174,906	16,717	-	191,623	608,424	10,937	-	619,361
Municipality bonds	29,251	3,629	-	32,880	29,740	3,759	-	33,499
Credit institution bonds	74,605	63,290	1,405	139,300	101,497	87,374	1,930	190,801
Corporate bonds	22,189	11,511	4	33,704	25,566	35,527	384	61,477
Other financial institution bonds	11,457	9,671	-	21,128	14,636	8,590	-	23,226
Managed funds	1,481	-	-	1,481	1,511	-	-	1,511
Total gross fixed income securities	313,889	104,818	1,409	420,116	781,374	146,187	2,314	929,875
Impairment allowance	(14,518)	-	-	(14,518)	(22,828)	-	-	(22,828)
Total net fixed income securities	299,371	104,818	1,409	405,598	758,546	146,187	2,314	907,047

* In 2008, in a special purpose financing scheme between the Bank, State Treasury and Bank of Latvia, part of financing from the State Treasury was used to buy special purpose Latvian Government zero coupon bonds from the State Treasury. These securities were pledged in the Bank of Latvia to receive the actual funding. Thus, there has been no cash movement in respect to purchase of these securities. This matter is considered, when preparing cash flow statement. As at 31 December 2009, there are no outstanding assets or liabilities in relation to the above financing scheme. (2008: LVL 435,127 thousand).

The above table represents a maximum credit risk exposure to the Group and the Bank respectively.

The Bank's fixed income securities are further split as follows:

	LVL 000's							
	31/12/2009				31/12/2008			
	Held to maturity	Available for sale	Held for trading	Total	Held to maturity	Available for sale	Held for trading	Total
Government bonds	174,760	386	-	175,146	608,185	8,506	-	616,691
Municipality bonds	27,242	3,511	-	30,753	27,704	3,759	-	31,463
Credit institution bonds	69,894	57,671	1,405	128,970	94,418	84,922	1,930	181,270
Corporate bonds	19,634	10,727	4	30,365	21,409	35,527	70	57,006
Other financial institution bonds	40,156	13,446	-	53,602	67,590	8,590	-	76,180
Managed funds	1,481	-	-	1,481	1,511	-	-	1,511
Total gross fixed income securities	333,167	85,741	1,409	420,317	820,817	141,304	2,000	964,121
Impairment allowance	(14,518)	-	-	(14,518)	(22,828)	-	-	(22,828)
Total net fixed income securities	318,649	85,741	1,409	405,799	797,989	141,304	2,000	941,293

As at 31 December 2009, the carrying amount of the Group's and Bank's securities on which the payments are past due was LVL 3,057 thousand (2008: LVL 957 thousand). As at 31 December 2009, the carrying amount of securities, on which the payments were delayed for more than 12 months, amounted to LVL 901 thousand (2008: LVL nil).

As at 31 December 2009, the carrying amount of the Group's and Bank's securities, which were impaired but not past due amounted to LVL 7,611 thousand (2008: LVL 15,864 thousand).

As at 31 December 2009, the net carrying amount of securities, which were restructured during the year, amounted to LVL 857 thousand (2008: nil).

In 2008, due to changes of intentions in relation to the holding period of the securities, the Bank resolved to reclassify available-for-sale securities to held-to-maturity portfolio. Carrying amount of the aforementioned securities as at the respective reclassification dates was LVL 305,367 thousand. As at 31 December 2009 the carrying amount of the aforementioned securities is LVL 284,150 thousand. If the securities were not reclassified, the carrying amount as at 31 December 2009 would be LVL 244,332 thousand (2008: LVL 232,628 thousand).

	Group, LVL 000's					
	31/12/2009			31/12/2008		
	Listed	Unlisted	Total	Listed	Unlisted	Total
Government bonds:						
Latvia	173,947	-	173,947	611,268	-	611,268
OECD	6,229	-	6,229	2,729	2,201	4,930
Non-OECD	11,447	-	11,447	3,163	-	3,163
Total government bonds	191,623	-	191,623	617,160	2,201	619,361
Municipality bonds:						
OECD	118	-	118	-	-	-
Non-OECD	32,761	-	32,761	33,499	-	33,499
Total municipality bonds	32,879	-	32,879	33,499	-	33,499
Credit institution bonds:						
Latvia	6,758	-	6,758	7,511	-	7,511
OECD	70,178	19,134	89,312	84,767	21,024	105,791
Non-OECD	43,231	-	43,231	58,919	18,580	77,499
Total credit institution bonds	120,167	19,134	139,301	151,197	39,604	190,801
Corporate bonds (OECD and non-OECD)	30,585	3,120	33,705	50,850	10,627	61,477
Other financial institution bonds (OECD and non-OECD)	19,227	1,900	21,127	21,400	1,826	23,226
Managed funds	-	1,481	1,481	-	1,511	1,511
Total gross fixed income securities	394,481	25,635	420,116	874,106	55,769	929,875
Impairment allowance	(10,246)	(4,272)	(14,518)	(17,988)	(4,840)	(22,828)
Total net fixed income securities	384,235	21,363	405,598	856,118	50,929	907,047

	Bank, LVL 000's					
	31/12/2009			31/12/2008		
	Listed	Unlisted	Total	Listed	Unlisted	Total
Government bonds:						
Latvia	173,893	-	173,893	611,268	-	611,268
OECD	-	-	-	2,180	2,201	4,381
Non-OECD	1,253	-	1,253	1,042	-	1,042
Total government bonds	175,146	-	175,146	614,490	2,201	616,691
Municipality bonds:						
OECD	-	-	-	-	-	-
Non-OECD	30,752	-	30,752	31,463	-	31,463
Total municipality bonds	30,752	-	30,752	31,463	-	31,463
Credit institution bonds:						
Latvia	6,626	-	6,626	7,358	-	7,358
OECD	61,470	19,134	80,604	76,422	21,024	97,446
Non-OECD	41,740	-	41,740	57,888	18,578	76,466
Total credit institution bonds	109,836	19,134	128,970	141,668	39,602	181,270
Corporate bonds (OECD and non-OECD)	27,246	3,120	30,366	46,379	10,627	57,006
Other financial institution bonds (OECD and non-OECD)	11,562	42,040	53,602	12,169	64,011	76,180
Managed funds	-	1,481	1,481	-	1,511	1,511
Total gross fixed income securities	354,542	65,775	420,317	846,169	117,952	964,121
Impairment allowance	(10,246)	(4,272)	(14,518)	(17,988)	(4,840)	(22,828)
Total net fixed income securities	344,296	61,503	405,799	828,181	113,112	941,293

NOTE 16. SHARES AND OTHER NON-FIXED INCOME SECURITIES

The following table provides the classification of the Group's shares and other non-fixed income securities between available for sale and fair value through profit and loss (where all securities are held for trading) portfolio:

	LVL 000's					
	31/12/2009			31/12/2008		
	Available for sale	Held for trading	Total	Available for sale	Held for trading	Total
Equity shares:						
in Latvian financial institutions	-	-	-	-	1	1
in Latvian corporate entities	-	649	649	1	763	764
in OECD financial entities	15	-	15	57	-	57
in OECD corporate entities	58	673	731	14	1,208	1,222
in non-OECD credit institutions	-	-	-	-	54	54
in non-OECD corporate entities	1	121	122	1	2,041	2,042
Total equity shares	74	1,443	1,517	73	4,067	4,140
Managed funds	9,457	-	9,457	12,431	334	12,765
Total shares and other non-fixed income securities	9,531	1,443	10,974	12,504	4,401	16,905

The Group possess limited information on the structure of investments in managed funds, which are managed on the behalf of investors by other financial institutions. As such, these investments are not analysed by their ultimate issuer. Investments in funds, where the Group does not possess sufficient information on portfolios' composition between fixed income securities and shares are classified as investments in shares and other non-fixed income securities.

	LVL 000's			
	31/12/2009 Group	31/12/2008 Group	31/12/2009 Bank	31/12/2008 Bank
Latvian entities' equity shares:				
listed	649	764	649	764
unlisted	-	1	-	-
Total Latvian entities' equity shares	649	765	649	764
Foreign entities' equity shares:				
listed	361	3,359	361	3,360
unlisted	506	16	490	-
Total foreign entities' equity shares	867	3,375	851	3,360
Mutual investment funds	9,458	12,765	9,401	12,695
Total shares and other non-fixed income securities	10,974	16,905	10,901	16,819

There are no off-balance sheet commitments bearing credit risk that are related to the issuers of the above securities. Further, no payments on the above instruments are past due.

NOTE 17. INVESTMENTS IN SUBSIDIARIES AND BUSINESS COMBINATIONS

Changes in the Bank's investments in subsidiaries may be specified as follows:

	LVL 000's	
	2009	2008
Balance as at 1 January	51,442	56,477
Establishment of new subsidiaries	50	-
Equity investments in the existing subsidiaries	21,626	-
Impairment	(393)	(4,984)
Disposals	-	(51)
Balance as at 31 December	72,725	51,442

In 2009, the the Bank decided to sell its Swiss subsidiary AP Anlage & Privatbank AG. The Bank concluded an agreement with potential buyer regarding the sale of the subsidiary's shares. The original agreement term expired on 24 January 2009, but it was prolonged until 24 July 2009 and further until 24 October 2009. After that the Bank did not prolong the agreement any more and terminated it, given the fact that the buyer did not meet several conditions. According to the terms of agreement, the Bank recognised EUR 2 million income.

On 29 September 2009, the Bank established a subsidiary company SIA NIF, which in October 2009 set up three subsidiary companies – SIA NIF Dzīvojamie Īpašumi, SIA NIF Komerccīpašumi and SIA NIF Zemes Īpašumi. In November and December 2009 SIA NIF established two more subsidiaries – OU Restruktūreeritud Kinnisvarafond (Estonia) and UAB Nekilnojamojo turto valdymo fondas (Lithuania). The purpose of the established subsidiaries is to ensure more effective management of the repossessed assets.

In January 2009, March 2009 and December 2009, the Bank paid up additional share issue of AS Parex bankas (Lithuania) amounting LTL 8,149 thousand, LTL 34,528 thousand and LTL 63,530 thousand, respectively.

In 2006, the Bank acquired 100% shares of SIA Parex private banking. The purchase price in excess of the net assets acquired was fully allocated to the long-term lease agreement the subsidiary possesses. In 2008, as a result of impairment assessment, the Bank concluded that the investment is impaired and the respective value is zero. The main reason for impairment was decrease in lease market rates, as well as certain investments made in respect to the repairs and improvements of the facilities. Impairment allowance in the amount of LVL 447 thousand was established in Bank's statements, attributable to the investment in subsidiary, and for the same amount in Group's financial statements, attributable to the long-term lease rights.

In 2008, the management of the Bank concluded that there is evidence of impairment of the Bank's office building constructed and financed through subsidiary SIA Rīgas Pirmā Garāža. Due to significant decline in real estate values in Latvia and related decrease in rental rates, the management resolved that impairment has to be recognized on exposure to the subsidiary and assets related to the building in construction. As a result, value of investment amounting to LVL 4,537 was written down to zero. As at 31 December 2009 total amount of impairment recognized on the loan issued to the subsidiary is LVL 12 million. Please also refer to Note 19 on related fixed assets impairment.

AS "PAREX BANKA" NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009



As at 31 December 2009 and 2008, the Bank held the following investments in subsidiaries:

Company	Country of registration	Business profile	As at 31/12/2009			As at 31/12/2008			Investment carrying value LVL 000's	
			Share capital in LVL 000's	The Bank's share (%)	% of total voting rights	Share capital in LVL 000's	The Bank's share (%)	% of total voting rights	31/12/2009	31/12/2008
AB Parex Bankas	Lithuania	Banking	58,386	100.0	100.0	36,540	100.0	100.0	57,000	35,378
AP Anlage & Privatbank AG	Switzerland	Banking	4,720	100.0	100.0	4,680	100.0	100.0	9,702	9,702
AS Parex Atklātais Pensiju Fonds	Latvia	Pension fund	450	100.0	100.0	450	99.6	99.6	454	451
IPAS Parex Asset Management	Latvia	Finance	4,150	100.0	100.0	4,150	100.0	100.0	4,151	4,151
ZAO Parex Asset Management	Russia	Finance	426	100.0	100.0	445	100.0	100.0	-	-
OOO Parex Asset Management Ukraina	Ukraine	Finance	564	100.0	100.0	606	100.0	100.0	-	-
UAB Parex Investiciju Valdymas	Lithuania	Finance	730	100.0	100.0	447	100.0	100.0	-	-
OU Parex Leasing & Factoring	Estonia	Finance	351	100.0	100.0	351	100.0	100.0	313	313
UAB Parex Faktoringas ir Lizingas	Lithuania	Finance	305	100.0	100.0	305	100.0	100.0	-	-
SIA Rīgas Pirmā Garāža	Latvia	REM*	352	100.0	100.0	352	100.0	100.0	-	-
SIA Parex Private Banking	Latvia	REM*	180	100.0	100.0	180	100.0	100.0	10	10
SIA Parex Express Kredīts	Latvia	Leasing	31	100.0	100.0	31	100.0	100.0	613	613
SIA E&P Baltic Properties	Latvia	Finance	20	50.0	50.0	20	50.0	50.0	-	-
SIA Parex Lizingas un Faktoringas	Latvia	Leasing	200	100.0	100.0	200	100.0	100.0	-	200
AAS Parex Dzīvība	Latvia	Life insurance	3,000	100.0	100.0	2,800	100.0	100.0	-	-
OOO Laska Lizing	Ukraine	Leasing	65	100.0	100.0	70	100.0	100.0	122	122
OOO Ekspres Lizing	Russia	Leasing	57	100.0	100.0	59	100.0	100.0	76	76
OOO Parex Leasing & Factoring	Azerbaijan	Leasing	30	100.0	100.0	30	100.0	100.0	-	26
OOO Parex Leasing	Russia	Leasing	113	100.0	100.0	118	100.0	100.0	-	141
IOOO Pareks Lizing	Belarus	Leasing	7	100.0	100.0	10	100.0	100.0	12	12
OOO Extroleasing	Russia	Leasing	164	100.0	100.0	171	100.0	100.0	222	222
OOO Extrocredit	Russia	Finance	-	99.0	99.0	-	99.0	99.0	-	-
OOO Parex Leasing & Factoring	Georgia	Leasing	24	100.0	100.0	24	100.0	100.0	-	25
Regalite Holdings Limited	Cyprus	Finance	6	100.0	100.0	4	100.0	100.0	-	-
Calenia Investments Limited	Cyprus	Finance	-	100.0	100.0	-	100.0	100.0	-	-
OOO Parex Investments Ukraina	Ukraine	Finance	40	100.0	100.0	43	100.0	100.0	-	-
SIA RPG Interjers	Latvia	REM*	2	100.0	100.0	2	100.0	100.0	-	-
OAQ Parex Ukrainian Equity Fund	Ukraine	Finance	-	100.0	100.0	46	100.0	100.0	-	-
SIA PR Speciālie Projekti	Latvia	Commercial pledges' administrator	2	100.0	100.0	2	100.0	100.0	-	-
SIA NIF	Latvia	REM*	50	100.0	100.0	-	-	-	50	-
SIA NIF Dzīvojamie Īpašumi	Latvia	REM*	2	100.0	100.0	-	-	-	-	-
SIA NIF Komercīpašumi	Latvia	REM*	2	100.0	100.0	-	-	-	-	-
SIA NIF Zemes Īpašumi	Latvia	REM*	2	100.0	100.0	-	-	-	-	-
UAB Nekilnojamojo turto valdymo fondas	Lithuania	REM*	2	100.0	100.0	-	-	-	-	-
OU Restruktureeritud Kinnisvarafond	Estonia	REM*	2	100.0	100.0	-	-	-	-	-
Total investments in subsidiaries									72,725	51,442

* REM - real estate management

NOTE 18. INTANGIBLE ASSETS

	LVL 000's			
	31/12/2009 Group	31/12/2008 Group	31/12/2009 Bank	31/12/2008 Bank
Goodwill from acquisition of subsidiaries:				
AP Anlage & Privatbank AG	1,246	1,246	-	-
AB Parex Bankas	35	35	-	-
SIA Parex Express Kredits	123	123	-	-
	<u>1,404</u>	<u>1,404</u>	<u>-</u>	<u>-</u>
Software	957	1,308	577	772
Other intangible assets	<u>920</u>	<u>1,323</u>	<u>8</u>	<u>10</u>
Total intangible assets excluding advances	3,281	4,035	585	782
Advances for intangible assets	13	13	-	-
Total net book value of intangible assets	<u>3,294</u>	<u>4,048</u>	<u>585</u>	<u>782</u>

For the purposes of goodwill impairment assessment the Bank compared the total carrying amount of the cash-generating units to their recoverable amount. For this purpose the recoverable amount was determined based on fair value less costs to sell, which was derived from an analysis of recent actual merger & acquisition transactions that are comparable to the cash-generating units under review. The impairment test did not result in the recognition of any impairment loss.

