

Make it simple. It's *easy* with **UniCredit.**

We UniCredit people are committed to generating value for our customers.

As a leading European bank, we are dedicated to the development of the communities in which we live, and to being a great place to work.

We aim for excellence and we consistently strive to be easy to deal with.

These commitments will allow us to create sustainable value for our shareholders.



Times change, but commitments do not. We emerged from 2009 with a renewed sense of purpose and direction. What was important to us before is even more important today. Namely, our customers.

Accordingly, we developed a new mission statement in 2009 to reinforce those principles and practices that we believe to be drivers of greater customer centricity. Emphasized in this mission is the desire to make banking as easy as possible for our customers by offering the kind of simple, straightforward solutions that can assist them in achieving their financial goals reliably and efficiently.

This is what we call “real-life banking”. It means providing our clients with more than just financial services by giving them the right support at the right time and in the right way. It is about looking our customers in the eye, working closely with them to assess their real-life needs, and then using our expertise to deliver effective solutions through smooth and easy interactions.

We believe that our rigorous dedication to simplicity and transparency will continue to advance excellence in all that we do. It will also maintain and grow the trust of our customers - a trust that is exemplified in the following pages.

This year's report features photographs and personal stories from UniCredit Group customers across Europe, highlighting the concrete role that our company has played in their lives. Each of these individuals, who represent the foundation upon which we are structuring our shared future, has told us about a time we made their life easier.

Rein Kilk,
AS Pere
Corporate Banking Client – Estonia

«As an entrepreneur, I appreciate that, despite the difficult economic situation, UniCredit Bank is able to act in a cool and calm way when financing an enterprise. The professional behavior of the bank in a time of crisis makes entrepreneurs more confident, which then helps stabilize the whole economic environment. In every crisis, there are always losers and winners. The companies that are lucky enough to have a highly experienced financial partner like UniCredit have a clear advantage during rough times.»

**It's easy with
UniCredit.**



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Dace Markeviča
Uralchem Trading Sia
Corporate Banking Client - Latvia

«**U**ralchem Trading has the assurance that every time, even when it comes to fairly simple banking transactions like payments, UniCredit Bank will look for and find mutually beneficial solutions. The bank's professional staff always offers helpful advice on successful business operations, thereby laying the foundation for mutual trust and a long-term partnership.»

**It's easy with
UniCredit.**



Report of the Management Board

The financial year 2009 – a year of challenge for AS “UniCredit Bank”

2009 was an extremely difficult year for Estonia, Latvia and Lithuania. The three Baltic states experienced the deepest recession among all countries in the European Union with GDP dropping between 15%-18%. The banks were hit hard by the crisis. Overall the banking system in the three countries encountered significant losses, mainly driven by high provisions for non-performing loans. In Latvia alone combined losses of the financial service providers exceeded EUR 1 billion.

Amidst this difficult economic situation AS “UniCredit Bank” (the Bank) managed to continue its normal operation. The Bank permanently ensured full compliance with all relevant supervisory parameters, most notably liquidity ratios and capital adequacy ratio. In addition the Bank continued its development by providing the full range of corporate banking services for its customers.

Being a part of one of the leading Banking groups in Europe operating in 22 countries, the Bank offered tailor-made products and services for its customers, supported by a broad international network and know-how of the UniCredit Group (the Group). Consequently new client relationships have been established and the existing ones have been further strengthened.

In 2009 the Bank operated with the head office in Latvia (Riga), branches in Lithuania (Vilnius) and Estonia (Tallinn) as well as two corporate offices in Lithuania (Klaipeda and Kaunas). One corporate office was closed in Riga during this reporting period.

The Bank was represented by the Management Board consisting of the Chairman of the Management Board Ralf Cymanek (CEO) and the members of the Management Board: Algimantas Kundrotas (CBO), Torsten Tegtmeier (CRO), Frank Marcus (CFO) and Wilfried Seemann (COO). As at 31 March 2009 Wilfried Seemann retired from his position and the Management Board of the Bank continued to work consisting of four members. Each member of the Management Board bears responsibility for its Division according to the organizational set-up of the Bank.

In 2009 the Bank maintained its strategic stake in SIA “UniCredit Leasing”, with a 49% shareholding, and continued successful cooperation with Ergo Insurance Group.

According to the strategy to diversify the revenue structure, the Bank continuously enhanced its product and service set for its customers. In 2009 the transition to new internet-based cash management system GWS was completed, several new products in the field of payment services were introduced. Considering that many of the Group customers have business outside their home country, the

Bank strengthened its Global Transactional Banking services. The Bank actively offered cross border client products starting from the account opening in the countries where the Group is represented and flash payments to cash management solutions and cross border credits.

The risk strategy of the Bank was adjusted in line with the Group's risk policy. Financing commercial real estate has been tightly restricted. The Bank concluded Risk Participation Agreements with UniCredit Bank Austria AG for specific loans in the amount of LVL 92 million in order to avoid significant write downs and losses from a deteriorating credit quality.

In 2009 the Bank achieved a strong growth in the deposit portfolio by 109% to LVL 297 million, total assets of the Bank decreased by 5% to LVL 753 million, and the loan portfolio shrank by 4% to LVL 608 million. This development was mainly caused by the refinancing of SIA “UniCredit Leasing” using a different financing scheme within the Group.

During respective period total revenues of the Bank increased by 15%. Significant growth in terms of revenues was achieved in Estonia and Lithuania, 90% and 38% correspondingly. Effective cost management allowed to keep operating expenses stable at the level of 2008. Even provisions for all recognized and impairment losses and risks inherent in the portfolio were made as well as goodwill impairment and write-down of participation in SIA “UniCredit Leasing” was executed, the Bank managed to close the year with a net profit in amount of LVL 1,565 thousand.

To refinance assets, the Bank is using equity, customers' deposits as well as financial resources provided by the Bank's shareholder, European Investment Bank (EIB), Nordic Investment Bank (NIB), Kreditanstalt für Wiederaufbau (KfW) and several commercial banks. As an evidence of the Group's support and stimulation of further business activities in the Baltic countries, injection of LVL 13 million in the Bank's capital was decided at the end of 2009 and executed in January 2010.