Movements in the Group's intangible assets excluding advances for the year ended 31 December 2009 can be specified as follows:

	LVL 000's			
	Goodwill from acquisition of subsidiaries	Software	Other intangible assets	Total intangible assets excluding advances
<i>Historical cost</i>				
As at 31 December 2007	1,404	8,056	2,549	12,009
Additions	-	778	55	833
Disposals	-	(145)	(16)	(161)
Impairment	-	-	(447)	(447)
As at 31 December 2008	1,404	8,689	2,141	12,234
Additions	-	329	19	348
Disposals	-	(4)	-	(4)
Transfer	-	(2)	2	-
As at 31 December 2009	<u>1,404</u>	<u>9,012</u>	<u>2,162</u>	<u>12,578</u>
<i>Accumulated amortisation</i>				
As at 31 December 2007	-	6,607	402	7,009
Charge for the year	-	895	424	1,319
Reversal due to disposals	-	(121)	(8)	(129)
As at 31 December 2008	-	7,381	818	8,199
Charge for the year	-	677	423	1,100
Reversal due to disposals	-	(2)	-	(2)
Transfer	-	(1)	1	-
As at 31 December 2009	<u>-</u>	<u>8,055</u>	<u>1,242</u>	<u>9,297</u>
<i>Net book value</i>				
As at 31 December 2007	1,404	1,449	2,147	5,000
As at 31 December 2008	<u>1,404</u>	<u>1,308</u>	<u>1,323</u>	<u>4,035</u>
As at 31 December 2009	<u>1,404</u>	<u>957</u>	<u>920</u>	<u>3,281</u>
<i>Impairment allowance</i>				
As at 31 December 2007	-	-	-	-
As at 31 December 2008	-	-	(447)	(447)
As at 31 December 2009	<u>-</u>	<u>-</u>	<u>(447)</u>	<u>(447)</u>

In 2008, lease rights obtained in 2006 through subsidiary SIA Parex private banking, were impaired. For more information, please refer to Note 17.

NOTE 19. FIXED ASSETS

	LVL 000's			
	31/12/2009 Group	31/12/2008 Group	31/12/2009 Bank	31/12/2008 Bank
Leasehold improvements	3,020	6,130	3,020	6,055
Land and buildings	37,801	11,272	4,127	4,215
Transport vehicles	1,998	4,506	1,071	2,482
Other fixed assets	8,853	7,950	3,504	6,434
Construction in progress	-	23,667	-	-
Total fixed assets excluding advances	51,672	53,525	11,722	19,186
Advances for fixed assets	823	6,967	823	1,052
Total net book value of fixed assets	52,495	60,492	12,545	20,238

The following changes in the Group's fixed assets excluding advances for fixed assets took place during the years ended 31 December 2009 and 31 December 2008:

	LVL 000's					
	Leasehold improve- ments	Land and buildings	Transport vehicles	Other fixed assets	Construction in progress	Total fixed assets excluding advances
<i>Historical cost</i>						
As at 31 December 2007	7,039	16,139	10,900	33,511	11,041	78,630
Additions	4,039	81	1,656	4,082	27,359	37,217
Disposals	(281)	(23)	(3,934)	(3,825)	-	(8,063)
Reclassification	-	(761)	-	-	-	(761)
Transfer	-	1,012	-	-	(1,012)	-
Impairment charge	-	(4,279)	-	-	(13,721)	(18,000)
As at 31 December 2008	10,797	12,169	8,622	33,768	23,667	89,023
Additions	354	11	223	5,360	4,203	10,151
Disposals	(5,317)	-	(3,937)	(2,726)	-	(11,980)
Transfer	-	27,870	-	-	(27,870)	-
Impairment charge	-	198	-	-	-	198
As at 31 December 2009	5,834	40,248	4,908	36,402	-	87,392
<i>Accumulated depreciation</i>						
As at 31 December 2007	2,378	678	4,479	25,695	-	33,230
Charge for the year	2,546	222	1,583	3,644	-	7,995
Reversal due to disposals	(257)	(3)	(1,946)	(3,521)	-	(5,727)
As at 31 December 2008	4,667	897	4,116	25,818	-	35,498
Charge for the year	3,420	1,550	1,108	4,165	-	10,243
Reversal due to disposals	(5,273)	-	(2,314)	(2,434)	-	(10,021)
As at 31 December 2009	2,814	2,447	2,910	27,549	-	35,720
<i>Net book value</i>						
As at 31 December 2007	4,661	15,461	6,421	7,816	11,041	45,400
As at 31 December 2008	6,130	11,272	4,506	7,950	23,667	53,525
As at 31 December 2009	3,020	37,801	1,998	8,853	-	51,672
<i>Impairment allowance</i>						
As at 31 December 2007	-	-	-	-	-	-
As at 31 December 2008	-	(4,279)	-	-	(13,721)	(18,000)
As at 31 December 2009	-	(17,802)	-	-	-	(17,802)

The following changes in the Bank's fixed assets excluding advances for fixed assets took place during the years ended 31 December 2009 and 31 December 2008:

	LVL 000's				
	Leasehold Improvements	Land and buildings	Transport vehicles	Other fixed assets	Total fixed assets excluding prepayments
<i>Historical cost</i>					
As at 31 December 2007	7,001	4,487	6,770	29,899	48,157
Additions	3,945	92	955	3,397	8,389
Disposals	(243)	(4)	(2,264)	(3,470)	(5,981)
As at 31 December 2008	10,703	4,575	5,461	29,826	50,565
Additions	354	-	-	420	774
Disposals	(5,225)	-	(2,441)	(1,877)	(9,543)
As at 31 December 2009	5,832	4,575	3,020	28,369	41,796
<i>Accumulated depreciation</i>					
As at 31 December 2007	2,366	275	3,583	23,726	29,950
Charge for the year	2,521	87	1,031	3,013	6,652
Reversal due to disposals	(239)	(2)	(1,635)	(3,347)	(5,223)
As at 31 December 2008	4,648	360	2,979	23,392	31,379
Charge for the year	3,370	88	636	3,190	7,284
Reversal due to disposals	(5,206)	-	(1,666)	(1,717)	(8,589)
As at 31 December 2009	2,812	448	1,949	24,865	30,074
<i>Net book value</i>					
As at 31 December 2007	4,635	4,212	3,187	6,173	18,207
As at 31 December 2008	6,055	4,215	2,482	6,434	19,186
As at 31 December 2009	3,020	4,127	1,071	3,504	11,722

NOTE 20. NON-CURRENT ASSETS HELD FOR SALE

	LVL 000's			
	31/12/2009 Group	31/12/2008 Group	31/12/2009 Bank	31/12/2008 Bank
Transport vehicles	11,667	3,485	4	1
Real estate	376	3,516	-	2,735
Manufacturing, industrial equipment	214	30	-	-
Other	116	78	-	78
Total net non-current assets held for sale	12,373	7,109	4	2,814

	LVL 000's			
	31/12/2009 Group	31/12/2008 Group	31/12/2009 Bank	31/12/2008 Bank
Initial carrying amount as at the beginning of the year	9,811	2,378	4,213	2,345
Impairment allowance at the beginning of the year	(2,702)	-	(1,399)	-
Net carrying amount at the beginning of the year	7,109	2,378	2,814	2,345
Impairment charges	(5,128)	(2,702)	(2,348)	(1,399)
Impairment reversals	475	-	-	-
Decrease of impairment allowance due to disposals	13	-	13	-
Transfer – impairment allowance *	3,730	-	3,730	-
Net impairment charge to income statements	(910)	(2,702)	1,395	(1,399)
Increase of initial carrying amount due to additions	24,615	11,719	8,376	1,820
Decrease of initial carrying amount due to disposals	(5,910)	(4,337)	(23)	(3)
Transfer – initial carrying amount *	(12,534)	-	(12,534)	-
Net change in initial carrying amount	6,171	7,382	(4,181)	1,817
Effect of changes in currency exchange rates	3	51	(24)	51
Initial carrying amount as at the end of the year	15,952	9,811	4	4,213
Impairment allowance at the end of the year	(3,579)	(2,702)	-	(1,399)
Net carrying amount at the end of the year	12,373	7,109	4	2,814

* At end-December 2009, due to decreased likelihood of realizing the assets in the short term, certain real estate properties repossessed from the defaulted borrowers were transferred from the “assets held for sale” to balance sheet position “other assets”.

NOTE 21. OTHER ASSETS

	LVL 000's			
	31/12/2009 Group	31/12/2008 Group	31/12/2009 Bank	31/12/2008 Bank
Repossessed assets – real estate	12,534	-	12,534	-
VAT receivables	1,455	4,677	87	554
Money in transit	2,030	3,809	2,003	3,728
Prepayments	4,172	2,673	3,529	2,213
Accrued income	448	857	-	522
Other assets *	14,828	8,556	4,828	3,006
Total gross other assets	35,467	20,572	22,981	10,023
Impairment allowance of financial assets	(3,310)	(623)	(2,107)	(604)
Impairment allowance of non-financial assets	(3,730)	-	(3,730)	-
Total net other assets	28,427	19,949	17,144	9,419

* As at 31 December 2009, included in the Group's and Bank's other assets are assets amounting to LVL 7,311 thousand (2008: LVL 1,296 thousand) and LVL nil (2008: LVL nil), respectively, which are delayed. Additionally, as at 31 December 2009, the Group's and the Bank's other assets amounts that are not delayed but impaired amount to LVL 2,139 thousand (2008: LVL 623 thousand) and LVL 2,107 thousand (LVL 604 thousand), respectively.

NOTE 22. ISSUED DEBT SECURITIES

As at 31 December 2009 and 2008, the Bank had the following outstanding debt issues:

Issue date	Issue amount	Coupon	Payment, frequency	Maturity	Debt outstanding (LVL 000's)	
					31/12/2009	31/12/2008
May, 2007	EUR 200 million	5.625%	Annual	May, 2011	90,742	88,712
Total					90,742	88,712

As a result of the difficult liquidity situation in October 2008 and the resulting takeover of majority shareholding by the State, several covenants of the outstanding debt securities were breached.

The Bank was engaged in interest rate swap transactions, whereby swapped certain part of the fixed coupon payments to EURIBOR. The interest rate swap agreements were used to maintain certain level of the Bank's debt, corresponding to the debt issues of EUR 200 million, at floating rates, thus effectively working as fair value hedge.

In 2008, the retrospective effectiveness test of EUR 200 million hedge revealed that the hedge is no more effective due to decrease in estimated cash flows from the hedged item. As a result, further revaluation of interest rate swap was recognised in the income statement. The recognized effectiveness at last date, when the hedge was effective, is being amortised over the remaining life of the interest rate swap. The amortisation is included to income statement's line "(Loss)/ gain on transactions with financial instruments, net".

	Amortisation charge of hedge effectiveness	
	2009	2008
EUR 200 million notes	1,869	939
Total	1,869	939

NOTE 23. BALANCES DUE TO CREDIT INSTITUTIONS AND CENTRAL BANKS

	LVL 000's			
	31/12/2009 Group	31/12/2008 Group	31/12/2009 Bank	31/12/2008 Bank
Due to credit institutions registered in OECD countries	407,457	590,078	421,449	591,003
Due to credit institutions registered in Latvia	142,862	598,703	142,860	598,703
Due to credit institutions registered in other non-OECD countries	2,147	840	8,473	71,734
Total balances due to credit institutions and central banks	552,466	1,189,621	572,782	1,261,440

* includes balances with the Bank of Latvia of LVL 141,212 thousand (2008: LVL 590,505 thousand).

The following table presents the Group's and Bank's balances due to credit institutions and central banks according to maturity profile:

	LVL 000's			
	31/12/2009 Group	31/12/2008 Group	31/12/2009 Bank	31/12/2008 Bank
Balances on demand	190	5,801	745	6,305
Overnight deposits	425	4	6,399	70,351
Total balances repayable on demand	615	5,805	7,144	76,656
Loans from credit institutions:				
due within 1 month	10,662	555,229	23,525	556,078
due within 1-3 months	367,726	267,818	368,294	267,818
due within 3-6 months	3,387	360,540	3,813	360,541
due within 6-12 months	6,852	-	6,782	347
due within 1-5 years	163,224	229	163,224	-
Total loans from credit institutions	551,851	1,183,816	565,638	1,184,784
Total due to credit institutions	552,466	1,189,621	572,782	1,261,440

The bank has concluded several repo transactions, whereby it pledged part of the securities portfolio against the financing received. Please refer to Note 30 for more details.

Syndicated loans restructuring

As at 31 December 2009, the Bank had 2 syndicated loans outstanding, amounting to EUR 192.5 million and EUR 350 million (2008: EUR 275 million and EUR 500 million). The original maturities of the facilities were 19 February 2009 and 26 June 2009, respectively. As a result of the difficult liquidity situation in October 2008 and the resulting takeover of majority shareholding by the State, several covenants of the above agreements were breached until the restructuring took place in March 2009.

The main terms and conditions of the loan agreement are as follows:

- 40% of the total facility or EUR 310 million is payable on 15 February 2010. The interest rate margin applicable until this date is 300 basis points over EURIBOR applicable to the interest rate period as selected by the Bank; *(the amount has been paid on the agreed date. Please refer to Note 36 for more details)*
- The residual of the total facility or EUR 232.5 million is payable on 5 May 2011. The interest rate margin applicable until this date is 350 basis points over EURIBOR applicable to the interest rate period as selected by the Bank;
- The repayment of the loan is guaranteed by the State guarantee;
- The Bank has to maintain a minimum capital adequacy ratio of 8%; and
- The State is allowed to continue secured financing of the Bank as deemed necessary.

NOTE 24. DEPOSITS FROM CUSTOMERS

The following table presents deposits from customers according to customer profile:

	LVL 000's			
	31/12/2009 Group	31/12/2008 Group	31/12/2009 Bank	31/12/2008 Bank
Government	635,276	684,071	634,559	683,265
Private individuals	488,489	592,740	411,540	534,760
Privately held companies	461,019	616,907	404,029	569,409
State owned enterprises	48,411	62,889	48,260	62,446
Financial institutions	41,079	47,417	29,745	34,308
Municipalities	10,729	14,680	10,658	14,464
Public and religious institutions	2,846	4,290	1,878	3,234
Total deposits from customers	1,687,849	2,022,994	1,540,669	1,901,886

On 1 December 2008, Financial and Capital Markets Commission and Cabinet of Ministers decided to impose restrictions on deposit withdrawals in AS Parex bank (Latvia), applicable to all customer deposits with the Bank as at the respective date. The restrictions do not apply to any funds received on the customers' accounts after the restrictions date, as well as state and municipalities' payments made by companies with number of employees exceeding 250. All corporate clients were only allowed to make business-purpose payments. The initial term of the restrictions ended on 1 July 2009 and was further prolonged to 1 December 2009 and 1 July 2010, thereafter. Nevertheless, during 2009, the restrictions have been softened. The details of restrictions in force as at 31 December 2009 are as follows:

- Private individuals – maximum outflow of LVL 35 thousand per month;
- Companies with number of employees not exceeding 10 – maximum outflow of LVL 35 thousand per month;
- Companies with number of employees from 11-250 – maximum outflow of LVL 350 thousand per month;
- Since June 2009, the amount of incoming money that exceeds the outstanding amount in all client accounts as at 8 June 2009, can be further transferred with no additional verification, whether the payment serves business purpose;
- Since October 2009, the unused limit in one month is available also in further periods, i.e., limits accumulate;
- Since November 2009, the state and municipal enterprises have no limits for transactions;

Financing support from the State Treasury

As a result of significant decrease in deposit base in October-November 2008, the Bank was forced to apply for the State support. State Treasury of Latvia has made a number of deposits on a secured basis, receiving part of Bank's loan portfolio as collateral (please refer to Note 30 for details on assets pledged). As at 31 December 2009, the following financing support received from the State Treasury was outstanding (2008: LVL 676,398):

Agreement currency	Interest rate (%)	Agreement date	Maturity date	Amortised cost
				LVL 000's 31/12/2009
EUR	4.688	09/10/2009	08/01/2010	14,210
EUR	4.683	23/10/2009	22/01/2010	203,594
EUR	4.667	06/11/2009	05/02/2010	206,235
EUR	4.662	17/11/2009	17/02/2010	164,354
EUR	4.662	17/11/2009	17/02/2010	21,207
EUR	4.662	17/11/2009	17/02/2010	7,795
LVL	11.448	06/11/2009	05/02/2010	9,415
Total Treasury deposits				626,810

During 2009 part of the State Treasury deposits was used to increase the Bank's capital. The increase effectively was done by Privatisation Agency from the corresponding funds received from State Treasury.

Even though most of the financing facilities' maturity term is January or February 2010, the State is continuing to provide the support to the Bank by rolling-over the existing facilities. Please refer to Note 36 for updated information on financial support received from State Treasury.

	LVL 000's			
	31/12/2009 Group	31/12/2008 Group	31/12/2009 Bank	31/12/2008 Bank
Demand deposits	372,375	675,904	310,391	627,130
Term deposits:				
due within 1 month	565,899	642,807	532,701	619,537
due within 1-3 months	528,015	177,915	506,733	152,280
due within 3-6 months	65,302	141,102	50,979	130,599
due within 6-12 months	94,889	303,846	80,136	291,988
due within 1-5 years	61,230	75,685	59,624	74,626
due in more than 5 years	139	5,735	105	5,726
Total term deposits	1,315,474	1,347,090	1,230,278	1,274,756
Total deposits from customers	1,687,849	2,022,994	1,540,669	1,901,886

As at 31 December 2009, the Bank held restricted deposits amounting to LVL 28,211 thousand (2008: LVL 39,801 thousand) that are dependent upon repayment of outstanding balances due from customers.

Included in the aforementioned deposits are LVL-denominated deposits from former related parties amounting to LVL 28,006 thousand (2008: LVL 28,007 thousand) and with the average year-end interest rate of 7.9% (2008: 9.6%). These deposits serve as a collateral for the loan balances with original agreement currency of EUR and USD amounting to LVL 14,080 thousand (2008: LVL 14,123 thousand) and LVL 14,958 thousand (2008: LVL 15,346 thousand), respectively. The average year-end interest rate of these loans is 2.1% (2008: 4.8%). These transactions were entered into by previous executive management of the Bank. In 2009, the net interest expense arising from the aforementioned transactions with former related parties amounted to LVL 2.0 million. These transactions and their cash flows are distinct from each other, thus presented on gross basis.

NOTE 25. OTHER LIABILITIES

	LVL 000's			
	31/12/2009 Group	31/12/2008 Group	31/12/2009 Bank	31/12/2008 Bank
Accrued expense	3,219	2,968	2,867	2,456
VAT payables	2,038	3,972	-	11
Suspense liabilities	1,845	1,767	1,845	1,767
Amounts due to suppliers	1,060	4,592	486	318
Money in transit	280	12,035	-	12,014
Provisions for undrawn loan commitments	185	1,010	185	1,010
Deferred income	36	111	-	-
Provisions for other liabilities	-	325	-	-
Other liabilities	6,111	10,447	3,987	8,307
Total other liabilities	14,774	37,227	9,370	25,883

Suspense liabilities comprise funds received by the Group and the Bank as at year end, but not transferred to ultimate beneficiaries due to unclear or incomplete details of the supporting documentation.

NOTE 26. SUBORDINATED DEBT

The following table represents the details of Group's subordinated capital:

Counterparty	Residence country	Currency	Issue size, 000's	Interest rate	Original agreement date	Original maturity date	Amortised cost (LVL 000's) 31/12/2009	Amortised cost (LVL 000's) 31/12/2008
Privatisation Agency	Latvia	EUR	53,128	16.12%	22/05/2009	21/05/2016	37,857	-
EBRD	UK	EUR	18,400	6M Euribor + 7%	11/09/2009	08/08/2016	13,106	-
Notes-private placement	UK	EUR	20,000	3M Euribor + 4.55%	28/12/2007	28/12/2017	13,165	13,132
Private person	Latvia	LVL	7,500	6M Rigibid + 3%	28/09/2007	26/09/2017	7,502	7,503
Private person	Latvia	LVL	7,500	6M Rigibid + 3%	28/09/2007	26/09/2017	7,502	7,503
Notes – public issue	n/a	EUR	5,050	11%	08/05/2008	08/05/2018	3,813	3,817
Private person	Latvia	EUR	15,000	12%	20/06/2008	14/05/2015	10,602	10,598
Private person	Latvia	LVL	1,500	6M Rigibid + 3%	30/10/2008	30/10/2018	1,500	1,501
Private person	Latvia	LVL	1,500	6M Rigibid + 3%	30/10/2008	30/10/2018	1,500	1,501
Private person	Latvia	LVL	2,284	6M Rigibid + 3%	04/12/2008	18/09/2015	2,285	2,285
Private person	Latvia	LVL	2,284	6M Rigibid + 3%	04/12/2008	18/09/2015	2,285	2,285
Private person	Latvia	LVL	1,416	6M Rigibid + 3%	04/12/2008	29/09/2015	1,416	1,416
Private person	Latvia	LVL	1,416	6M Rigibid + 3%	04/12/2008	29/09/2015	1,416	1,416
Total							103,949	52,957

On 22 May 2009, with the consent of European Commission, the Privatisation Agency issued a subordinated loan amounting to EUR 71,528 thousand (LVL 50,270 thousand). On 11 September 2009, the Bank received a subordinated loan from EBRD amounting to EUR 18.4 million. The interest rate on the loan is the equivalent to the 6 months EURIBOR + 7% *p.a.*. The loan matures in 7 years. The entire amount received was used to partly repay the subordinated debt to the *Privatisation Agency*.

The EUR 20,000 thousand subordinated debt was attracted through private placement of subordinated notes. The notes were issued at discount and net proceeds amounted to EUR 18,672 thousand. The notes are to be redeemed at 100%. The Bank has the right to extend the term of the notes until 28 December 2022, in which case the Bank also has the right to redeem the notes after the original maturity date giving a notice within 30-60 days.

As at 31 December 2009, included in the subordinated debt are LVL 36 million (2008: LVL 36 million) attributable to the former related parties of the Bank. These transactions were entered into by previous executive management of the Bank. During 2009, the Bank recognised LVL 4.8 million (2008: LVL 2.4 million) interest expense on the aforementioned balance.

NOTE 27. ISSUED SHARE CAPITAL

As at 31 December 2009, the Bank's registered and paid-in share capital was LVL 230,027 thousand. In accordance with the Bank's statutes, the share capital consists of 201,383 thousand ordinary shares with voting rights and 28,644 thousand ordinary shares without voting rights. All shares have a par value of LVL 1 each and, as at 31 December 2009, they all were issued and fully paid. As at 31 December 2009, the Bank did not possess any of its own shares. No dividends were proposed and paid during 2009 and 2008.

As at 31 December 2009, the Bank had 61 (2008: 61) shareholders. The respective shareholdings as at 31 December 2009 and 2008 may be specified as follows:

	31/12/2009			31/12/2008		
	Paid-in share capital (LVL 000's)	% of total paid-in capital	% of total voting rights	Paid-in share capital (LVL 000's)	% of total paid-in capital	% of total voting rights
Privatisation Agency	168,921	73.44	71.74	-	-	-
European Bank for Reconstruction and Development	51,444	22.36	25.55	-	-	-
Latvijas Hipotēku un zemes banka	-	-	-	55,165	84.83	90.98
Other	9,662	4.20	2.71	9,862	15.17	9.02
Total	230,027	100.00	100.00	65,027	100.00	100.00

Changes in the shareholding structure

On 10 November 2008, Investment Agreement was concluded on sale of 51% of the Bank's shares owned by two previous major shareholders Valērijs Kargins and Viktors Krasovickis to State JSC *Mortgage and Land Bank of Latvia*. On 3 December 2008, amendments the Investment Agreement were made providing that Valērijs Kargins and Viktors Krasovickis are selling to *Mortgage and Land Bank of Latvia* all of their shares in *Parex banka*, which in total constitute 84.83% of the total *Parex banka*'s share capital amount.

On 15 December 2008, the Latvian Government made the decision to increase the state participation in *Parex banka* through obtaining 200,000 shares from *Svenska Handelsbanken AB*. On 22 January 2009, the share purchase agreement was signed between *Svenska Handelsbanken AB* and *Mortgage and Land Bank of Latvia*, increasing the State's shareholding in *Parex banka* to 85.14%.

On 24 February 2009, the Latvian Government decided to transfer 85.14% of *Parex banka*'s shares owned by the *Mortgage and Land Bank of Latvia* to the State Joint-Stock Company "Privatizācijas aģentūra" (*Privatisation Agency*). The transfer of shares did not affect the financial position of the Bank or Group and was completed solely to optimise the management of the State's investment. Furthermore, on 3 March 2009, *Nomura International plc* was appointed as the strategic advisor of the State's shareholding in the Bank. Currently, the Bank has commenced collaboration with the advisor's representatives. However no specific decisions have been taken as yet.

On 16 April 2009, *European Bank for Reconstruction and Development* (EBRD) concluded a share purchase agreement with *Privatisation Agency*, whereby 51.44 million of the Bank's shares with voting rights were agreed to be sold to EBRD whereby EBRD would acquire 25% of the share capital of *Parex banka* plus one share.

Capital increases

On 24 March 2009, the Cabinet of Ministers resolved to provide financing in the amount of LVL 227 million to renew the capital base of the Bank. The amount will be provided in form of share capital increase by LVL 165 million and subordinated loan amounting to LVL 62 million. As at the date of signing the financial statements, the European Commission has approved the share capital increase of LVL 140,750 thousand and an additional subordinated loan amounting LVL 50,270 thousand. On 22 May 2009, *Privatisation Agency* paid up the respective capital increase

On 29 October 2009 the Bank's capital was further increased by LVL 24.25 million. The increase was carried out by the largest shareholder of the Bank *Privatisation Agency* by purchase of a corresponding amount of non-voting shares.

NOTE 28. MEMORANDUM ITEMS

Memorandum items comprise contingent liabilities, financial commitments, foreign exchange contracts and derivative financial instruments. The following table provides a specification of contingent liabilities (showing maximum amount payable) and financial commitments outstanding as at 31 December 2009 and 2008.

	LVL 000's			
	31/12/2009 Group	31/12/2008 Group	31/12/2009 Bank	31/12/2008 Bank
Contingent liabilities:				
Outstanding guarantees	6,127	19,947	10,881	14,843
Outstanding letters of credit	699	37,896	583	37,896
Total contingent liabilities	6,826	57,843	11,464	52,739
Financial commitments:				
Loans granted, not fully drawn down	1,219	6,740	295	7,319
Unutilised credit lines and overdraft facilities	51,870	61,456	104,617	169,068
Credit card commitments	72,985	106,006	61,411	93,131
Other financial commitments	14	5,430	-	-
Total financial commitments	126,088	179,632	166,323	269,518

The following table presents the notional amounts and fair values of foreign exchange contracts and derivative financial instruments. The notional amounts of foreign exchange contracts represent the amounts receivable under these contracts. The notional amounts of other financial instruments represent the value of the underlying assets.

The Group:

	Notional amount LVL 000's		Fair value LVL 000's			
	31/12/2009	31/12/2008	31/12/2009		31/12/2008	
			Assets	Liabilities	Assets	Liabilities
Foreign exchange contracts:						
Spot exchange	37,422	55,008	683	(685)	3,535	(2,041)
Forwards	8,203	80,608	111	(13)	2,419	(2,108)
Swaps	480,569	1,074,086	818	(172)	6,085	(3,270)
Total foreign exchange contracts	526,194	1,209,702	1,612	(870)	12,039	(7,419)
Other financial instruments:						
Interest rate swaps	4,890	157,489	260	(14)	6,788	(43)
Other derivatives	7,028	11,978	41	(53)	376	(2,047)
Total other financial instruments	11,918	169,467	301	(67)	7,164	(2,090)
Derivative financial instruments	538,112	1,379,169	1,913	(937)	19,203	(9,509)

The Bank:

	Notional amount LVL 000's		Fair value LVL 000's			
	31/12/2009	31/12/2008	31/12/2009		31/12/2008	
			Assets	Liabilities	Assets	Liabilities
Foreign exchange contracts:						
Spot exchange	37,544	86,160	683	(685)	3,536	(2,158)
Forwards	28,878	89,433	129	(33)	2,327	(2,130)
Swaps	484,382	1,092,790	809	(177)	6,125	(3,292)
Total foreign exchange contracts	550,804	1,268,383	1,621	(895)	11,988	(7,580)
Other financial instruments:						
Interest rate swaps	4,890	157,489	260	(14)	6,788	(43)
Other derivatives	7,028	11,978	41	(53)	376	(2,047)
Total other financial instruments	11,918	169,467	301	(67)	7,164	(2,090)
Derivative financial instruments	562,722	1,437,850	1,922	(962)	19,152	(9,670)

The Group's banks use derivative foreign exchange instruments to manage their currency positions, which among others arise also due to derivative foreign exchange contracts concluded with the banks' clients. Before entering into derivative foreign currency agreement with private individual or company, the Group's entities assess the counterparty's ability to meet the contractual provisions. As at 31 December 2009, more than 96% (2008: 84%) of the fair value (assets) on foreign exchange contracts is attributable to credit and finance institutions and central government. As at 31 December 2009 and 2008, none of the payments receivable arising out of derivative transactions was past due.

NOTE 29. FUNDS UNDER TRUST MANAGEMENT

The table below provides analysis of the funds managed on behalf of customers by investment type:

	LVL 000's			
	31/12/2009 Group	31/12/2008 Group	31/12/2009 Bank	31/12/2008 Bank
Fixed income securities:				
Mutual investment funds	67,546	62,192	-	-
Credit institution bonds	50,636	42,640	-	-
Government bonds	40,481	56,596	-	-
Corporate bonds	25,522	34,863	-	-
Foreign municipality bonds	1,411	1,412	-	-
Other financial institution bonds	1,207	-	-	-
Total investments in fixed income securities	186,803	197,703	-	-
Other investments:				
Deposits with credit institutions	70,218	64,675	-	1,497
Shares	39,649	36,974	-	-
Real estate	11,104	31,958	-	-
Loans to corporate entities	1,427	1,150	247	402
Loans to financial institutions	101	212	-	-
Other	16,560	21,249	62	70
Total other investments	139,059	156,218	309	1,969
Total assets under trust management agreements	325,862	353,921	309	1,969

The table below provides an analysis of the customer profile on whose behalf the funds are managed:

	LVL 000's			
	31/12/2009 Group	31/12/2008 Group	31/12/2009 Bank	31/12/2008 Bank
Investors of investment funds	210,113	210,774	-	-
Privately held companies	54,962	63,552	309	472
Private individuals	48,526	64,556	-	-
Financial institutions	12,261	15,039	-	1,497
Total liabilities under trust management agreements	325,862	353,921	309	1,969

NOTE 30. ASSETS PLEDGED

	LVL 000's			
	31/12/2009 Group	31/12/2008 Group	31/12/2009 Bank	31/12/2008 Bank
Due from credit institutions*	21,182	32,830	21,182	32,830
<i>Held for trading securities</i>	-	3	-	3
<i>Available-for-sale securities</i>	64,772	77,705	64,772	77,705
<i>Held-to-maturity securities</i>	217,465	654,154	217,465	654,154
Total securities pledged	282,237	731,862	282,237	731,862
Loans to customers	1,227,536	829,489	1,227,536	829,489
Total assets pledged	1,530,955	1,594,181	1,530,955	1,594,181
Due to credit institutions and central banks	167,966	635,239	167,966	635,239
Deposits from State Treasury	626,810	676,398	626,810	676,398
Total liabilities secured by pledged assets	794,776	1,311,637	794,776	1,311,637

* The amount consists of several placements to secure various Bank's transactions in the ordinary course of business.

As at 31 December 2009, the Bank has entered into several repo agreements with Bank of Latvia and European Central Bank, whereby it pledged part of its securities portfolio against the financing facilities received.

Further, the Bank has concluded several agreements with State Treasury of Latvia, whereby it pledged part of the loan portfolio as a security to the financing received. The respective pledges are registered with Commercial Register. Please refer to Note 24 for more detailed information on deposits received from the State Treasury.

NOTE 31. CASH AND CASH EQUIVALENTS

The table below provides a breakdown of cash and cash equivalents as at 31 December 2009 and 2008:

	LVL 000's			
	31/12/2009 Group	31/12/2008 Group	31/12/2009 Bank	31/12/2008 Bank
Cash and demand deposits with central banks	157,502	116,350	142,259	95,179
Deposits with other credit institutions*	217,889	250,943	195,754	537,407
Demand deposits due to other credit institutions	(615)	(5,805)	(7,144)	(76,656)
Total cash and cash equivalents	374,776	361,488	330,869	555,930

* Deposits include term facilities with initial agreement term of 3 months or less.