The Bank's corporate culture is ultimately built on the UniCredit Group Values, which are defined in its Integrity Charter. The Charter describes how the Group and all its employees in 22 core countries interact with their partners internally and externally. The values are: Fairness, Transparency, Respect, Reciprocity, Freedom to act and Trust. Following this value system, the Bank was actively engaged in its environment by supporting several cultural events and charity projects.

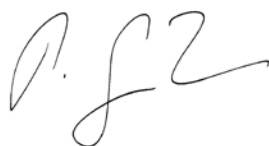
One of the major events in the Group during the reporting period was the signing of the agreement for official sponsorship of the UEFA Champions League for the next three years.

Report of the Management Board (CONTINUED)

During the next year the Bank will continue to work with its existing customers based on a customer centricity concept and strive to acquire new ones. In 2010 the Bank is planning to broaden its product and service range leveraging on the international reach and strength of the Group. The Bank will further increase efficiency by optimizing internal control processes and will focus on further growth of its client base.

The Bank's staff as at 31 December 2009 consisted of 200 employees.

In the name of the Management Board we thank all our employees, customers and partners for their contribution to the development of the Bank in 2009. We are looking forward to a successful cooperation in 2010.



Ralf Cymanek
Chairman of the
Management Board



Frank Marcus
Member of the
Management Board



Algimantas Kundrotas
Member of the
Management Board



Torsten Tegtmeier
Member of the
Management Board

Riga,
22 February 2010

Martin Darbo,
Adolf Darbo Aktiengesellschaft
Corporate Banking Client - Austria

«**A**s a family business,
we don't think in terms
of quarters or years.
We think in terms of
generations. When
making forward-looking
decisions, you need a
partner who prepares
and offers long-term
solutions in a reasonably
short time. This is why we
work with Bank Austria -
UniCredit Group.»

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UniCredit.**



Report of the Supervisory Board

Due to the difficult economic situation in the Baltic countries – significant drop of GDP, rising budget deficit and unemployment rate as well as decreasing value of the companies and real estate prices – AS “UniCredit Bank” (the Bank) was forced to manoeuvre in an unstable, rapidly deteriorating economical environment. Thanks to the management, the Bank ensured full compliance with regulating requirements and continued the development by providing corporate banking services for its customers.

On behalf of the shareholders, we herewith thank the Management Board and the employees of the Bank for their efforts and accomplishments, which contributed to the positive results.

Noteworthy results were achieved in the growth of the deposit portfolio by more than 100%. Also growth of the customer base shows their trust to one of the largest banking groups in Europe – UniCredit Group. The Bank in Latvia, its two branches in Lithuania and Estonia and their corporate offices formed close and personal service towards international and local clients. It combines international expertise of the UniCredit Group with local know-how to satisfy customers needs.

The Bank takes an active role and is a successful part of the CEE network within the regional concept of the Group. Due to the geographical location, Estonia, Latvia and Lithuania are a hub and trade gateway to further growing and developing markets in Russia and Poland, which are top target markets for the Group. Furthermore, the countries connect emerging markets with Continental Europe, which are the traditional core and home markets of the Group.

Despite of expected difficult market environment also in 2010, the Group's strategy for this region has not changed. UniCredit is committed to the Baltic Markets.

The Supervisory Board fulfilled the duties conferred to it by law and the Articles of Association and advised the Bank's management on an ongoing basis during the accounting period. For this purpose, it requested and received information on the Bank's business performance, above all with respect to liquidity, assets and earnings.

The Bank's financial statements as at 31 December 2009, which are endorsed in full by the Supervisory Board, were audited by the elected auditors KPMG Baltics SIA.



Carlo Marini
Chairman of the Supervisory Board

Members of the Supervisory Board as at the date of signing the financial statements:

Peter Hofbauer	Deputy Chairman of the Supervisory Board
Friederike Kotz	Member of the Supervisory Board
Irene Grzybowski	Member of the Supervisory Board
David Joseph O'Mahony	Member of the Supervisory Board
Fabrizio Soda	Member of the Supervisory Board

Riga,
22 February 2010

Andreas Schmidt,
Bayerische Börse AG
Corporate Banking Client
Germany

«We have frequent personal contact with our relationship manager, whom we can easily reach anytime. We set great store by the offers we receive from him that are precisely tailored to our needs. We value the expertise and many product offerings we find at HypoVereinsbank - UniCredit Group. Our interactions with the bank go quickly and smoothly. We have been a loyal and satisfied customer for many years.»

**It's easy with
UniCredit.**



The Supervisory Board and the Management Board

As at the date of signing the financial statements members of the Supervisory Board were as follows:

The Supervisory Board

		<i>Date of appointment</i>
Carlo Marini	Chairman of the Supervisory Board	06.03.2007*
Peter Hofbauer	Deputy Chairman of the Supervisory Board	23.07.2008
Friederike Kotz	Member of the Supervisory Board	06.03.2007*
Irene Grzybowski	Member of the Supervisory Board	06.03.2007*
David Joseph O'Mahony	Member of the Supervisory Board	26.05.2008**
Fabrizio Soda	Member of the Supervisory Board	26.05.2008**

* reappointed 26 May 2008; 23 July 2008.

** reappointed 23 July 2008.

As at the date of signing the financial statements, the members of the Management Board were as follows:

The Management Board

		<i>Date of appointment</i>
Ralf Cymanek	Chairman of the Management Board	7 December 2008
Algimantas Kundrotas	Member of the Management Board	1 December 2006*
Torsten Tegtmeier	Member of the Management Board	1 December 2006
Frank Marcus	Member of the Management Board	9 February 2007

* reappointed 9 February 2007.

During the reporting year since 1 January 2009 the following change in the Management Board of the Bank was made: as at 31 March 2009 Wilfried Seemann retired from his position.

There have been no other changes in the Management Board during the reporting year beginning 1 January 2009 through the date of signing the financial statements.



Carlo Marini
Chairman of the Supervisory Board



Ralf Cymanek
Chairman of the Management Board

Riga,
22 February 2010

Vidas Lazickas,
UAB Konzernas "MG Baltic"
Corporate Banking Client
Lithuania

«MG Baltic has been working with UniCredit Bank for many years now. When we expanded into Latvia and Poland, we needed to finance working capital for our subsidiaries. UniCredit's solutions, which were straightforward and easy to implement, allowed us to do this in a simple way through its banking network, while also advancing the working conditions of our companies. I believe that working together today, we'll find better solutions for tomorrow as well.»

It's easy with UniCredit.