NOTE 32. LITIGATION AND CLAIMS

In the ordinary course of business, the Bank has been involved in a number of legal proceedings to recover collateral or outstanding credit balances, as well as related interest and expenses from defaulted credit customers and interbank counterparties. The Group is also involved in a number of legal proceedings related to its customers in Latvia and abroad.

The management of the Bank believes that any legal proceedings pending as at 31 December 2009 will not result in material losses for the Group.

In July 2009, the State Revenue Service (SRS) has completed a tax audit of the Bank which covered the years of 2007 and 2008. The tax audit report assessed claims for additional taxes to be paid by the Bank. The Bank did not agree with the SRS audit team's assessment and has appealed to the General Director of the SRS. Subsequently, the decision for a part of additional taxes payable was withdrawn. In respect to the residual part of the decision, which remained unchanged and constitutes ca LVL 0.8 million in additional tax and ca LVL 0.8 million in penalties, the Bank appealed to the Administrative court. The management strongly believes that the Bank will not incur any loss as a result of this residual claim. Accordingly, no provisions were established in respect to this matter. As at 31 December 2009, years 2006 and 2009 are open to tax audits in the Bank.

NOTE 33. RELATED PARTIES

Related parties are defined as shareholders who have significant influence over the Group, state and municipal institutions, members of the Council and Management Board, key Management personnel, their close relatives and companies in which they have a controlling interest as well as associated companies of the Group. For the purpose of this disclosure, the key management of the Group's companies/ Bank and their related companies are stated in one line, accordingly.

The Bank of Latvia is not considered as related party as it is operating as an independent institution according to special law.

The following table present the outstanding balances and terms of the Group's transactions with counterparties, which were related parties as at 31 December 2009.

	Amount in LVL 000's 31/12/2009	Interest income/ expense 01/01/2009- 31/12/2009	Amount in LVL 000's 31/12/2008	Interest income/ expense 01/01/2008- 31/12/2008
Credit exposure to related parties				
Securities:	173,947	18,887	611,268	10,792
<i>Latvian treasury bills and government bonds</i>	173,947	18,887	611,268	10,792
Loans and receivables:	4,001	243	4,657	846
<i>Management</i>	990	50	953	487
<i>State institutions</i>	2	2	35	2
<i>Municipality institutions</i>	3,009	191	3,669	357
Derivatives – assets:	304	-	-	-
<i>State Treasury</i>	304	-	-	-
Financial commitments and outstanding guarantees:	1,839	-	4,852	-
<i>Management</i>	293	-	1,272	-
<i>State institutions</i>	164	-	3,580	-
<i>Municipality institutions</i>	1,382	-	-	-
Total credit exposure to related parties	180,091		620,777	
Due to related parties:	696,635	42,262	697,545	10,132
<i>Deposits from State Treasury</i>	627,491	36,767	676,648	7,575
<i>Subordinated loans from shareholder</i>	50,963	4,495	-	-
<i>Management</i>	455	10	201	25
<i>State institutions</i>	7,068	354	6,232	65
<i>Municipality institutions</i>	10,658	636	14,464	2,467
Total amounts due to related parties	696,635		697,545	

The following table presents the outstanding balances and terms of the Bank's transactions with counterparties, which were related parties as at 31 December 2009.

	Amount in LVL 000's 31/12/2009	Interest income/ expense 01/01/2009- 31/12/2009	Amount in LVL 000's 31/12/2008	Interest income/ expense 01/01/2008- 31/12/2008
Credit exposure to related parties				
Securities:	214,087	22,822	673,453	15,604
<i>Latvian treasury bills and government bonds</i>	173,947	18,887	611,268	10,792
<i>Subsidiaries</i>	40,140	3,935	62,185	4,812
Loans and receivables:	306,965	17,159	525,624	26,735
<i>Management</i>	361	13	251	451
<i>State institutions</i>	2	2	35	2
<i>Municipality institutions</i>	3,009	191	3,669	357
<i>Subsidiaries - banks</i>	141,986	6,561	285,278	9,080
<i>Subsidiaries - other</i>	161,607	10,392	236,391	16,845
Derivatives - assets:	333		117	
<i>Subsidiaries - banks</i>	29		117	
<i>State Treasury</i>	304		-	
Financial commitments and outstanding guarantees:	64,205		123,873	
<i>Management</i>	293		1,272	
<i>State institutions</i>	164		3,580	
<i>Municipality institutions</i>	1,382		-	
<i>Subsidiaries - banks</i>	367		71,848	
<i>Subsidiaries - other</i>	61,999		47,173	
Total credit exposure to related parties	585,590		1,323,067	
Due to related parties:	709,858	42,687	776,174	10,780
<i>Deposits from State Treasury</i>	627,491	36,767	676,648	7,575
<i>Subordinated loans from shareholders</i>	50,963	4,495	-	-
<i>Management</i>	171	3	37	22
<i>State institutions</i>	7,068	354	6,232	65
<i>Municipality institutions</i>	10,658	636	14,464	2,467
<i>Subsidiaries - banks</i>	10,602	300	72,371	537
<i>Subsidiaries - other</i>	2,905	132	6,422	114
Derivatives - liabilities:	31		175	
<i>Subsidiaries - banks</i>	31		175	
Total amounts due to related parties	709,889		776,349	

Included in the Bank's financial results are also material transactions that were concluded with certain former related parties and entered into by the bank prior to 05/12/2008 when the new management board was appointed. In 2009, the net interest expense on the aforementioned transactions amounted to approximately LVL 6.8 million.

NOTE 34. SEGMENT REPORTING

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker is the person or group that allocates resources to and assesses the performance of the operating segments of an entity. The Bank has determined the Management board of the Bank as its chief operating decision maker. Banking Latvia is a reportable operating segment whose operating results are regularly reviewed by the board. The Board reviews financial information prepared based on International Financial Reporting Standards.

The following table reconciles the management information with these financial statements:

LVL 000's

	Segment reported in the monthly report to the Management Board		Other business units not consolidated in management reporting											
	Banking - Latvia		Banking - other countries		Asset management		Leasing		Other		Eliminations and consolidation adjustments		Group	
	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008
Total income from external customers *	153,988	207,875	19,560	27,682	3,406	5,815	23,488	34,133	28	18	-	-	200,470	275,523
Total income from internal customers *	21,162	32,715	399	70	366	33	163	197	5	-	(22,095)	(33,015)	-	-
<i>Total segment revenue</i>	<i>175,150</i>	<i>240,590</i>	<i>19,959</i>	<i>27,752</i>	<i>3,772</i>	<i>5,848</i>	<i>23,651</i>	<i>34,330</i>	<i>33</i>	<i>18</i>	<i>(22,095)</i>	<i>(33,015)</i>	<i>200,470</i>	<i>275,523</i>
Net interest income	12,247	76,533	5,272	8,237	383	390	9,823	12,629	(646)	(343)	(652)	(1,154)	26,427	96,292
Net commission income	14,644	27,423	1,776	2,406	3,117	4,843	(29)	950	28	17	36	173	19,572	35,812
(Loss)/ gains on transactions with financial instruments, net	5,540	(4,657)	1,197	220	61	(169)	(1,143)	(115)	-	-	-	1,359	5,655	(3,362)
Administrative expense	50,352	82,638	9,920	11,642	3,311	4,275	8,918	10,579	794	225	(1,771)	(267)	71,524	109,092
Other operating income/ (expense), net	6,176	7,011	1,028	943	129	99	3,362	4,476	1,638	192	(1,789)	(1,328)	10,544	11,393
Net (loss)/ gains on disposal of assets held for sale	-	-	-	-	-	-	(3,652)	(391)	-	-	-	-	(3,652)	(391)
Segment result	(129,190)	(130,329)	(18,097)	(4,721)	(378)	1,063	(9,623)	(3,003)	(1,610)	(673)	14,873	(731)	(144,025)	(138,394)
Segment assets	2,471,150	3,418,039	337,722	463,035	15,437	16,089	169,476	273,463	54,380	52,935	(451,268)	(739,758)	2,596,897	3,483,803
Segment liabilities	2,318,481	3,340,551	289,440	418,804	3,051	3,820	172,351	269,849	57,723	54,088	(383,099)	(682,380)	2,457,947	3,404,732
Capital expenditure (including intangible assets)	816	9,545	63	565	40	64	300	1,167	3,734	28,562	(597)	-	4,356	39,903
Depreciation and amortisation	7,752	7,346	973	978	84	96	703	798	1,836	96	-	-	11,348	9,314
Impairment charge, gross	136,707	146,688	16,477	5,198	673	181	10,777	9,891	-	-	(20,039)	(568)	144,596	161,390
No of employees at the end of the period	1,971	2,461	447	491	124	157	316	462	10	22	-	-	2,868	3,593

There were no revenues deriving from transactions with a single external customer that amounted to 10% or more of the Group's revenues.

* Income is defined as total of gross interest and commission and fee income

NOTE 35 RISK MANAGEMENT

Risk management policies

Risk management principles are set out in Group's Risk and Capital Management Policy. The Group adheres to the following key risk management principles:

- The Group aims to ensure an acceptable risk level in all operations. Risks are always assessed in relation to the expected return. Risk exposures that are not acceptable for the Group are avoided, limited or hedged;
- The Group does not assume high or uncontrollable risks irrespective of the return they provide. Risks should be diversified and those risks that are quantifiable should be limited or hedged;
- The Group pursues prudent risk management policy, that is aligned with the Group's business and ensures effective total risk mitigation;
- Risk management is based on awareness of each and every Group's employee about the nature of transactions he/she carries out and related risks;
- Risk limit system and strict controls are essential risk management elements. Control of risk level and compliance with limits is ensured by structured risk limit systems for all material risks;
- The Group aims to ensure low risk exposure, diversified asset portfolio, limited risks in financial markets and low level of operational risk.

Risk management is an essential element of the Group's management process. Risk management within the Group is controlled by independent units – Risk and Compliance Sector.

The Group is exposed to the following main risks: credit risk, market risk, interest rate risk, liquidity risk and operational risk. The Group has approved risk management policies for each of these risks, which are briefly summarised below.

a) *Credit risk*

Credit risk is the risk that the Group will incur a loss from debtor's non-performance or default. The group is exposed to credit risk in its lending, investing and trading activities, as well as in respect to the guarantees issued to third parties and other off-balance sheet commitments to third parties.

Credit risk management is based on adequate risk assessment and decision-making. For material risks, risk analysis is conducted by independent units of Risk and Compliance Sector. The analysis of credit risk comprises evaluation of customer's creditworthiness and collateral and its liquidity. The analysis of creditworthiness of a legal entity includes analysis of the industry, the company, and its current and forecasted financial position. The analysis of creditworthiness of an individual includes the analysis of the customer's credit history, income and debt-to-income ratio analysis, as well as the analysis of social and demographic factors. In the event of material risks, lending decision is made by the Credit Committee, and further reviewed by the Bank's Management Board.

After the loan is issued, customer's financial position is monitored on a regular basis in order to timely identify potential credit losses.

To limit its credit risk, the Group has set the following concentration limits: individual counterparty limit, limit for group of mutually related customers, limit for large risk exposures, limit for the Group's related parties, an industry limit, limit by customer type and loan product. A number of limits were breached in 1st half of 2009 due to insufficient capital level and restricted Bank financing for leasing companies. Limits breached included individual counterparty limit, limit for group of mutually related customers, limit for large risk exposures (for the Bank) and industry limit, limit by customer type and type of collateral (for leasing subsidiaries). As at the date of approval of this report the relevant limits set for the Bank were complied with.

The Group reviews its loan portfolio on a regular basis to assess its quality and concentrations, as well as to evaluate the portfolio trends.

Credit risk identification, monitoring and reporting is the responsibility of Risk and Compliance Sector.

The tables below provide details of the Group's loan portfolio delinquencies:

	Group, LVL 000's								
	Regular loans	Utilised credit lines	Finance leases	Debit balances on settlement cards	31/12/2009 Loans under reverse repurchase agreement	Overdraft facilities	Factoring	Due from investment and brokerage firms	Total
Not delayed - not impaired	729,443	88,778	74,958	62,849	599	5,330	14,115	6,109	982,181
<i>Incl. restructured loans</i>	<i>244,063</i>	<i>44,017</i>	<i>2,474</i>	-	-	-	-	-	<i>290,554</i>
Not delayed - impaired	95,041	5,868	78	-	-	-	24	435	101,446
Total not delayed loans	824,484	94,646	75,036	62,849	599	5,330	14,139	6,544	1,083,627
Past due loans - not impaired									
Delayed days:									
=< 29	80,327	2,208	20,920	2,140	-	178	-	-	105,773
30-59	23,958	504	5,246	1,747	-	250	74	-	31,779
60-89	29,287	4,362	2,198	1,312	-	21	-	-	37,180
90 and more	200,973	9,224	9,703	4,319	-	352	178	-	224,749
Total past due loans - not impaired	334,545	16,298	38,067	9,518	-	801	252	-	399,481
Total past due loans - impaired	337,403	20,459	33,205	18,308	-	1,305	1,089	-	411,769
Total gross loans and receivables to customers	1,496,432	131,403	146,308	90,675	599	7,436	15,480	6,544	1,894,877
Impairment allowance	(181,694)	(14,959)	(12,620)	(21,811)	-	(1,313)	(1,553)	(559)	(234,509)
Total net loans and receivables to customers	1,314,738	116,444	133,688	68,864	599	6,123	13,927	5,985	1,660,368

Mostly, not-delayed loans falling into categories “regular loans” and “utilised credit lines” are secured by collateral. More than 79% are secured by real estate collateral. In general, settlement card loans are granted to clients on a basis of their cash flows' assessment and no collateral is required in most cases. Finance leases are secured by the respective property leased out (for more details on leasing portfolio please refer to Note 14). Loans under reverse repurchase agreements are secured with securities that can be sold in case of client's default.

As at 31 December 2009, included in the loan class “regular loans” are past due and impaired loans with gross amount of LVL 300 million, where the estimated value of collateral amounts to approximately LVL 187 million.

	Group, LVL 000's								
	Regular loans	Utilised credit lines	Finance leases	Debit balances on settlement cards	31/12/2008 Loans under reverse repurchase agreement	Overdraft facilities	Factoring	Due from investment and brokerage firms	Total
Not delayed - not impaired	1,067,754	186,982	159,210	86,805	1,248	22,242	20,931	4,078	1,549,250
<i>Incl. restructured loans</i>	<i>158,558</i>	<i>4,051</i>	<i>1,156</i>	-	-	<i>826</i>	-	-	<i>164,591</i>
Not delayed - impaired	166,952	8,659	7	-	-	410	5	-	176,033
Total not delayed loans	1,234,706	195,641	159,217	86,805	1,248	22,652	20,936	4,078	1,725,283
Past due loans - not impaired									
Delayed days:									
=< 29	72,307	3,595	32,105	3,445	-	104	160	-	111,716
30-59	37,339	1,979	20,208	1,757	-	2,400	13	-	63,696
60-89	17,083	257	5,173	296	-	12	655	-	23,476
90 and more	34,975	1,492	5,763	1,183	-	107	666	-	44,186
Total past due loans - not impaired	161,704	7,323	63,249	6,681	-	2,623	1,494	-	243,074
Total past due loans - impaired	134,823	8,387	22,602	11,997	-	4,725	563	-	183,097
Total gross loans and receivables to customers	1,531,233	211,351	245,068	105,483	1,248	30,000	22,993	4,078	2,151,454
Impairment allowance	(85,330)	(4,636)	(8,744)	(13,040)	-	(3,073)	(630)	-	(115,453)
Total net loans and receivables to customers	1,445,903	206,715	236,324	92,443	1,248	26,927	22,363	4,078	2,036,001

As at 31 December 2008, included in the loan class “regular loans” are past due and impaired loans with gross amount of LVL 72 million, where the estimated value of collateral amounts to approximately LVL 50 million.