Statement of the Management Responsibility

The Supervisory Board and the Management Board (the Management) of AS "UniCredit Bank" (the Bank) are responsible for preparing the financial statements and the annual report of the Bank. The financial statements on pages 19-63 present fairly the financial position of the Bank as at 31 December 2009, the results of its operations and cash flows for the year then ended, in accordance with International Financial Reporting Standards as adopted by the European Union.

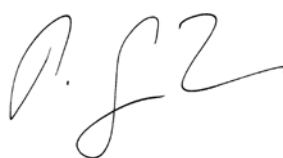
The Management confirms that appropriate accounting policies have been used and that those policies have been applied consistently. Reasonable and prudent judgment and estimates have been made in the preparation of the Bank's financial statements and the annual report. The Management also confirms that Bank's financial statements have been prepared on a going concern basis in accordance with International Financial Reporting Standards as adopted by the European Union and that they comply with the Financial and Capital Market Commission's Regulations on Annual Reports of Banks.

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

On behalf of the Management of the Bank:



Carlo Marini
Chairman of the Supervisory Board



Ralf Cymanek
Chairman of the Management Board



Frank Marcus
Member of the
Management Board



Algimantas Kundrotas
Member of the
Management Board



Torsten Tegtmeier
Member of the
Management Board

Riga,
22 February 2010

Talgat Baimagambetov,
ALSI
Corporate Banking Client – Kazakhstan

«**O**ur company has been a client of ATF Bank from the day it opened. Then the bank became part of UniCredit Group, expanded its international offerings and implemented a new service model in 2009. This means that we deal with a single relationship manager for all of the bank's basic products. This bank, which we already trust, has been improving its service, and that's very important to us. Now my bank offers very fast turnaround times.»

**It's easy with
UniCredit.**



Independent Auditor's Report

To the Shareholder of AS "UniCredit Bank" Report of the Financial Statements

We have audited the accompanying financial statements of AS "UniCredit Bank" (the Bank), which comprise the statement of financial position as at 31 December 2009, the income statement, statement of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory notes, as set on pages 19 to 63.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidences about the amount and disclosures in the financial statements.



Ondrej Fikrle
Partner pp KPMG Baltics SIA

Riga, Latvia
22 February 2010

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

The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessment, we consider 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. And audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion the financial statements give a true and fair view of the financial position of the Bank as at 31 December 2009, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards adopted by the European Union.

Report on Other Legal and Regulatory Requirements

In addition, our responsibility is to assess whether the accounting information included in the Report of the Management Board and Report of the Supervisory Board, as set out on pages 7 to 8, the preparation of which is the responsibility of management, is consistent with the financial statements. Our work with respect to the Management Report was limited to the aforementioned scope and did not include a review of any information other than drawn from the financial statements of the Bank. In our opinion, the management report is consistent with the financial statements.



Inga Lipšāne
Sworn Auditor
Certificate No.112

Victor Gerashchenko,
Private Banking Client - Russia

«**W**hat I like about UniCredit Bank is that I can get complete information on all the latest investment trends from them. And to me, it is important that even though they offer access to fairly complex products, everything still seems easy and simple.»

It's easy with UniCredit.



Financial Statements

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Financial Statements

Income Statement

Income Statement

For the year ended 31 December 2009

All amounts are in thousands of lats

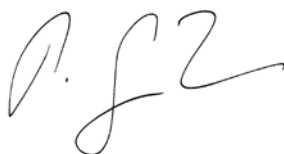
	NOTE	2009 '000 LVL	2008 '000 LVL
Interest income	7	32,948	42,433
Interest expense	8	(24,035)	(26,658)
Net interest income		8,913	15,775
Fee and commission income	9	1,587	1,197
Fee and commission expense	10	(2,402)	(500)
Net fee and commission income		(815)	697
Net gain/(loss) from held for-trading financial assets		(88)	28
Net foreign exchange income/(loss)	11	8,927	(1,624)
Other income		109	40
Other expenses		(232)	(163)
		16,814	14,753
Impairment losses	12	(6,099)	(7,852)
General administrative expenses	13	(9,214)	(9,491)
Profit/(loss) before income tax		1,501	(2,590)
Income tax expense	14	64	(136)
Profit/(loss) for the year		1,565	(2,726)

The accompanying notes on pages 25 - 63 form an integral part of these financial statements.

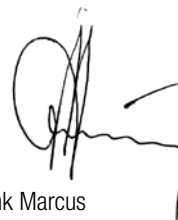
The financial statements on pages 19 - 63 have been authorized for issue by the Supervisory Board and the Management Board on 22 February 2010 and signed on their behalf by:



Carlo Marini
Chairman of the Supervisory Board



Ralf Cymanek
Chairman of the Management Board



Frank Marcus
Member of the Management Board

Statement of Comprehensive Income

Statement of Comprehensive Income

For the year ended 31 December 2009

All amounts are in thousands of lats

NOTE	2009 '000 LVL	2008 '000 LVL
Profit / (loss) for the year	1,565	(2,726)
Other comprehensive income		
Net change in fair value of available-for-sale financial assets	371	4
Other comprehensive income for the year	371	4
Total comprehensive income for the year	1,936	(2,722)

The accompanying notes on pages 25 - 63 form an integral part of these financial statements.

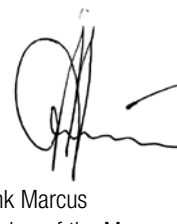
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Ralf Cymanek
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Frank Marcus
Member of the Management Board

Statement of Financial Position

Statement of Financial Position

For the year ended 31 December 2009

All amounts are in thousands of lats

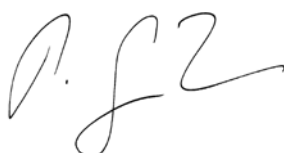
	NOTE	2009 '000 LVL	2008 '000 LVL
ASSETS			
Cash and deposits with the Bank of Latvia	15	15,903	20,361
Demand balances due from credit institutions	16	101,436	35,751
Held-to-maturity investments	17	3,121	3,120
Loans and receivables:			
- Loans and term deposits due from credit institutions	16	-	56,305
- Loans due from non-banking customers	18	608,105	631,265
Held-for-trading financial assets:			
- Derivative financial instruments	19	3,258	18,074
Available-for-sale financial assets:			
- Debt securities	21	9,893	11,790
Investments in associates	22	-	383
Property and equipment	23	615	853
Intangible assets	23	9,291	10,750
Investment property		430	-
Current tax receivable		-	447
Deferred tax asset	28	182	-
Other assets	24	422	465
Total Assets		752,656	789,564
LIABILITIES AND EQUITY			
Demand balances due to credit institutions	25	21,172	33,936
Held-for-trading financial liabilities:			
- Derivative financial instruments	19	624	3,770
Financial liabilities at amortised cost:			
- Term deposits due to credit institutions	25	364,356	542,760
- Deposits from non-banking customers	26	296,878	142,180
- Subordinated liabilities	30	18,729	18,730
Provisions		297	-
Deferred tax liability	28	-	46
Current tax liability		26	135
Other liabilities	27	2,783	2,152
Total Liabilities		704,865	743,709
EQUITY			
Share capital	29	41,729	41,729
Revaluation reserve		383	12
Retained earnings		5,679	4,114
Total Equity		47,791	45,855
Total Liabilities and Equity		752,656	789,564
Commitments and Contingencies	40	138,147	233,813

The accompanying notes on pages 25 - 63 form an integral part of these financial statements.

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Carlo Marini
Chairman of the Supervisory Board



Ralf Cymanek
Chairman of the Management Board



Frank Marcus
Member of the Management Board

Statement of Cash Flow

Statement of Cash Flow

All amounts are in thousands of lats

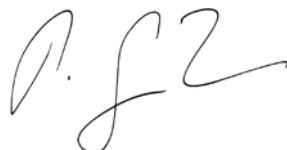
	NOTE	31 DECEMBER 2009	31 DECEMBER 2008
Cash inflow from operating activities			
Profit/ (loss) before income tax		1,501	(2,590)
Depreciation and amortization		1,173	981
Impairment losses on loans and receivables (net)		5,466	7,852
Impairment of goodwill		633	-
Loss from disposal of fixed assets		-	1
Increase/ (decrease) in cash and cash equivalents used in operating activities before changes in operating assets and liabilities		8,773	6,244
Increase in loans and receivables		18,953	(66,541)
Decrease in due from credit institutions		-	295
(Increase)/decrease in available-for-sale financial assets		1,897	(10,046)
(Increase)/decrease in held-for-trading financial assets:			
Derivative financial instruments		11,661	(15,019)
(Increase)/decrease in other assets		43	(104)
Increase in deposits		154,698	37,819
Increase/(decrease) in due to credit institutions		(16,425)	92,068
Increase in other liabilities		1,083	99
Net increase/decrease in cash and cash equivalents from operating activities before income tax		180,683	44,815
Paid income tax		(477)	(531)
Net increase/decrease in cash and cash equivalents from operating activities		180,206	44,284
Cash outflow from investing activities			
Purchase of property, equipment and intangible assets		(800)	(1,909)
Sale of property, equipment and intangible assets		261	-
(Purchase)/ proceeds of/ from held-to-maturity investments		(1)	1,064
Decrease in cash and cash equivalents from investing activities		(540)	(845)
Cash flow from financing activities			
Increase/ (decrease) in subordinated liabilities		(1)	12,747
Increase/ (decrease) in cash and cash equivalents used in financing activities		(1)	12,747
Net increase/(decrease) in cash and cash equivalents		179,665	56,186
Cash and cash equivalents at the beginning of the year		(109,242)	(165,428)
Cash and cash equivalents at the end of the year	31	70,423	(109,242)

The accompanying notes on pages 25 - 63 form an integral part of these financial statements.

The financial statements on pages 19 - 63 have been authorized for issue by the Supervisory Board and the Management Board on 22 February 2010 and signed on their behalf by:



Carlo Marini
Chairman of the Supervisory Board



Ralf Cymanek
Chairman of the Management Board



Frank Marcus
Member of the Management Board

Statement of Changes In Equity

Statement of Changes In Equity

All amounts are in thousands of lats

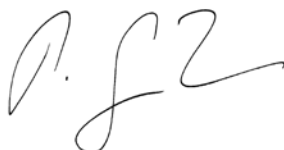
	SHARE CAPITAL	REVALUATION RESERVE FROM AVAILABLE-FOR- SALE FINANCIAL INSTRUMENTS	RETAINED EARNINGS	PROFIT/ (LOSS) FOR THE YEAR	TOTAL EQUITY
Balance as at 31 December 2007	41,729	8	3,385	3,455	48,577
Transfer of profit for 2007	-	-	3,455	(3,455)	-
Total comprehensive income	-	4	-	(2,726)	(2,722)
Balance as at 31 December 2008	41,729	12	6,840	(2,726)	45,855
Transfer of loss for 2008	-	-	(2,726)	2,726	-
Total comprehensive income	-	371	-	1,565	1,936
Balance as at 31 December 2009	41,729	383	4,114	1,565	47,791

The accompanying notes on pages 25 - 63 form an integral part of these financial statements.

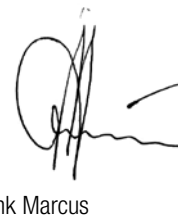
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Chairman of the Supervisory Board



Ralf Cymanek
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Frank Marcus
Member of the Management Board

Andrej Slokar,
INCOM d.o.o.
Corporate Banking Client - Slovenia

«In a year of global financial crisis, your excellent team enabled us to accomplish our goal of investing in ice cream production equipment. By doing this, you have actually helped us become more integrated into the greater EU economy. In your attitude and your judgment, one can sense a great deal of respect and responsibility for the economy and for entrepreneurs. Thank you.»

**It's easy with
UniCredit.**



Notes to the Financial Statements

1. BACKGROUND

These financial statements include the financial information of AS “UniCredit Bank” and its branches in Lithuania and Estonia (together referred to as the “Bank”).

AS “UniCredit Bank” is a Bank registered in Latvia. The address of the Bank’s registered office is Elizabetes iela 63, Riga, LV-1050, Latvia. The principal activities of the Bank are deposit taking and customer accounts maintenance, lending, issuing guarantees, cash and settlement operations and operations with securities and foreign exchange. The activities of the Bank are regulated by the Bank of Latvia and the Financial and Capital Market Commission (“FCMC”). The Bank has 2 branches which enables it to conduct business throughout the Baltic states. The average number of people employed by the Bank during the year was 202 (2008: 201).