The tables below provide details of the Bank's loan portfolio delinquencies:

	Bank, LVL 000's								
	Regular loans	Utilised credit lines	Finance leases	Debit balances on settlement cards	31/12/2009 Loans under reverse repurchase agreement	Overdraft facilities	Factoring	Due from investment and brokerage firms	Total
Not delayed - not impaired	593,079	114,170	1,188	56,367	-	6,071	14,045	6,033	790,953
<i>Incl. restructured loans</i>	<i>243,693</i>	<i>55,387</i>	<i>1,132</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>300,212</i>
Not delayed - impaired	150,015	87,477	7	-	-	-	-	435	237,934
Total not delayed loans	743,094	201,647	1,195	56,367	-	6,071	14,045	6,468	1,028,887
Past due loans - not impaired									
Delayed days:									
=< 29	67,941	1,153	5	1,756	-	175	-	-	71,030
30-59	21,906	387	7	1,521	-	-	-	-	23,821
60-89	28,059	4,168	1	1,156	-	21	-	-	33,405
90 and more	184,134	7,730	138	2,282	-	352	-	-	194,636
Total past due loans - not impaired	302,040	13,438	151	6,715	-	548	-	-	322,892
Total past due loans - impaired	291,723	9,216	77	18,308	-	1,112	32	-	320,468
Total gross loans and receivables to customers	1,336,857	224,301	1,423	81,390	-	7,731	14,077	6,468	1,672,247
Impairment allowance	(183,211)	(21,429)	(96)	(20,027)	-	(1,119)	(400)	(559)	(226,841)
Total net loans and receivables to customers	1,153,646	202,872	1,327	61,363	-	6,612	13,677	5,909	1,445,406

	Bank, LVL 000's								
	Regular loans	Utilised credit lines	Finance leases	Debit balances on settlement cards	31/12/2008 Loans under reverse repurchase agreement	Overdraft facilities	Factoring	Due from investment and brokerage firms	Total
Not delayed - not impaired	868,524	344,452	1,362	79,773	586	23,460	18,932	6,770	1,343,859
<i>Incl. restructured loans</i>	<i>153,830</i>	<i>-</i>	<i>1,156</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>154,986</i>
Not delayed - impaired	202,027	8,169	7	-	-	410	-	-	210,613
Total not delayed loans	1,070,551	352,621	1,369	79,773	586	23,870	18,932	6,770	1,554,472
Past due loans - not impaired									
Delayed days:									
=< 29	62,193	2,621	43	2,732	-	33	-	-	67,622
30-59	34,426	1,255	11	1,553	-	2,400	-	-	39,645
60-89	15,508	167	-	163	-	12	-	-	15,850
90 and more	33,239	1,386	88	490	-	107	-	-	35,310
Total past due loans - not impaired	145,366	5,429	142	4,938	-	2,552	-	-	158,427
Total past due loans - impaired	122,334	7,028	93	11,997	-	4,677	32	-	146,161
Total gross loans and receivables to customers	1,338,251	365,078	1,604	96,708	586	31,099	18,964	6,770	1,859,060
Impairment allowance	(94,445)	(4,038)	(80)	(12,476)	-	(3,024)	(126)	-	(114,189)
Total net loans and receivables to customers	1,243,806	361,040	1,524	84,232	586	28,075	18,838	6,770	1,744,871

AS “PAREX BANKA” NOTES TO THE FINANCIAL STATEMENTS
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The following table provides details on changes in the Group's specific loan portfolio impairment by classes:

	Regular loans	Utilised credit lines	Finance leases	Debit balances on settlement cards	Loans under reverse repurchase agreement	Overdraft facilities	Factoring	Due from investment and brokerage firms	Total
Outstanding specific impairment as at 31/12/2008	76,592	2,532	7,279	11,997	-	2,912	485	-	101,797
Impairment charge for the reported period - specific	75,946	7,854	5,284	6,311	-	188	667	394	96,644
Release of previously established impairment allowance - specific	(5,016)	(813)	(1,473)	-	-	(2,025)	-	-	(9,327)
Impairment charged to the statement of income, net	70,930	7,041	3,811	6,311	-	(1,837)	667	394	87,317
Change of impairment allowance due to write-offs, net	(37)	-	(415)	-	-	-	(39)	-	(491)
Increase/ (decrease) in impairment allowance due to currency fluctuations	(341)	(336)	(79)	-	-	52	(17)	-	(721)
Outstanding specific impairment as at 31/12/2009	147,144	9,237	10,596	18,308	-	1,127	1,096	394	187,902

The following table provides details on changes in the Bank's specific loan portfolio impairment by classes:

	Regular loans	Utilised credit lines	Finance leases	Debit balances on settlement cards	Loans under reverse repurchase agreement	Overdraft facilities	Factoring	Due from investment and brokerage firms	Total
Outstanding specific impairment as at 31/12/2008	87,438	2,000	72	11,997	-	2,865	19	-	104,391
Impairment charge for the reported period - specific	74,423	14,914	-	6,311	-	43	-	394	96,085
Release of previously established impairment allowance - specific	(9,744)	(813)	(4)	-	-	(2,025)	-	-	(12,586)
Impairment charged to the statement of income, net	64,679	14,101	(4)	6,311	-	(1,982)	-	394	83,499
Change of impairment allowance due to write-offs, net	(37)	-	-	-	-	-	-	-	(37)
Increase/ (decrease) in impairment allowance due to currency fluctuations	(359)	(342)	(9)	-	-	51	(1)	-	(660)
Outstanding specific impairment as at 31/12/2009	151,721	15,759	59	18,308	-	934	18	394	187,193

The tables below provide details of the Group's and Bank's securities portfolio quality:

	Group, LVL 000's							
	31/12/2009				31/12/2008			
	Held to maturity	Available for sale	Held for trading	Total	Held to maturity	Available for sale	Held for trading	Total
Investment grade:								
AAA	-	13,087	-	13,087	2,110	5,976	-	8,086
AA	7,876	10,410	-	18,286	15,353	32,881	-	48,234
A	27,614	37,367	-	64,981	470,014	58,477	-	528,491
BBB/Baa	77,792	28,372	-	106,164	190,291	24,226	47	214,564
Other lower ratings	168,446	11,633	4	180,083	56,631	6,564	270	63,465
Not rated	32,161	3,949	1,405	37,515	46,975	18,063	1,997	67,035
Total gross fixed income securities	313,889	104,818	1,409	420,116	781,374	146,187	2,314	929,875
<i>Incl. impaired securities</i>	<i>21,682</i>	<i>-</i>	<i>-</i>	<i>21,682</i>	<i>34,479</i>	<i>-</i>	<i>-</i>	<i>34,479</i>
Impairment allowance	(14,518)	-	-	(14,518)	(22,828)	-	-	(22,828)
Total net fixed income securities	299,371	104,818	1,409	405,598	758,546	146,187	2,314	907,047

	Bank, LVL 000's							
	31/12/2009				31/12/2008			
	Held to maturity	Available for sale	Held for trading	Total	Held to maturity	Available for sale	Held for trading	Total
Investment grade:								
AAA	-	5,097	-	5,097	1,608	4,250	-	5,858
AA	5,418	8,301	-	13,719	4,544	32,802	-	37,346
A	20,897	34,799	-	55,696	464,956	56,091	-	521,047
BBB/Baa	72,756	17,645	-	90,401	186,231	23,670	-	209,901
Other lower ratings	167,256	11,490	4	178,750	54,739	6,524	3	61,266
Not rated	66,840	8,409	1,405	76,654	108,739	17,967	1,997	128,703
Total gross fixed income securities	333,167	85,741	1,409	420,317	820,817	141,304	2,000	964,121
<i>Incl. impaired securities</i>	<i>21,682</i>	<i>-</i>	<i>-</i>	<i>21,682</i>	<i>34,479</i>	<i>-</i>	<i>-</i>	<i>34,479</i>
Impairment allowance	(14,518)	-	-	(14,518)	(22,828)	-	-	(22,828)
Total net fixed income securities	318,649	85,741	1,409	405,799	797,989	141,304	2,000	941,293

GEOGRAPHICAL PROFILE

The following tables provides an analysis of the Group's and Bank's assets and liabilities, as well as memorandum items outstanding as at 31 December 2009 and 2008 by geographical profile. The grouping by is done based on information about the residence of the respective counterparties.

Group as at 31/12/2009, LVL 000's						
	Latvia	Lithuania	Other EU countries	CIS countries	Other countries	Total
<u>Assets</u>						
Cash and deposits with central banks	121,955	12,079	20,304	-	3,164	157,502
Balances due from credit institutions	10,462	2,388	122,411	8,166	77,409	220,836
Securities held for trading	2,055	-	4	121	672	2,852
Financial assets designated at fair value through profit or loss	1,470	-	1,300	-	-	2,770
Available-for-sale securities	10,621	9,920	56,407	11,342	26,059	114,349
Loans and receivables to customers	874,287	289,916	145,238	264,185	86,742	1,660,368
Held-to-maturity securities	198,094	-	26,673	51,148	23,456	299,371
Derivatives financial instruments	1,515	-	337	-	61	1,913
Other assets	109,556	7,977	883	18,358	162	136,936
Total assets	1,330,015	322,280	373,557	353,320	217,725	2,596,897
<u>Liabilities</u>						
Financial liabilities designated at fair value through profit or loss	709	-	-	-	-	709
Financial liabilities measured at amortised cost	1,345,186	97,261	634,853	55,318	307,627	2,440,245
Derivative financial instruments	718	-	92	-	127	937
Other liabilities	9,764	1,194	1,198	3,363	537	16,056
Total liabilities	1,356,377	98,455	636,143	58,681	308,291	2,457,947
Equity	138,950	-	-	-	-	138,950
Total liabilities and equity	1,495,327	98,455	636,143	58,681	308,291	2,596,897
<u>Memorandum items</u>						
Contingent liabilities	1,383	1,873	306	1,373	1,891	6,826
Financial commitments	76,907	14,091	703	10,332	24,055	126,088

Group as at 31/12/2008, LVL 000's						
	Latvia	Lithuania	Other EU countries	CIS countries	Other countries	Total
<u>Assets</u>						
Cash and deposits with central banks	77,707	19,654	17,472	1	1,516	116,350
Balances due from credit institutions	7,654	274	168,289	22,534	75,973	274,724
Securities held for trading	2,277	28	451	2,751	1,208	6,715
Financial assets designated at fair value through profit or loss	1,160	-	469	-	-	1,629
Available-for-sale securities	17,576	1,898	87,641	21,999	29,577	158,691
Loans and receivables to customers	1,043,144	349,395	170,945	352,897	119,620	2,036,001
Held-to-maturity securities	631,994	-	27,810	68,905	29,837	758,546
Derivatives financial instruments	2,503	84	14,646	154	1,816	19,203
Other assets	91,892	8,886	1,026	10,019	121	111,944
Total assets	1,875,907	380,219	488,749	479,260	259,668	3,483,803
<u>Liabilities</u>						
Financial liabilities designated at fair value through profit or loss	314	-	-	-	-	314
Financial liabilities measured at amortised cost	1,860,861	78,174	912,767	93,814	411,279	3,356,895
Derivative financial instruments	687	-	3,272	3,661	1,889	9,509
Other liabilities	29,197	1,420	979	6,240	178	38,014
Total liabilities	1,891,059	79,594	917,018	103,715	413,346	3,404,732
Equity	79,071	-	-	-	-	79,071
Total liabilities and equity	1,970,130	79,594	917,018	103,715	413,346	3,483,803
<u>Memorandum items</u>						
Contingent liabilities	4,179	4,981	4,225	27,224	17,234	57,843
Financial commitments	117,736	22,621	2,446	25,920	10,909	179,632

Bank as at 31/12/2009, LVL 000's						
	Latvia	Lithuania	Other EU countries	CIS countries	Other countries	Total
<u>Assets</u>						
Cash and deposits with central banks	121,955	-	20,304	-	-	142,259
Balances due from credit institutions	9,839	142,001	111,642	1,458	60,929	325,869
Securities held for trading	2,055	-	4	121	672	2,852
Financial assets designated at fair value through profit or loss	-	-	-	-	-	-
Available-for-sale securities	10,408	-	47,472	15,816	21,503	95,199
Loans and receivables to customers	920,782	57,329	143,330	237,243	86,722	1,445,406
Held-to-maturity securities	198,093	-	25,033	82,111	13,412	318,649
Derivatives financial instruments	1,495	29	337	-	61	1,922
Other assets	138,401	28	358	173	34	138,994
Total assets	1,403,028	199,387	348,480	336,922	183,333	2,471,150
<u>Liabilities</u>						
Financial liabilities measured at amortised cost	1,345,133	7,178	623,545	49,254	283,039	2,308,149
Derivative financial instruments	712	31	92	-	127	962
Other liabilities	8,075	5	1,139	114	37	9,370
Total liabilities	1,353,920	7,214	624,776	49,368	283,203	2,318,481
Equity	152,669	-	-	-	-	152,669
Total liabilities and equity	1,506,589	7,214	624,776	49,368	283,203	2,471,150
<u>Memorandum items</u>						
Contingent liabilities	1,368	367	127	8,607	995	11,464
Financial commitments	106,364	8,934	5,938	21,032	24,055	166,323

Bank as at 31/12/2008, LVL 000's						
	Latvia	Lithuania	Other EU countries	CIS countries	Other countries	Total
<u>Assets</u>						
Cash and deposits with central banks	77,707	-	17,472	-	-	95,179
Balances due from credit institutions	6,273	285,287	151,169	10,755	45,201	498,685
Securities held for trading	2,277	28	451	2,437	1,208	6,401
Financial assets designated at fair value through profit or loss	-	-	-	-	-	-
Available-for-sale securities	17,374	-	85,340	21,981	29,027	153,722
Loans and receivables to customers	1,090,943	75,856	167,476	291,528	119,068	1,744,871
Held-to-maturity securities	631,994	-	25,340	125,613	15,042	797,989
Derivatives financial instruments	2,336	200	14,646	154	1,816	19,152
Other assets	101,460	-	580	-	-	102,040
Total assets	1,930,364	361,371	462,474	452,468	211,362	3,418,039
<u>Liabilities</u>						
Financial liabilities measured at amortised cost	1,865,152	72,474	908,288	88,504	370,580	3,304,998
Derivative financial instruments	680	169	3,272	3,661	1,888	9,670
Other liabilities	25,147	-	736	-	-	25,883
Total liabilities	1,890,979	72,643	912,296	92,165	372,468	3,340,551
Equity	77,488	-	-	-	-	77,488
Total liabilities and equity	1,968,467	72,643	912,296	92,165	372,468	3,418,039
<u>Memorandum items</u>						
Contingent liabilities	4,145	2,161	3,778	26,846	15,809	52,739
Financial commitments	130,150	78,353	3,939	46,167	10,909	269,518

b) Market risk

Market risk is the risk that the Group will incur a loss as a result of the mark-to-market revaluation of balance sheet and off-balance sheet items caused by changes in market values of financial instruments, commodities and commodity derivatives due to changes in foreign exchange rates, interest rates and other factors.

Position risk of financial instruments is assessed and limits are set by the Financial Market and Counterparty Committee (FMCC). The decisions of FMCC are approved by the Bank's Management Board. Market risk is managed by the Group's business units and subsidiaries which can accept market risk in line with the set limits and investment restrictions of the respective portfolio. Market risk is measured, monitored and risk levels are reported by Risk and Compliance Sector.

To assess the position risk, scenario analysis is applied. Scenario analysis is based on historic data and price changes of various financial instruments in different low probability high impact scenarios. For example, a flight-to-quality scenario assumes that investors move their capital from riskier investments towards safer investments (for instance, U.S. or other AAA-rated sovereign bonds). To manage market risk, the Group sets individual limits to issuers and financial instruments, as well as products exposed to market risk.

c) Equity price risk

Equity price risk is the risk that the Group will incur a loss due to changes in equity prices. Equity price risk is assessed and decisions on limits set are made by the Financial Market and Counterparty Committee. Further the decisions so made are approved by the Bank's Management Board.

To assess equity price risk, the Group applies the scenario analysis "flight-to-quality" which refers to a fear of investors of global systemic failure when investors start selling assets they consider to be overly risky and substituting them with more dependable ones. According to the Group's equity price risk assessment as at 31 December 2009 and 2008, in the event that all equity (also including also investments in investment funds) prices drop by 10% for equities in OECD countries, 20% - Baltic countries and CIS countries and 15% - other equities, revaluation loss in the income statement and revaluation loss charged directly to equity would increase by approximately LVL 0.6 million (2008: LVL 0.6 million) and LVL 1.1 million (2008: LVL 2.4 million), respectively.

d) Interest rate risk

Interest rate risk is related to the negative impact of interest rate changes on the Group's income and economic value.

Interest rate risk management in the Group is carried out in accordance with the Group's Interest rate Risk Management Policy. Interest rate risk is assessed and decisions are made by Assets and Liabilities Management Committee (ALCO). The decisions of ALCO are approved by the Bank's Management Board. ALCO sets the acceptable interest rate risk level and the Group's internal limit system, monitors the compliance with the approved limits and use of the instruments for the management of interest rate risk. Interest rate risk measurement and management is the responsibility of Treasury Sector, while risk reporting is the responsibility of Risk and Compliance Sector.