Shareholders

The Bank is wholly-owned by UniCredit Bank Austria AG (the “Shareholder Bank”). A significant portion of the Bank’s funding is provided by the Shareholder Bank. As a result the Bank is economically dependent upon the Shareholder Bank. In addition, the activities of the Bank are closely linked with the requirements of the Shareholder Bank and determination of the pricing of the Bank’s services to the Shareholder Bank is undertaken at arm’s length principle. Related party transactions are detailed in Note 32.

2. BASIS OF PREPARATION

Statement of compliance

The financial statements of the Bank have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union, and regulations of the Financial and Capital Market Commission in force as at balance sheet date.

The financial statements were authorised for issue by the Management Board on 22 February 2010. The financial statements may be amended by the Shareholder Bank.

Basis of measurement

The financial statements have been prepared on the historical cost basis except for the following items: financial assets and liabilities carried at fair value through profit or loss, available for sale assets and investment property are measured at fair value except those whose fair value cannot be reliably estimated.

Functional and Presentation Currency

The financial statements are presented in the Bank’s functional currency, in thousands of lats (LVL 000’s), unless otherwise stated. Functional currency for branches in Lithuania and Estonia are litas and Estonian kroon, respectively.

Changes in accounting policies

Presentation of financial statements

The Bank applies revised IAS 1 Presentation of Financial Statements (2007), which became effective as at 1 January 2009. As a result, the Bank presents in the Statement of changes in equity all owner changes in equity, whereas all non-owner changes in equity are presented in the statement of comprehensive income.

Comparative information has been re-presented so that it also is in conformity with the revised standard.

3. SIGNIFICANT ACCOUNTING POLICIES

The following significant accounting policies have been applied in the preparation of the financial statements. The accounting policies have been consistently applied except for the changes in accounting policies described in Note 2.

(a) Goodwill

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

Notes to the Financial Statements (CONTINUED)

A difference between the consideration paid to acquire a minority interest, and the carrying amount of that minority interest, is recognised as goodwill.

Goodwill is allocated to cash-generating units and is stated at cost less impairment losses.

Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired and is carried at cost less accumulated impairment losses. Gains or losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

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

(b) Foreign currency

FOREIGN CURRENCY TRANSACTIONS

Transactions in foreign currencies are translated into the respective functional currency of the operation at the exchange rate set by Central banks at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated into the functional currency at the spot exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated into the functional currency at the spot exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale financial (debt) instruments or a financial liability designated as the hedging instrument in a hedge of the net investment in a foreign operation or in a qualifying cash flow hedge, which are recognised in other comprehensive income.

FOREIGN OPERATIONS

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated into LVL at exchange rates set by Bank of Latvia at the reporting date. The income and expenses of foreign operations are translated into LVL at average exchange rates.

Foreign exchange gains or losses arising from a monetary item receivable from or payable to a foreign operation, the settlement of which is neither planned nor likely in the foreseeable future and which in substance is considered to form part of the net investment in the foreign operation, are recognised directly in the foreign currency translation reserve.

(c) Cash and cash equivalents

Cash and cash equivalents include notes and coins on hand, unrestricted balances held with central banks and highly liquid financial assets with original maturities of less than three months, which are subject to insignificant risk of changes in their fair value, and are used by the Bank in the management of its short-term liabilities and commitments.

(d) Financial instruments

CLASSIFICATION

Financial instruments at fair value through profit or loss are financial assets or liabilities that are acquired or incurred principally for the purpose of selling or repurchasing in the near term; or that are part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking; or that are a derivative (except for a derivative that is a designated and effective hedging instrument); or that are upon initial recognition, designated by the entity as at fair value through the profit or loss.

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Bank has the positive intention and ability to hold to maturity, and which are not designated at fair value through profit or loss, or available for sale.

Available-for-sale assets are those financial assets that are designated as available-for-sale or are not classified as loans and receivables, held-to-maturity investments or financial instruments at fair value through profit or loss.

Notes to the Financial Statements (CONTINUED)

RECOGNITION

Financial assets and liabilities are recognized in the statement of financial position when the Bank becomes a party to the contractual provisions of the instrument. All regular way purchases of financial assets are accounted for at the settlement date.

MEASUREMENT

A financial asset or liability is initially measured at its fair value plus, in the case of a financial asset or liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or liability.

Subsequent to initial recognition, financial assets, including derivatives that are assets, are measured at their fair values, without any deduction for transaction costs that may be incurred on sale or other disposal, except for:

- held-to-maturity investments and loans and receivables that are measured at amortized cost using the effective interest method; and
- investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured which are measured at cost.

All financial liabilities, other than those designated at fair value through profit or loss and financial liabilities that arise when a transfer of a financial asset carried at fair value does not qualify for derecognition, are measured at amortised cost. Amortised cost is calculated using the effective interest method. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortised based on the effective interest rate of the instrument.

FAIR VALUE MEASUREMENT PRINCIPLES

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction on the measurement date.

When available, the Bank measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis.

If a market for a financial instrument is not active, the Bank establishes fair value using a valuation technique. Valuation techniques include using recent arm's length transactions between knowledgeable, willing parties (if available), reference to the current fair value of other instruments that are substantially the same, discounted cash flow analyses and option pricing models. The chosen valuation technique makes maximum use of market inputs, relies as little as possible on estimates specific to the Bank, incorporates all factors that market participants would consider in setting a price, and is consistent with accepted economic methodologies for pricing financial instruments. Inputs to valuation techniques reasonably represent market expectations and measures of the risk-return factors inherent in the financial instrument. The Bank calibrates valuation techniques and tests them for validity using prices from observable current market transactions in the same instrument or based on other available observable market data.

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price, i.e., the fair value of the consideration given or received, unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e., without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets. When transaction price provides the best evidence of fair value at initial recognition, the financial instrument is initially measured at the transaction price and any difference between this price and the value initially obtained from a valuation model is subsequently recognised in statement of comprehensive income (available-for-sale only) depending on the individual facts and circumstances of the transaction but not later than when the valuation is supported wholly by observable market data or the transaction is closed out.

Assets and long positions are measured at a bid price; liabilities and short positions are measured at an asking price. Where the Bank has positions with offsetting risks, mid-market prices are used to measure the offsetting risk positions and a bid or asking price adjustment is applied only to the net open position as appropriate. Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Bank and counterparty where appropriate. Fair value estimates obtained from models are adjusted for any other factors, such as liquidity risk or model uncertainties, to the extent that the Bank believes a third-party market participant would take them into account in pricing a transaction.

For further analysis of basis for fair value see Note 20 – Classification and fair value of financial instruments.

Notes to the Financial Statements (CONTINUED)

GAINS AND LOSSES ON SUBSEQUENT MEASUREMENT

A gain or loss arising from a change in the fair value of a financial asset or liability is recognized as follows:

- a gain or loss on a financial instrument classified as at fair value through profit or loss is recognized in the income statement;
- a gain or loss on an available-for-sale financial asset is recognized in other comprehensive income (except for impairment losses and foreign exchange gains and losses on debt financial instruments) until the asset is derecognized, at which time the cumulative gain or loss previously recognised in equity is recognized in the income statement. Interest in relation to an available-for-sale financial asset is recognized as earned in the income statement calculated using the effective interest method.

For financial assets and liabilities carried at amortised cost, a gain or loss is recognized in the income statement when the financial asset or liability is derecognized or impaired, and through the amortization process.

DERECOGNITION

A financial asset is derecognised when the contractual rights to the cash flows from the financial asset expire or when the Bank transfers substantially all of the risks and rewards of ownership of the financial asset. Any rights or obligations created or retained in the transfer are recognized separately as assets or liabilities. A financial liability is derecognised when it is extinguished.

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

REPURCHASE AND REVERSE REPURCHASE AGREEMENTS

Securities sold under sale and repurchase (“repo”) agreements are accounted for as secured financing transactions, with the securities retained in the statement of financial position and the counterparty liability included in amounts payable under repo transactions. The difference between the sale and repurchase price represents interest expense and is recognized in the income statement over the term of the repo agreement using the effective interest rate method.

Securities purchased under agreements to resell (“reverse repo”) are recorded as amounts receivable under reverse repo transactions. The differences between the purchase and resale prices are treated as interest income and accrued over the term of the reverse repo agreement using the effective interest method.

If assets purchased under agreement to resell are sold to third parties, the obligation to return securities is recorded as a trading liability and measured at fair value.

DERIVATIVE FINANCIAL INSTRUMENTS

Derivative financial instruments include swap, forward, futures and options in interest rate, foreign exchange, precious metals and stock markets, and any combinations of these instruments.

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. All derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative.

Changes in the fair value of derivatives are recognised immediately in the statement of income.

Although the Bank trades in derivative instruments for risk hedging purposes, the Bank does not adopt hedge accounting.

OFFSETTING

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

(e) Loans and receivables

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

For the purposes of these financial statements, loans and advances include regular loans, credit card balances, and are accounted for at amortized cost using the effective interest method. Certain expenses, such as legal fees or sales commissions for employees acting as agents or other expenses that are incurred in securing a loan are treated as part of the cost of the transaction.

Notes to the Financial Statements (CONTINUED)

An impairment loss allowance for credit losses is established. For the policy see Note 12 – Impairment losses and Note 18 – Loans and receivables.

(f) Property and equipment

OWNED ASSETS

Items of property and equipment are stated at cost less accumulated depreciation and impairment losses, except for buildings which are stated at revalued amounts as described below.

Where an item of property and equipment comprises major components having different useful lives, they are accounted for as separate items of property and equipment.

DEPRECIATION

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of the individual assets. Depreciation commences on the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and ready for use. Land is not depreciated. The estimated useful lives are as follows:

Equipment	1 to 5 years
Fixtures and fittings	5 to 10 years
Vehicles	5 years
Computer software	3 to 5 years

(g) Repossessed assets

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

(h) Investment property

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes. Investment property is measured at fair value with any change therein recognised in profit or loss in other operating income.

(i) Intangible assets

Intangible assets, which are acquired by the Bank, are stated at cost less accumulated amortisation and impairment losses. Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets.

(j) Investment in associate

Associates are those entities in which the Company has significant influence, but no control, over the financial and operating policies. Significant influence is presumed to exist when the Company holds between 20 to 50 percent of the voting power of another entity. Investment in associate is accounted on cost basis.

(k) Impairment

FINANCIAL ASSETS

At each reporting date the Bank assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. Financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial

Notes to the Financial Statements (CONTINUED)

recognition of the asset, and that the loss event has an impact on the future cash flows of the asset that can be estimated reliably. Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency by a borrower, restructuring of a loan or advance by the Bank on terms that the Bank would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the group. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

The Bank considers evidence of impairment for loans and advances and held-to-maturity investment securities at both a specific asset and collective level. All individually significant loans and advances and held-to-maturity investment securities are assessed for specific impairment. All individually significant loans and advances and held-to-maturity investment securities found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Loans and advances and held-to-maturity investment securities that are not individually significant are collectively assessed for impairment by grouping together loans and advances and held-to-maturity investment securities with similar risk characteristics.

In assessing collective impairment the Bank uses statistical modelling of historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical modelling. Default rates, loss rates and the expected timing of future recoveries are regularly benchmarked against actual outcomes to ensure that they remain appropriate.

Impairment losses on assets carried at amortised cost are measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against loans and advances. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Impairment losses on available-for-sale investment securities are recognised by transferring the cumulative loss that has been recognised in other comprehensive income to profit or loss. The cumulative loss that is removed from equity and recognised in profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised in statement of comprehensive income. Changes in impairment provisions attributable to time value are reflected as a component of interest income.

If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed, with the amount of the reversal recognised in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised in other comprehensive income.

NON-FINANCIAL ASSETS

The carrying amounts of the Bank's non-financial assets, other than investment property, land and buildings presented under property, and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated. The recoverable amount of goodwill is estimated at each reporting date.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Notes to the Financial Statements (CONTINUED)

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(l) Provisions

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

(m) Credit related commitments

In the normal course of business, the Bank enters into credit related commitments, comprising undrawn loan commitments, letters of credit and guarantees, and provides other forms of credit insurance.

Financial guarantees are contracts that require the Bank to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

A financial guarantee liability is recognised initially at fair value net of associated transaction costs, and is measured subsequently at the higher of the amount initially recognised less cumulative amortisation or the amount of provision for losses under the guarantee. Provisions for losses under financial guarantees and other credit related commitments are recognised when losses are considered probable and can be measured reliably.