The Group manages interest rate risk by using the gap analysis of the risk sensitive assets and liabilities, duration analysis and sensitivity analysis of assets and liabilities as well as stress testing of interest rate risk. Based on the market analysis and the Group's financing structure, ALCO sets customer deposit interest rates. During the period when restrictions are imposed on the Bank's activities, these functions are carried out by the Bank's Management Board. Partially, the Group mitigates interest rate risk using derivatives.

The following table represents the impact of a parallel change in all interest rates by 1.0% on Group's and Bank's pre-tax profit (in 12-months time) and available-for-sale securities' fair value revaluation reserve in equity:

Scenario: +1%	LVL 000's			
	2009 Group	2008 Group	2009 Bank	2008 Bank
Pre-tax profit/ (loss)	(865)	(5,114)	(31)	(3,694)
Securities fair value revaluation reserve	(1,770)	(2,034)	(2,424)	(1,987)
Total pre-tax effect on equity	(2,635)	(7,148)	(2,455)	(5,681)
Estimated net effect on equity	(2,240)	(6,076)	(2,087)	(4,829)
Scenario: -1%				
Pre-tax profit	848	5,117	32	3,676
Securities fair value revaluation reserve	1,875	2,160	2,848	2,113
Total pre-tax effect on equity	2,723	7,277	2,880	5,789
Estimated net effect on equity	2,315	6,185	2,449	4,921

The following table represents the impact of a several LVL interest rate change scenarios on the Bank's* pre-tax profit (in 12-months time) and available-for-sale securities' fair value revaluation reserve in equity.

<i>Scenario</i>	+5%	+10%	+15%	-5%
	2009	2009	2009	2009
Pre-tax profit/ (loss)	(7,500)	(14,819)	(21,965)	7,689
Securities fair value revaluation reserve	(240)	(446)	(626)	280
Total pre-tax effect on equity	(7,740)	(15,265)	(22,591)	7,969
Estimated net effect on equity	(6,579)	(12,975)	(19,202)	6,774
	2008	2008	2008	2008
Pre-tax profit	(18,568)	(37,269)	(56,094)	18,423
Securities fair value revaluation reserve	(387)	(717)	(1,002)	459
Total pre-tax effect on equity	(18,955)	(37,986)	(57,096)	18,882
Estimated net effect on equity	(16,112)	(32,288)	(48,532)	16,050

* The Bank's LVL-denominated financial assets and liabilities constitute almost all of the Group's LVL-denominated financial assets and liabilities.

FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

The concept of fair value assumes realisation of financial instruments by way of a sale. However, in many cases, particularly in respect of loans and receivables to customers, the Group intends to realise assets through collection over time. Users of these financial statements are therefore advised to use caution when using this data to evaluate the Group's financial position.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable and willing parties in an arm's length transaction. The fair value of liquid financial assets has been determined using bid prices, while offer prices have been used to determine the fair value of financial liabilities.

For illiquid financial assets and liabilities, including loans and advances to customers, there are, by definition, no active markets. Accordingly, fair value has been estimated using appropriate valuation techniques. The methods used to determine the fair value of balance sheet items not carried at fair value are as follows:

Cash and demand deposits with central banks

The fair value of cash and balances with central banks is their carrying amount as these balances may be withdrawn without notice.

Balances due from and credit institutions/ Balances due to credit institutions and central banks

The fair value of on-demand balances with credit institutions is their carrying amount as these balances may be withdrawn without notice. The fair value of overnight placements is their carrying amount. The fair value of other amounts due from banks is calculated by discounting expected cash flows using current market rates. In many cases, the carrying value is a close representation of fair value due to short-term maturity profiles.

Loans and receivables to customers

The fair value of loans and advances to customers is calculated by discounting expected future cash flows. The discount rates consist of money market rates as at the end of year and credit margins, which are adjusted for current market conditions. If all the assumed discount rates would change by 10%, the fair value of the loan portfolio would change by LVL 12.8 million.

Held to maturity securities

Held to maturity securities are valued using unadjusted quoted prices in active markets, where available. In other instances, either quotes of market participants are used or value of securities is determined using valuation models employing observable or non-observable market inputs.

Customer deposits

The fair value of customer deposits repayable on demand is their carrying amount. The fair value of other deposits is calculated by discounting expected cash flows using average market interest rates close to or at year-end. If all the assumed discount rates would change by 10%, the fair value of the deposit portfolio would change by LVL 0.9 million.

Issued debt and subordinated liabilities

Due to illiquidity of all the subordinated liabilities as at the end of year, it was assumed that the best estimate of fair value are the quotes of market participants provided for the listed debt instruments.

Fair value hierarchy

Quoted market prices

Financial instruments are valued using unadjusted quoted prices in active markets.

Valuation technique - observable market inputs

Financial instruments are valued using techniques based on observable market data. In some instances, valuations received from independent third party are used.

Valuation technique - non-market observable inputs

Financial instruments are valued using techniques for which significant inputs are not based on observable market data.

The following table presents fair values of Group's financial assets and liabilities as at 31 December 2009.

	Carrying value	Adjustment to (arrive at) fair value	Fair value		
			Quoted market prices	Valuation technique - observable market inputs	Valuation technique - non-market observable inputs
Cash and demand deposits with central banks	157,502	-	-	145,423	12,079
Balances due from credit institution	220,836	-	-	220,836	-
Held-for-trading securities	2,852	-	2,852	-	-
Financial assets designated at fair value through profit or loss	2,770	-	2,770	-	-
Derivatives	1,913	-	-	1,913	-
Available-for-sale securities	114,349	1,224	115,573	-	-
Loans and receivables to customers	1,660,368	(36,136)	-	-	1,624,232
Held to maturity securities	299,371	(51,914)	233,518	13,939	-
Total financial assets	2,459,961	(86,826)	354,713	382,111	1,636,311
Derivatives	937	-	-	937	-
Financial liabilities designated at fair value through profit or loss	709	-	709	-	-
<i>Financial liabilities measured at amortised cost:</i>					
Balances due to credit institutions and central banks	552,466	(162)	-	552,301	3
Customer deposits	1,687,849	(3,353)	-	32,532	1,651,964
Issued debt	90,551	(11,796)	78,755	-	-
Subordinated liabilities	103,949	(13,514)	-	-	90,435
Other financial liabilities	5,430	(1,169)	-	-	4,261
Total financial liabilities	2,441,891	(29,994)	79,464	585,770	1,746,663

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The following table presents fair values of Group's financial assets and liabilities as at 31 December 2008.

	Carrying value	Adjustment to (arrive at) fair value	Fair value		
			Quoted market prices	Valuation technique - observable market inputs	Valuation technique - non-market observable inputs
Cash and demand deposits with central banks	116,350	-	-	116,350	-
Balances due from credit institution	274,724	2	-	274,726	-
Held-for-trading securities	6,715	-	4,319	2,396	-
Financial assets designated at fair value through profit or loss	1,629	-	1,629	-	-
Derivatives	19,203	-	-	19,203	-
Available-for-sale securities	158,691	-	112,819	45,872	-
Loans and receivables to customers	2,036,001	148,958	-	-	2,184,959
Held to maturity securities	758,546	(54,346)	111,431	592,769	-
Total financial assets	3,371,859	94,614	230,198	1,051,316	2,184,959
Derivatives	9,509	-	-	9,509	-
Financial liabilities designated at fair value through profit or loss	314	-	314	-	-
<i>Financial liabilities measured at amortised cost:</i>					
Balances due to credit institutions and central banks	1,189,621	1,212	-	1,190,600	233
Customer deposits	2,022,994	(1,696)	-	120,275	1,901,023
Issued debt	88,982	(70,970)	-	-	18,012
Subordinated liabilities	52,957	(45,013)	-	-	7,944
Other financial liabilities	2,341	277	-	2,618	-
Total financial liabilities	3,366,718	(116,190)	314	1,323,002	1,927,212

The following table presents fair values of Bank's financial assets and liabilities as at 31 December 2009.

	Carrying value	Adjustment to (arrive at) fair value	Fair value		
			Quoted market prices	Valuation technique - observable market inputs	Valuation technique - non-market observable inputs
Cash and demand deposits with central banks	142,259	-	-	142,259	-
Balances due from credit institution	325,869	-	-	325,869	-
Held-for-trading securities	2,852	-	2,852	-	-
Derivatives	1,922	-	-	1,922	-
Available-for-sale securities	95,199	1,224	96,423	-	-
Loans and receivables to customers	1,445,406	(36,832)	-	-	1,408,574
Held to maturity securities	318,649	(53,235)	265,414	-	-
Total financial assets	2,332,156	(88,843)	364,689	470,050	1,408,574
Derivatives	962	-	-	962	-
<i>Financial liabilities measured at amortised cost:</i>					
Balances due to credit institutions and central banks	572,782	-	-	572,782	-
Customer deposits	1,540,669	(1,923)	-	-	1,538,746
Issued debt	90,742	(11,796)	78,946	-	-
Subordinated liabilities	103,956	(13,514)	-	-	90,442
Total financial liabilities	2,309,111	(27,233)	78,946	573,744	1,629,188

The following table presents fair values of Bank's financial assets and liabilities as at 31 December 2008.

	Carrying value	Adjustment to (arrive at) fair value	Fair value		
			Quoted market prices	Valuation technique - observable market inputs	Valuation technique - non-market observable inputs
Cash and demand deposits with central banks	95,179	-	-	95,179	-
Balances due from credit institution	498,685	-	-	498,685	-
Held-for-trading securities	6,401	-	4,005	2,396	-
Derivatives	19,152	-	-	19,152	-
Available-for-sale securities	153,722	-	108,072	45,650	-
Loans and receivables to customers	1,744,871	140,567	-	-	1,885,438
Held to maturity securities	797,989	(52,860)	170,790	574,339	-
Total financial assets	3,315,999	87,707	282,867	1,235,401	1,885,438
Derivatives	9,670	-	-	9,670	-
<i>Financial liabilities measured at amortised cost:</i>					
Balances due to credit institutions and central banks	1,261,440	-	-	1,261,440	-
Customer deposits	1,901,886	(863)	-	-	1,901,023
Issued debt	88,712	(70,970)	-	-	17,742
Subordinated liabilities	52,960	(45,016)	-	-	7,944
Total financial liabilities	3,314,668	(116,849)	-	1,271,110	1,926,709

e) *Currency risk*

Currency risk is a risk of loss arising from fluctuations in currency exchange rates.

Currency risk management in the Group is carried out in accordance with the Group's Currency Risk Management Policy. Currency risk is assessed and decisions on limits set are made by the Financial Market and Counterparty Committee (FMCC). The decisions of FMCC are approved by the Bank's Management Board. FMCC defines the acceptable currency risk level and the Group's internal limit system, as well as monitors compliance with these limits.

Day-to-day currency risk management is the responsibility of Treasury Sector, while risk monitoring and reporting is the responsibility of Risk and Compliance Sector. The Group has set a limit for open currency positions in each currency at 10% of its equity, and the limit for the total open currency position at 20% of its equity. The limits are equal to the requirements by Latvian legislation. To manage the currency risk, the Group and Bank derivative financial instruments. To assess currency risk, the Group uses scenario analysis. In the event of exchange rates for all currencies in which the Group and the Bank has open positions adversely change by 1%, the potential total decrease in the Group's and Bank's pre-tax profit would amount to approximately LVL 1.1 million and LVL 0.9 million as at 31 December 2009 and LVL 3.3 million and LVL 1.0 million as at 31 December 2008, accordingly.

As at the date of approval of this report, due to continuing limited access to currency risk mitigation instruments, the Bank and Group was not able to comply with the limit for the total open currency position, as well as for the single open currency positions in EUR (Bank) and LTL (Group). The full compliance will be restored, once the Bank is able to operate as before in the financial markets and re-opens the limits with currency dealers.

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The following table provides an analysis of the Group's and Bank's assets and liabilities and shareholders' equity as well as memorandum items outstanding as at 31 December 2009 and 2008 by currency profile:

	Group as at 31/12/2009, LVL 000's								
	LVL	USD	EUR	UAH	EEK	LTL	RUB	Other	Total
Assets									
Cash and deposits with central banks	121,304	3,462	11,524	4	676	10,839	341	9,352	157,502
Balances due from credit institutions	596	89,125	116,541	329	18	111	5,032	9,084	220,836
Securities held for trading	650	577	1,409	-	-	-	-	216	2,852
Financial assets designated at fair value through profit or loss	656	143	1,971	-	-	-	-	-	2,770
Available-for-sale securities	3,708	21,119	74,618	2,914	-	2,338	3,011	6,641	114,349
Loans and receivables to customers	64,495	306,344	1,157,850	3,930	17,831	84,489	11,456	13,973	1,660,368
Held-to-maturity securities	173,883	66,473	59,015	-	-	-	-	-	299,371
Derivatives financial instruments	1,580	238	64	-	11	20	-	-	1,913
Other assets	100,769	2,538	6,813	2,268	538	7,770	14,389	1,851	136,936
Total assets	467,641	490,019	1,429,805	9,445	19,074	105,567	34,229	41,117	2,596,897
Liabilities									
Financial liabilities designated at fair value through profit or loss	-	143	566	-	-	-	-	-	709
Financial liabilities measured at amortised cost	383,761	248,317	1,670,824	6	24,334	59,024	7,907	46,072	2,440,245
Derivative financial instruments	849	3	63	-	18	4	-	-	937
Other liabilities	6,786	1,574	2,274	480	153	745	2,615	1,429	16,056
Total liabilities	391,396	250,037	1,673,727	486	24,505	59,773	10,522	47,501	2,457,947
Equity	138,950	-	-	-	-	-	-	-	138,950
Total liabilities and equity	530,346	250,037	1,673,727	486	24,505	59,773	10,522	47,501	2,596,897
Net long/ (short) position for balance sheet items	(62,705)	239,982	(243,922)	8,959	(5,431)	45,794	23,707	(6,384)	-
Off-balance sheet claims arising from foreign exchange									
Spot exchange contracts	3,552	78	(1,419)	-	-	(3)	(25)	(2,158)	25
Forward foreign exchange contracts	5,995	1,213	(7,116)	-	4	-	-	-	96
Swap exchange contracts	(1,627)	(257,062)	257,238	-	(6,915)	-	(13,732)	22,710	612
Net long/ (short) positions on foreign exchange	7,920	(255,771)	248,703	-	(6,911)	(3)	(13,757)	20,552	733
Net long/ (short) position as at 31 December 2009	(54,785)	(15,789)	4,781	8,959	(12,342)	45,791	9,950	14,168	733
Exchange rates applied as at 31 December 2009 (LVL for 1 foreign currency unit)									
	-	0.489	0.702804	0.06100	0.0449	0.2040	0.0164	-	-

	Group as at 31/12/2008, LVL 000's								
	LVL	USD	EUR	UAH	EEK	LTL	RUB	Other	Total
Assets									
Cash and deposits with central banks	59,506	5,795	16,808	25	11,512	18,243	367	4,094	116,350
Balances due from credit institutions	5,867	72,930	172,958	2,041	6	59	4,790	16,073	274,724
Securities held for trading	764	3,774	1,516	-	114	28	358	161	6,715
Financial assets designated at fair value through profit or loss	713	76	840	-	-	-	-	-	1,629
Available-for-sale securities	11,379	22,358	110,902	3,779	-	1,898	7,157	1,218	158,691
Loans and receivables to customers	144,615	395,581	1,300,506	1,099	24,467	126,778	24,987	17,968	2,036,001
Held-to-maturity securities	374,829	85,439	298,278	-	-	-	-	-	758,546
Derivatives financial instruments	11,871	668	6,495	-	-	167	-	2	19,203
Other assets	84,802	2,972	4,488	1,967	460	8,563	7,681	1,011	111,944
Total assets	694,346	589,593	1,912,791	8,911	36,559	155,736	45,340	40,527	3,483,803
Liabilities									
Financial liabilities designated at fair value through profit or loss	173	55	86	-	-	-	-	-	314
Financial liabilities measured at amortised cost	828,123	445,785	1,949,085	1,152	13,013	54,436	4,843	60,458	3,356,895
Derivative financial instruments	7,280	2,047	53	-	1	7	-	121	9,509
Other liabilities	13,696	6,681	6,804	459	492	1,101	4,923	3,858	38,014
Total liabilities	849,272	454,568	1,956,028	1,611	13,506	55,544	9,766	64,437	3,404,732
Equity	79,071	-	-	-	-	-	-	-	79,071
Total liabilities and equity	928,343	454,568	1,956,028	1,611	13,506	55,544	9,766	64,437	3,483,803
Net long/ (short) position for balance sheet items	(233,997)	135,025	(43,237)	7,300	23,053	100,192	35,574	(23,910)	-
Off-balance sheet claims arising from foreign exchange									
Spot exchange contracts	-	(2,622)	2,952	-	-	(584)	-	356	102
Forward foreign exchange contracts	22,916	2,319	(41,657)	-	-	17,552	-	(26)	1,104
Swap exchange contracts	241,646	(160,104)	(64,850)	-	-	(10,091)	(29,931)	30,302	6,972
Net long/ (short) positions on foreign exchange	264,562	(160,407)	(103,555)	-	-	6,877	(29,931)	30,632	8,178
Net long/ (short) position as at 31 December 2008	30,565	(25,382)	(146,792)	7,300	23,053	107,069	5,643	6,722	8,178
Exchange rates applied as at 31 December 2008 (LVL for 1 foreign currency unit)									
	-	0.495	0.702804	0.0656	0.0449	0.203	0.0171	-	-