(n) Dividends

The ability of the Bank to declare and pay dividends is subject to the rules and regulations of the Latvian legislation.

Dividends in relation to ordinary shares are reflected as an appropriation of retained earnings in the period when they are declared.

(o) Taxation

Income tax expense comprises current and deferred tax. Income tax expense is recognised in the income statement except to the extent that it relates to items recognised directly in equity or in other comprehensive income.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries to the extent that they probably will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Notes to the Financial Statements (CONTINUED)

(p) Income and expense recognition

With the exception of financial assets held for trading and other financial instruments at fair value through profit or loss, interest income and expense are recognised in the income statement using the effective interest method. Interest income on financial assets held for trading and on other financial instruments at fair value through profit or loss comprises coupon interest only.

Accrued discounts and premiums on financial instruments at fair value through profit or loss are recognised in gains less losses from financial instruments at fair value through profit or loss, respectively.

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

Other fees, commissions and other income and expense items are recognised when the corresponding service has been provided. Dividend income is recognised in the income statement on the date that the dividend is declared.

(q) Employee benefits

TERMINATION BENEFITS

Termination benefits are recognized as an expense when the Bank is committed demonstrably, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognized as an expense if the Bank has made an offer of voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably. If benefits are payable more than 12 months after the reporting period, then they are discounted to their present value.

SHORT-TERM EMPLOYEE BENEFITS

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service provider. A liability is recognized for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Bank has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

(r) Adoption of new and/or changed IFRSs and IFRIC interpretations

STANDARDS ISSUED AND ADOPTED BY THE BANK

- IAS 1 (revised), 'Presentation of financial statements'. The revised standard prohibits the presentation of items of income and expenses (that is 'non-owner changes in equity') in the statement of changes in equity, requiring 'non-owner changes in equity' to be presented separately from owner changes in equity. All 'non-owner changes in equity' are required to be shown in a statement of comprehensive income.
The Bank has elected to present a combined single statement comprised of an income statement and a statement of comprehensive income.
Comparative information has been re-presented so that it also is in conformity with the revised standard. Since the change in accounting policy only impacts presentation aspects, there is no impact on earnings per share.
- Amendments to IFRS 7 Financial Instruments: Disclosures (effective for annual periods beginning on or after 1 January 2009) aim at requiring enhanced disclosures about fair value measurements and liquidity risk associated with financial instruments. These amendments have been adopted by the Bank to the extent applicable to the Bank's operations. Comparative information has been re-presented so that it also is in conformity with the revised standard.

NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2009, and have not been applied in preparing these financial statements:

- Revised IFRS 3 Business Combinations (effective for annual periods beginning on or after 1 July 2009;) introduces a number of changes in the accounting for business combinations that will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results. As the revised Standard should not be applied to business combinations prior to the date of adoption, the revised Standard is expected to have no impact on the financial statements with respect to business combinations that occur before the date of adoption of the revised Standard.

Notes to the Financial Statements (CONTINUED)

- Amended IAS 27 Consolidated and Separate Financial Statements (effective for annual periods beginning on or after 1 July 2009,) requires the term minority interest to be replaced by non-controlling interest, which is defined as “the equity in a subsidiary not attributable, directly or indirectly, to a parent”. The revised Standard also amends the accounting for non-controlling interest, the loss of control of a subsidiary, and the allocation of profit or loss and other comprehensive income between the controlling and non-controlling interest. Revised IAS 27 is not relevant to the Bank’s financial statements as the Bank does not have any interests in subsidiaries that will be affected by the revisions to the Standard.
- Amendment to IAS 39, Financial Instruments: Recognition and Measurement – Eligible Hedged Items (effective for annual periods beginning on or after 1 July 2009): clarifies the application of existing principles that determine whether specific risks or portions of cash flows are eligible for designation in a hedging relationship. In designating a hedging relationship the risks or portions must be separately identifiable and reliably measurable; however, inflation cannot be designated, except in limited circumstances. The amendments to IAS 39 are not relevant to the Banks financial statements as the Bank does not apply hedge accounting.
- IFRIC 12 Service Concession Agreements (effective for annual financial statements for periods beginning on or after 1 January 2008, as issued by IASB; but effective for periods on or after 1 April 2009, as adopted by EU) applies to service concession operators that are private sector entities operating under public-to-private service concession arrangements. This interpretation explains how to account for the obligations undertaken and rights received in service concession arrangements. As the Bank does not operate under service concession agreements, this Interpretation does not have any impact on the Bank’s results of operations and financial position.
- IFRIC 15 Agreements for the Construction of Real Estate (effective for annual periods beginning on or after 1 January 2009, as issued by IASB, but effective for annual periods beginning on or after 1 January 2010, as adopted by EU): IFRIC 15 clarifies that revenue arising from agreements for the construction of real estate is recognised by reference to the stage of completion of the contract activity in the following cases: the agreement meets the definition of a construction contract in accordance with IAS 11.3, the agreement is only for the rendering of services in accordance with IAS 18 (e.g., the entity is not required to supply construction materials); and the agreement is for the sale of goods but the revenue recognition criteria of IAS 18.14 are met continuously as construction progresses. In all other cases, revenue is recognised when all of the revenue recognition criteria of IAS 18.14 are satisfied (e.g., upon completion of construction or upon delivery). IFRIC 15 is not relevant to the Bank’s financial statements as the Bank does not provide real estate construction services or develop real estate for sale.
- IFRIC 16 Hedges of a Net Investment in a Foreign Operation (effective for annual periods beginning on or after 1 October 2008, as issued by IASB, but effective for annual periods beginning on or after 1 July 2009, as adopted by EU): the Interpretation explains the type of exposure that may be hedged, where in the group the hedged item may be held, whether the method of consolidation affects hedge effectiveness, the form the hedged instrument may take and which amounts are reclassified from equity to profit or loss on disposal of the foreign operation. IFRIC 16, which becomes mandatory for the Bank’s 2010 financial statements, applies prospectively to the Bank’s existing hedge relationships and net investments. The Bank is currently in the process of evaluating the potential effect of this Interpretation.
- IFRIC 17 Distributions of Non-cash Assets to Owners (effective prospectively for annual periods beginning on or after 1 July 2009, as issued by IASB, but effective prospectively for annual periods beginning on or after 1 November 2009, as adopted by EU): the Interpretation applies to non-reciprocal distributions of non-cash assets to owners acting in their capacity as owners. In accordance with the Interpretation a liability to pay a dividend shall be recognised when the dividend is appropriately authorised and is no longer at the discretion of the entity and shall be measured at the fair value of the assets to be distributed. The carrying amount of the dividend payable shall be remeasured at each reporting date, with any changes in the carrying amount recognised in equity as adjustments to the amount of the distribution. When the dividend payable is settled the difference, if any, between the carrying amount of the assets distributed and the carrying amount of the dividend payable shall be recognised in the statement of comprehensive income. As the Interpretation is applicable only from the date of application, it will not impact on the financial statements for periods prior to the date of adoption of the interpretation. Further, since it relates to future dividends that will be at the discretion of the shareholders it is not possible to determine the effects of application in advance.
- IFRIC 18 Transfers of Assets from Customers (effective prospectively for annual reports beginning on or after 1 July 2009, as issued by IASB, but effective prospectively for annual periods beginning on or after 1 November 2009, as adopted by EU): the Interpretation provides clarification and guidance on the accounting for transfers of items of property, plant and equipment from customers, or cash to acquire or construct an item of property, plant and equipment. As the Interpretation is applicable only from the date of application, it will not impact on the financial statements for periods prior to the date of adoption of the interpretation.
- Amendment to IAS 32 Financial instruments: Presentation – Classification of Rights Issues (effective for annual periods beginning on or after 1 February 2010) clarifies how to account for certain rights when the issued instruments are denominated in a currency other than the functional currency of the issuer. If such instruments are issued pro rata to the issuer’s existing shareholders for a fixed amount of cash, they should be classified as equity even if their exercise price is denominated in a currency other than the issuer’s functional currency. The amendment is not relevant to the Bank’s financial statements as the Bank has not issued such instruments at any time in the past.