	Bank as at 31/12/2009, LVL 000's								
	LVL	USD	EUR	UAH	EEK	LTL	RUB	Other	Total
Assets									
Cash and deposits with central banks	121,297	3,051	10,742	1	663	157	304	6,044	142,259
Balances due from credit institutions	-	89,782	231,303	4	13	34	652	4,081	325,869
Securities held for trading	650	577	1,409	-	-	-	-	216	2,852
Financial assets designated at fair value through profit or loss	-	-	-	-	-	-	-	-	-
Available-for-sale securities	3,654	19,446	64,890	2,914	-	-	2,964	1,331	95,199
Loans and receivables to customers	63,516	296,909	1,057,551	3	12,384	568	598	13,877	1,445,406
Held-to-maturity securities	173,883	70,084	57,647	-	-	-	17,035	-	318,649
Derivatives financial instruments	1,609	238	64	-	11	-	-	-	1,922
Other assets	133,250	2,291	3,155	3	33	48	22	192	138,994
Total assets	497,859	482,378	1,426,761	2,925	13,104	807	21,575	25,741	2,471,150
Liabilities									
Financial liabilities designated at fair value through profit or loss	-	-	-	-	-	-	-	-	-
Financial liabilities measured at amortised cost	384,312	227,963	1,620,446	6	24,344	160	7,658	43,260	2,308,149
Derivative financial instruments	878	3	63	-	18	-	-	-	962
Other liabilities	5,857	1,435	1,649	-	108	3	83	235	9,370
Total liabilities	391,047	229,401	1,622,158	6	24,470	163	7,741	43,495	2,318,481
Equity	152,669	-	-	-	-	-	-	-	152,669
Total liabilities and equity	543,716	229,401	1,622,158	6	24,470	163	7,741	43,495	2,471,150
Net long/ (short) position for balance sheet items	(45,857)	252,977	(195,397)	2,919	(11,366)	644	13,834	(17,754)	-
Off-balance sheet claims arising from foreign exchange									
Spot exchange contracts	3,555	88	(1,609)	-	-	141	-	(2,148)	27
Forward foreign exchange contracts	5,996	998	(6,903)	-	4	-	-	-	95
Swap exchange contracts	(1,628)	(260,337)	261,910	-	(6,915)	(1,020)	(13,979)	22,566	597
Net long/ (short) positions on foreign exchange	7,923	(259,251)	253,398	-	(6,911)	(879)	(13,979)	20,418	719
Net long/ (short) position as at 31 December 2009	(37,934)	(6,274)	58,001	2,919	(18,277)	(235)	(145)	2,664	719
Exchange rates applied as at 31 December 2009 (LVL for 1 foreign currency unit)									
	-	0.489	0.702804	0.06100	0.0449	0.2040	0.0164	-	-

	Bank as at 31/12/2008, LVL 000's								
	LVL	USD	EUR	UAH	EEK	LTL	RUB	Other	Total
Assets									
Cash and deposits with central banks	59,483	5,275	15,852	22	11,507	290	323	2,427	95,179
Balances due from credit institutions	4,685	79,168	409,951	4	2	1,673	1,491	1,711	498,685
Securities held for trading	764	3,774	1,516	-	114	28	44	161	6,401
Financial assets designated at fair value through profit or loss	-	-	-	-	-	-	-	-	-
Available-for-sale securities	11,379	22,332	107,857	3,779	-	-	7,157	1,218	153,722
Loans and receivables to customers	129,267	362,279	1,215,482	967	16,236	677	2,274	17,689	1,744,871
Held-to-maturity securities	374,829	92,719	306,436	-	-	-	24,005	-	797,989
Derivatives financial instruments	11,989	668	6,495	-	-	-	-	-	19,152
Other assets	97,080	2,862	1,721	4	15	84	170	104	102,040
Total assets	689,476	569,077	2,065,310	4,776	27,874	2,752	35,464	23,310	3,418,039
Liabilities									
Financial liabilities designated at fair value through profit or loss	-	-	-	-	-	-	-	-	-
Financial liabilities measured at amortised cost	830,961	431,471	1,968,113	934	13,349	284	4,456	55,430	3,304,998
Derivative financial instruments	7,569	2,047	53	-	1	-	-	-	9,670
Other liabilities	10,125	6,570	5,883	1	428	85	1,579	1,212	25,883
Total liabilities	848,655	440,088	1,974,049	935	13,778	369	6,035	56,642	3,340,551
Equity	77,488	-	-	-	-	-	-	-	77,488
Total liabilities and equity	926,143	440,088	1,974,049	935	13,778	369	6,035	56,642	3,418,039
Net long/ (short) position for balance sheet items	(236,667)	128,989	91,261	3,841	14,096	2,383	29,429	(33,332)	-
Off-balance sheet claims arising from foreign exchange									
Spot exchange contracts	-	(2,645)	(9,635)	-	-	11,916	-	349	(15)
Forward foreign exchange contracts	22,916	1,358	(40,836)	-	-	17,568	-	(26)	980
Swap exchange contracts	241,646	(159,359)	(65,666)	-	-	(10,091)	(29,931)	30,302	6,901
Net long/ (short) positions on foreign exchange	264,562	(160,646)	(116,137)	-	-	19,393	(29,931)	30,625	7,866
Net long/ (short) position as at 31 December 2008	27,895	(31,657)	(24,876)	3,841	14,096	21,776	(502)	(2,707)	7,866
Exchange rates applied as at 31 December 2008 (LVL for 1 foreign currency unit)	-	0.495	0.702804	0.0656	0.0449	0.203	0.0171	-	-

f) *Liquidity risk*

Liquidity risk is the risk that the Group will be unable to meet its legal payment obligations. The purpose of liquidity risk management is to ensure the availability of liquid assets sufficient to meet potential obligations.

The Group manages its liquidity risk in accordance with the Group's Liquidity Risk Management Policy. Liquidity risk is assessed and decisions are made by ALCO. The decisions of ALCO are approved by the Bank's Management Board. ALCO sets the acceptable liquidity risk level, the Group's internal limit system and defines instruments for the management of liquidity risk, as well as monitors the compliance with the set limits. Liquidity risk management is the responsibility of the Treasury Sector, while risk measuring, monitoring and reporting is within the responsibility of the Risk and Compliance Sector.

Liquidity risk is assessed and related decisions are made by the Bank's Management Board. Daily liquidity management is ensured by the Treasury Sector in collaboration with Finance department. However the main source of liquidity is the funding provided by the State Treasury. By persistently improving the liquidity situation, the Bank as of July is in compliance with liquidity ratio requirements. Also starting from period ended in August the Bank meets mandatory reserve requirements in the Bank of Latvia.

In 2009, when there were restrictions imposed on the Bank's activities, liquidity risk is assessed and related decisions are made by the Bank's Management Board. Daily liquidity management is ensured by the Treasury Sector in collaboration with Finance department. The main source of liquidity cushion in the beginning of 2009 was the funding provided by the State Treasury. In the second half of 2009, the Bank started to accumulate more liquidity reserve and no additional State support was needed. For more information on liquidity support received from the State Treasury, please refer to Note 24.

The following table contains Bank's liquidity ratios calculated in accordance with FCMC requirements:

Year	High	Low	Average	Year-end
2009	44%	24%	34%	41%
2008	56%	30%	40%	55%

Liquidity ratio is calculated as liquid assets divided by all liabilities with remaining contractual maturity of 30 days or less. Liquid assets for the purpose of the calculation are cash, balances due from Bank of Latvia and solvent credit institutions placed on demand and up to 30 days and balances redeemable before maturity with insignificant contractual penalties and investments in securities that can be sold in short time or pledged to obtain a loan.

Group's assets, liabilities and memorandum items by contractual maturity structure as at 31 December 2009

	Group as at 31 /12/2009, LVL 000's						
	Within 1 month	1-3 months	3-6 months	6-12 months	1-5 years	Over 5 years and undated	Total
<u>Assets</u>							
Cash and deposits with central banks	157,502	-	-	-	-	-	157,502
Balances due from credit institutions	216,010	3,915	459	54	136	262	220,836
Securities held for trading	624	-	-	-	781	1,447	2,852
Financial assets designated at fair value through profit or loss	-	463	662	72	527	1,046	2,770
Available-for-sale securities	75	3,922	4,879	12,613	38,613	54,247	114,349
Loans and receivables to customers	89,013	230,757	23,907	194,565	515,563	606,563	1,660,368
Held-to-maturity securities	989	14,463	4,715	2,562	163,594	113,048	299,371
Derivatives financial instruments	1,349	256	58	171	79	-	1,913
Other assets	11,875	3,650	11,496	3,075	18,394	88,446	136,936
Total assets	477,437	257,426	46,176	213,112	737,687	865,059	2,596,897
<u>Liabilities</u>							
Financial liabilities designated at fair value through profit or loss	-	-	-	-	709	-	709
Financial liabilities measured at amortised cost	949,677	895,845	68,845	102,053	319,737	104,088	2,440,245
Derivative financial instruments	840	38	3	4	52	-	937
Other liabilities	8,492	2,415	324	1,523	1,235	2,067	16,056
Total liabilities	959,009	898,298	69,172	103,580	321,733	106,155	2,457,947
Equity	-	-	-	-	-	138,950	138,950
Total liabilities and equity	959,009	898,298	69,172	103,580	321,733	245,105	2,596,897
Net balance sheet position – long/ (short)	(481,572)	(640,872)	(22,996)	109,532	415,954	619,954	-
<u>Memorandum items</u>							
Contingent liabilities	6,826	-	-	-	-	-	6,826
Financial commitments	126,088	-	-	-	-	-	126,088

As described in Note 24, the FCMC has imposed certain drawdown restrictions on the customer deposits at the Bank. However, for the purposes of the disclosures in this note the deposits are classified in accordance with their contractual maturities. As at 31 December 2009, LVL 280 million (2008: LVL 611 million) of deposits qualified for the restrictions according to the FCMC's decision. The management of the Bank believes that the Bank's liquidity position is and will be such as to allow the Bank to operate on a going concern basis for a period of at least 12 months from the date of signing this financial report.

Group's contractual undiscounted cash flows of the financial liabilities as at 31 December 2009

The following table represents the analysis of the estimated contractual cash flows arising from Group's financial liabilities as at 31 December 2009:

	LVL 000's						Total contractual cash flows
	Within 1 month	1-3 months	3-6 months	6-12 months	1-5 years	Over 5 years	
Financial liabilities designated at fair value through profit or loss	-	-	-	2	709	-	711
Financial liabilities measured at amortised cost	965,090	898,796	75,501	108,949	384,314	107,135	2,539,785
Memorandum items							
Contingent liabilities	6,826	-	-	-	-	-	6,826
Financial commitments	126,088	-	-	-	-	-	126,088

As described in Note 24, FCMC has imposed certain drawdown restrictions on customer funds at the Bank. However, for the purposes of this analysis, it is assumed that no such restrictions exist.

Group's assets, liabilities and memorandum items by contractual maturity structure as at 31 December 2008

	Group as at 31/12/2008, LVL 000's						
	Within 1 month	1-3 months	3-6 months	6-12 months	1-5 years	Over 5 years and undated	Total
<u>Assets</u>							
Cash and deposits with central banks	116,350	-	-	-	-	-	116,350
Balances due from credit institutions	235,381	22,349	14,132	2,321	499	42	274,724
Securities held for trading	-	-	67	-	2,244	4,404	6,715
Financial assets designated at fair value through profit or loss	319	-	637	-	99	574	1,629
Available-for-sale securities	747	6,619	7,699	7,506	81,051	55,069	158,691
Loans and receivables to customers	37,511	58,143	129,987	145,975	775,117	889,268	2,036,001
Held-to-maturity securities	-	5,287	37,571	418,167	155,343	142,178	758,546
Derivatives financial instruments	10,695	936	335	420	6,808	9	19,203
Other assets	7,003	2,913	618	2,492	2,710	96,208	111,944
Total assets	408,006	96,247	191,046	576,881	1,023,871	1,187,752	3,483,803
<u>Liabilities</u>							
Financial liabilities designated at fair value through profit or loss	-	-	-	-	-	314	314
Financial liabilities measured at amortised cost	1,876,789	433,773	502,768	318,574	166,297	58,694	3,356,895
Derivative financial instruments	6,028	398	301	735	2,047	-	9,509
Other liabilities	19,978	1,385	106	5,862	1,526	9,157	38,014
Total liabilities	1,902,795	435,556	503,175	325,171	169,870	68,165	3,404,732
Equity	-	-	-	-	-	79,071	79,071
Total liabilities and equity	1,902,795	435,556	503,175	325,171	169,870	147,236	3,483,803
Net balance sheet position – long/ (short)	(1,494,789)	(339,309)	(312,129)	251,710	854,001	1,040,516	-
<u>Memorandum items</u>							
Contingent liabilities	57,843	-	-	-	-	-	57,843
Financial commitments	179,632	-	-	-	-	-	179,632

Group's contractual undiscounted cash flows of the financial liabilities as at 31 December 2008

The following table represents the analysis of the estimated contractual cash flows arising from Group's financial liabilities as at 31 December 2008:

	LVL 000's						Total contractual cash flows
	Within 1 month	1-3 months	3-6 months	6-12 months	1-5 years	Over 5 years	
Financial liabilities designated at fair value through profit or loss	-	-	-	-	-	314	314
Financial liabilities measured at amortised cost	1,938,368	454,253	542,712	318,365	179,240	71,487	3,504,425
Memorandum items							
Contingent liabilities	57,843	-	-	-	-	-	57,843
Financial commitments	179,632	-	-	-	-	-	179,632

Bank's assets, liabilities and memorandum items by contractual maturity structure as at 31 December 2009

	Bank as at 31/12/2009, LVL 000's						
	Within 1 month	1-3 months	3-6 months	6-12 months	1-5 years	Over 5 years and undated	Total
<u>Assets</u>							
Cash and deposits with central banks	142,259	-	-	-	-	-	142,259
Balances due from credit institutions	183,978	17,901	123,990	-	-	-	325,869
Securities held for trading	624	-	-	-	781	1,447	2,852
Available-for-sale securities	-	2,010	-	4,724	36,388	52,077	95,199
Loans and receivables to customers	21,353	236,415	65,822	165,879	406,364	549,573	1,445,406
Held-to-maturity securities	989	14,545	7,140	17,248	168,558	110,169	318,649
Derivatives financial instruments	1,370	244	58	171	79	-	1,922
Other assets	9,193	-	-	-	13,130	116,671	138,994
Total assets	359,766	271,115	197,010	188,022	625,300	829,937	2,471,150
<u>Liabilities</u>							
Financial liabilities measured at amortised cost	873,761	875,027	54,792	86,918	313,590	104,061	2,308,149
Derivative financial instruments	865	38	3	4	52	-	962
Other liabilities	7,648	-	-	-	-	1,722	9,370
Total liabilities	882,274	875,065	54,795	86,922	313,642	105,783	2,318,481
Equity	-	-	-	-	-	152,669	152,669
Total liabilities and equity	882,274	875,065	54,795	86,922	313,642	258,452	2,471,150
Net balance sheet position – long/ (short)	(522,508)	(603,950)	142,215	101,100	311,658	571,485	-
<u>Memorandum items</u>							
Contingent liabilities	11,464	-	-	-	-	-	11,464
Financial commitments	166,323	-	-	-	-	-	166,323

Banks's contractual undiscounted cash flows of the financial liabilities as at 31 December 2009

	LVL 000's						Total contractual cash flows
	Within 1 month	1-3 months	3-6 months	6-12 months	1-5 years	Over 5 years	
Financial liabilities measured at amortised cost	876,085	877,396	61,079	92,996	377,742	107,098	2,392,396
Memorandum items							
Contingent liabilities	11,464	-	-	-	-	-	11,464
Financial commitments	166,323	-	-	-	-	-	166,323

As described in Note 24, FCMC has imposed certain drawdown restrictions on customer funds at the Bank. However, for the purposes of this analysis, it is assumed that no such restrictions exist.

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Bank's assets, liabilities and memorandum items by contractual maturity structure as at 31 December 2008

	Bank as at 31/12/2008, LVL 000's						
	Within 1 month	1-3 months	3-6 months	6-12 months	1-5 years	Over 5 years and undated	Total
Assets							
Cash and deposits with central banks	95,179	-	-	-	-	-	95,179
Balances due from credit institutions	449,686	21,468	24,872	1,005	1,654	-	498,685
Securities held for trading	-	-	67	-	1,930	4,404	6,401
Available-for-sale securities	-	5,373	7,214	6,089	80,215	54,831	153,722
Loans and receivables to customers	110,021	49,084	114,630	135,019	600,119	735,998	1,744,871
Held-to-maturity securities	1,846	4,191	42,754	425,730	185,176	138,292	797,989
Derivatives financial instruments	10,644	936	335	420	6,808	9	19,152
Other assets	4,250	-	-	-	-	97,790	102,040
Total assets	671,626	81,052	189,872	568,263	875,902	1,031,324	3,418,039
Liabilities							
Financial liabilities measured at amortised cost	1,879,399	420,098	491,140	292,335	163,338	58,688	3,304,998
Derivative financial instruments	6,189	398	301	735	2,047	-	9,670
Other liabilities	16,237	-	-	3,956	-	5,690	25,883
Total liabilities	1,901,825	420,496	491,441	297,026	165,385	64,378	3,340,551
Equity	-	-	-	-	-	77,488	77,488
Total liabilities and equity	1,901,825	420,496	491,441	297,026	165,385	141,866	3,418,039
Net balance sheet position – long/ (short)	(1,230,199)	(339,444)	(301,569)	271,237	710,517	889,458	-
Memorandum items							
Contingent liabilities	52,739	-	-	-	-	-	52,739
Financial commitments	269,518	-	-	-	-	-	269,518

Bank's contractual undiscounted cash flows of the financial liabilities as at 31 December 2008

	LVL 000's						Total contractual cash flows
	Within 1 month	1-3 months	3-6 months	6-12 months	1-5 years	Over 5 years	
Financial liabilities measured at amortised cost	1,919,754	428,938	532,304	307,232	176,601	71,487	3,436,316
Memorandum items							
Contingent liabilities	52,739	-	-	-	-	-	52,739
Financial commitments	269,518	-	-	-	-	-	269,518

Group's derivative financial liabilities settled on a net basis and contractual undiscounted cash flows arising from Group's derivatives settled on a gross basis as at 31 December 2009.

	LVL 000's						
	Within 1 month	1-3 months	3-6 months	6-12 months	1-5 years	Over 5 years	Total
Derivatives settled on a net basis							
Foreign exchange contracts	(830)	(27)	(3)	(4)	-	-	(864)
Interest rate derivatives	-	(3)	-	-	-	-	(3)
Derivatives settled on a gross basis							
Foreign exchange derivatives:							
outflow	(20,869)	(415)	-	-	-	-	(21,284)
inflow	21,035	426	-	-	-	-	21,461
Other derivatives:							
outflow	-	-	-	-	(53)	-	(53)
inflow	-	-	-	-	41	-	41

Group's derivative financial liabilities settled on a net basis and contractual undiscounted cash flows arising from Group's derivatives settled on a gross basis as at 31 December 2008.

	LVL 000's						
	Within 1 month	1-3 months	3-6 months	6-12 months	1-5 years	Over 5 years	Total
Derivatives settled on a net basis							
Foreign exchange contracts	(5,956)	(200)	(25)	-	-	-	(6,181)
Interest rate derivatives	(51)	(1,686)	(170)	(3,326)	-	-	(5,233)
Derivatives settled on a gross basis							
Foreign exchange derivatives:							
outflow	(148,502)	(95,448)	(32,924)	(19,234)	-	-	(296,108)
inflow	151,614	97,176	33,720	19,618	-	-	302,128
Other derivatives:							
outflow	-	-	-	-	(2,047)	-	(2,047)
inflow	-	-	-	-	376	-	376

Bank's derivative financial liabilities settled on a net basis and contractual undiscounted cash flows arising from Bank's derivatives settled on a gross basis as at 31 December 2009.

	LVL 000's						
	Within 1 month	1-3 months	3-6 months	6-12 months	1-5 years	Over 5 years	Total
Derivatives settled on a net basis							
Foreign exchange contracts	(830)	(27)	(3)	(4)	-	-	(864)
Interest rate derivatives	-	(3)	-	-	-	-	(3)
Derivatives settled on a gross basis							
Foreign exchange derivatives:							
outflow	(45,875)	-	-	-	-	-	(45,875)
inflow	46,036	-	-	-	-	-	46,036
Other derivatives:							
outflow	-	-	-	-	(53)	-	(53)
inflow	-	-	-	-	41	-	41

Bank's derivative financial liabilities settled on a net basis and contractual undiscounted cash flows arising from Bank's derivatives settled on a gross basis as at 31 December 2008.

	LVL 000's						
	Within 1 month	1-3 months	3-6 months	6-12 months	1-5 years	Over 5 years	Total
Derivatives settled on a net basis							
Foreign exchange contracts	(6,068)	(239)	(46)	-	-	-	(6,353)
Interest rate derivatives	(51)	(1,686)	(170)	(3,326)	-	-	(5,233)
Derivatives settled on a gross basis							
Foreign exchange derivatives:							
outflow	(178,482)	(93,786)	(31,626)	(19,003)	-	-	(322,897)
inflow	181,534	95,477	32,378	19,368	-	-	328,757
Other derivatives:							
outflow	-	-	-	-	(2,047)	-	(2,047)
inflow	-	-	-	-	376	-	376

g) *Operational risk*

The Group defines operational risk as the risk of losses resulting from processes that are deficient or non-compliant with requirements of external and internal regulations, losses resulting from actions of employees and system malfunctioning, as well as losses resulting from actions of third parties or from other external conditions, including legal risk (risk of penalty fees, sanctions applied by external institutions, losses resulting from litigation and other similar events), but excluding strategic risk and reputation risk. The Group further divides operational risk into the following categories: personnel risk, process risk, IT and systems risk, external risk.

The Group does not accept operational risks with potential impact exceeding 10% of the Group's net annual revenues, as well as unmanageable risks or risks with unquantifiable impact, irrespective of the financial gains this could bring (i.e., the Group does not perform business activities incurring such operational risks).

The Group applies following approaches for operational risk management:

- Self-assessment of operational risk – the business-owners of the products and processes perform identification and evaluation of potential operational risk events, assessment of the existing control systems and the analysis of the required risk mitigation measures using self-assessment questionnaires and brainstorming sessions with the experts of the respective process;
- Defining operational risk indicators – use of statistical, financial and other indicators that reflect the level of various operational risk types and its changes within the Group;
- Defining the limits of the acceptable losses;
- Operational risk measurement by recording and analysing operational risk events, the extent of the respective damage incurred, causes and other related information (data base of operational risk losses and incidents);
- "Four-eye-principle" and segregation of duties;
- Business continuity planning;
- Risk assessment within product development;
- Insurance;
- Investments in appropriate data processing and information protection technologies.

h) *Capital management*

Capital adequacy refers to the sufficiency of the Group's capital resources to cover the credit risks and market risks arising from the portfolio of assets and the off-balance sheet exposures. The Financial and Capital Markets Commission's (FCMC), the bank regulator, regulations require Latvian banks to maintain a capital adequacy ratio based on financial statements prepared under IFRS as adopted by EU of 8% of risk weighted assets.

Since the Bank has subsidiaries, which are financial institutions, it should comply with the regulatory requirements based on both the Group's financial statements and the Bank's financial statements as a stand-alone entity.

The Capital Requirements Directive (CRD), which implements Basel II capital regulations in the EU, came into full force on 1 January 2008. In Latvia the directive was implemented through FCMC regulations. Among the options provided in the regulations, the Bank and Group has chosen to use standardized approach in credit risk calculations and basic indicators approach in calculating operation risk charge.

The eligible capital for the capital adequacy purposes constitutes the capital that the Bank manages. The eligible capital comprises of Tier 1 and Tier 2 items, reduced by specific capital charges in accordance with the regulatory requirements. Due to significant adverse events in global capital markets after Lehman Brothers filed for bankruptcy and related repercussions in countries the Group is represented in either through loan exposures, or the securities book, the Group and the Bank suffered significant impairment losses. As a result, during the first half of 2009, Group's capital base deteriorated to the level, where the minimum capital adequacy ratio requirement was no longer met. The breach was remedied with the capital increase on 22 May 2009. For more details on capital increase, please refer to Note 27.

The capital adequacy calculation of Bank and Group in accordance with FCMC regulations (*Basel II* framework) can be disclosed as follows:

	LVL 000's			
	31/12/2009 Group	31/12/2008 Group	31/12/2009 Bank	31/12/2008 Bank
<i>Tier 1</i>				
- paid-in share capital	230,027	65,027	230,027	65,027
- share premium	12,694	12,694	12,694	12,694
- audited retained earnings/ (accumulated loss) (not subject to dividend distribution)*	(91,231)	35,557	(78,071)	33,037
<i>Less</i>				
- negative fair value revaluation reserve	(12,318)	(34,207)	(11,979)	(33,270)
- intangible assets	(3,220)	(4,048)	(585)	(782)
- additional equity charge in accordance with FCMC requirements (50% from total)	(3,144)	(4,983)	(3,144)	(4,983)
- revaluation gain in relation to own credit risk	-	(766)	-	(766)
- Investments in subsidiaries – insurance company (50% from total)*	(1,500)	(1,400)	-	-
Total Tier 1	131,308	67,874	148,942	70,957
<i>Tier 2</i>				
- subordinated debt – total	103,120	52,957	103,127	52,960
- subordinated debt – excess over 50% from Tier 1	(35,144)	(15,829)	(27,084)	(14,607)
- additional equity charge in accordance with FCMC requirements (50% from total)	(3,144)	(4,983)	(3,144)	(4,983)
- investments in subsidiaries – insurance company (50% from total)*	(1,500)	(1,400)	-	-
Total Tier 2	63,332	30,745	72,899	33,370
Equity to be utilised in the capital adequacy ratio	194,640	98,619	221,841	104,327
<i>Credit risk and counterparty risk capital charge by regulatory asset classes:</i>				
Central governments and banks	784	882	182	812
Municipalities	2,730	2,759	2,648	2,785
Government institutions	33	36	33	36
Credit institutions	9,406	19,649	22,508	20,166
Companies	70,825	107,075	72,911	106,312
Assets falling under "retail" definition	8,158	11,513	5,451	7,736
Qualifying residential mortgage loans	10,937	17,362	8,076	13,655
Assets falling under "past due" definition	40,720	8,768	33,228	6,416
Covered bonds	175	80	175	80
Investment funds	754	914	752	909
Other assets	18,076	33,250	13,347	23,428
<i>Other risk capital charges:</i>				
Foreign currency open positions subject to capital charge	5,815	14,399	5,248	4,930
Fixed income securities position risk capital charge	188	2,609	188	2,578
Equity instruments' position risk capital charge	173	550	173	550
Operational risk capital charge	18,105	19,956	13,910	16,068
Total capital charges	186,879	239,802	178,830	206,461
Capital Adequacy Ratio (Equity/Total capital charges) x 8%	8.3%	3.3%	9.9%	4.0%

* AAS "Parex dzīvība" is not included in consolidation group for capital adequacy purposes. The investment value directly reduces the equity eligible for the capital adequacy ratio calculation purposes.

NOTE 36. EVENTS AFTER THE BALANCE SHEET DATE

Repayment of the syndicated loans

On 15 February 2010, the Bank repaid EUR 310 million to the syndicated lenders. EUR 165 million were repaid from the Bank's resources and EUR 145 million were provided by the State Treasury through placing a deposit with the Bank in the respective amount.

Issue of debt securities

On 15 February 2010, the Bank concluded its first issue of debt securities amounting to EUR 17.7 million, and reached conceptual agreement of restructuring restricted deposits amounting to EUR 130 million into two-year deposits. These measures were undertaken in the process of restructuring Bank deposits that are subject to restrictions, thus significantly reducing total balance of such deposits and improving the Bank's liquidity.

Capital increase

On 23 February 2010, the Latvian Cabinet of Ministers approved an increase of LVL 31.5 million in the Bank's equity capital. On 26 February 2010, the capital increase was carried out by capitalizing the respective amount of from the existing State Treasury deposits with the Bank. No additional funds were provided for the Bank's capital increase.

Financing from State Treasury

As at 31 December 2009, the contractual maturities of most of the State Treasury's deposits with the Bank were for January and February 2010. Nevertheless, the State Treasury has continued to support the Bank's liquidity position by rolling over the maturing financing facilities. As at 24 March 2010, the special financing received from the State Treasury is as follows:

Agreement currency	Interest rate(%)	Agreement date	Maturity date	Outstanding amount LVL000's
EUR	4.609	26/02/2010	17/05/2010	6,584
EUR	4.642	08/01/2010	08/04/2010	14,056
EUR	4.610	12/02/2010	12/05/2010	101,907
EUR	4.609	17/02/2010	17/05/2010	163,402
EUR	4.622	22/01/2010	22/04/2010	201,757
EUR	4.613	05/02/2010	05/05/2010	204,748
Total Treasury deposits				692,454

INDEPENDENT AUDITORS' REPORT

To the Shareholders of AS Parex banka

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of AS Parex banka and its subsidiaries (the Group) and the financial statements of AS Parex banka (the Bank) on pages 10 to 86 which comprise the balance sheet as of 31 December 2009 and the statements of income, comprehensive 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

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the International Financial Reporting Standards as adopted by the European Union. 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.

Basis for qualified opinion

As discussed in Note 1 (w) "Use of estimates in the preparation of the financial statements", the Bank has assumed, in the preparation of the accompanying financial statements, that sufficient taxable profits will be generated in the future to fully utilise the unused tax losses as at 31 December 2009 and accordingly recognised a deferred tax asset of LVL 29 million as at that date. IAS 12 – "Income Taxes" requires that a deferred tax asset is recognised for the carryforward of unused tax losses to the extent that it is probable that future taxable profits will be available against which the unused tax losses can be utilised. Management's estimates for the future taxable profits are based on a medium term financial forecast and on the assumption that the Bank continues its operations on an as-is basis. However, as discussed in Note 1, on 23 March 2010, the Cabinet of Ministers of the Republic of Latvia approved the framework of a restructuring plan ("Restructuring Plan") to enable the Bank to continue in business on a commercial basis and for it to be less dependent on State support by restructuring strategic assets out of the Bank into a new legal entity. It is uncertain that the current or future tax legislation would allow the transfer of the unutilised tax losses as at 31 December 2009 from the Bank to this new entity. Further, the restructuring process still requires significant further assessments, planning considerations and approvals. Therefore, it is our opinion, that at present, there are insufficient grounds to conclude that it is probable that the Bank will be able to utilise the unused tax losses as at 31 December 2009 and accordingly the deferred tax asset should be derecognised, the Bank's and Group's losses for the year should be increased, and the net shareholders' equity as of 31 December 2009 should be reduced by LVL 29 million.

Qualified Opinion

In our opinion, except for the effect of the matter described in the Basis for Qualified Opinion paragraph, the accompanying financial statements give a true and fair view of the financial position of the Bank and the Group as of 31 December 2009, and of its financial performance and its cash flows for the year then ended in accordance with the International Financial Reporting Standards as adopted by the European Union.

Emphasis of Matter

Without further qualifying our opinion, we draw attention to Note 1 in the financial statements which discloses the Group's and the Bank's assumptions about their ability to continue as a going concern. The going concern assumption is dependent on the continuing support of the government of Latvia (the State). This condition, along with other matters as set forth in Note 1, indicate the existence of a material uncertainty which may cast significant doubt about the Group's and the Bank's ability to continue as a going concern without State support.

Report on Other Legal and Regulatory Requirements

We have read the Management Report set out on pages 3 to 7 and did not identify material inconsistencies between the financial information contained in the Management Report and that contained in the financial statements for 2009.

PricewaterhouseCoopers SIA
Certified audit company
Licence No. 5



Ahmed Abu Sharkh
Chairman of the Board



Lolita Čapkeviča
Certified auditor in charge
Certificate No. 120

Riga, Latvia
30 March 2010

* This version of our report is a translation from the original, which was prepared in Latvian. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.