Notes to the Financial Statements (CONTINUED)

(s) Comparative information

Comparative figures for the year 2008 have been reclassified to conform with changes in presentation in the current year.

4. RISK MANAGEMENT

The Bank has exposure to the following risks from financial instruments:

- market risks
- credit risk
- liquidity risk
- operational risk

This note presents information about the Bank's exposure to each of the above risks, the Bank's objectives, policies and processes from measuring and managing risk.

(a) Risk management policies and procedures

The Bank's risk management policies aim to identify, analyse and manage the risks faced by the Bank, to set appropriate risk limits and controls, and to continuously monitor risk levels and adherence to limits. Risk management policies and procedures are reviewed to reflect changes in market conditions, products and services offered and emerging best practice.

The Management Board of the Bank has overall responsibility for the oversight of the risk management framework, overseeing the management of key risks and reviewing its risk management policies and procedures as well as approving significantly large exposures. The risk control function of the Bank is separated from the Bank's business structures. There are three risk units established with the Bank – Credit Operations Department, Operational Risk Unit and Market Risk Unit, all of which are reporting directly to Chief Risk Officer ("CRO"). The Management Board of the Bank is responsible for monitoring and implementation of risk mitigation measures and making sure that the Bank operates within the established risk parameters. Chief Risk Officer (further "CRO") together with the Head of Credit Operations of the Bank's country units in Estonia, Latvia and Lithuania are responsible for the overall risk management function, ensuring the implementation of common principles and methods for identifying, measuring, managing financial and non-financial risks. Head of Credit Operations report directly to CRO, whereas CRO reports to the Chief Executive Officer (further "CEO") of the Bank and indirectly to the Bank's Supervisory Board. Credit, market and liquidity risks both at portfolio and transactional levels are managed and controlled through a system of Credit Committees and an Asset and Liability Management Committee. In order to facilitate efficient decision-making, the Bank has established a hierarchy of credit committees depending on the type and amount of the exposure.

Both external and internal risk factors are identified and managed throughout the Bank's organisational structure. Particular attention is given to developing risk maps that are used to identify the full range of risk factors and serve as a basis for determining the level of assurance over the current risk mitigation procedures. Apart from the standard credit and market risk analysis, the Credit Operations monitors financial and non-financial risks by holding regular meetings within the operational units in order to obtain expert judgments in their areas of expertise.

(b) Market risks

Market risk is the risk that movements in market prices, including foreign exchange rates, interest rates, credit spreads and equity prices will affect the Bank's income or the value of its portfolios. Market risks comprise currency risk, interest rate risk and other price risk. Market risk arises from open positions in interest rate, currency and debt financial instruments, which are exposed to general and specific market movements and changes in the level of volatility of market prices.

The objective of market risk management is to manage and control market risk exposures within acceptable parameters, whilst optimising the return on risk.

Overall authority for market risk is vested in the Asset and Liability Committee (ALCO), chaired by the Chief Financial Officer (further "CFO") of the Bank. Market risk limits are approved by ALCO based on recommendations of the Market Risk Management unit.

The Bank manages its market risk by setting open position limits in relation to financial instrument, interest rate maturity and currency positions and stop-loss limits which are monitored on a regular basis and reviewed and approved by ALCO.

Notes to the Financial Statements (CONTINUED)

In addition, the Bank uses a wide range of stress tests to model the financial impact of a variety of exceptional market scenarios on individual trading portfolios and the Bank's overall position. Stress tests provide an indication of the potential size of losses that could arise in extreme conditions. The stress tests carried out by the Bank include: risk factor stress testing, where stress movements are applied to each risk category and ad hoc stress testing, which includes applying possible stress events to specific positions. Those stress tests are carried out in compliance with Bank's shareholder requirements.

The management of interest rates risk by monitoring interest rate gap is supplemented by monitoring the sensitivity of the Bank's net interest margin to various standard and non-standard interest rate scenarios.

Interest rate risk

Interest rate risk ("IRR") is defined as a risk of sudden unfavourable changes in interest rates that might affect the revenue generated by the Bank. The risk arises because of the differences in the maturity terms of the bank's assets and liabilities, or because of the adjustment of the interest rates thereof on a regular basis. Interest risk management includes analysis and management of the interest risk of all of the Bank's assets and liabilities.

The Bank measures the IRR daily via basis point value and value at risk limits as well as makes the IRR stress tests using the interest rate parallel/non-parallel shifts on monthly basis.

Financial assets available for sale are not significantly sensitive to interest rate changes as the portfolio consists mainly of Latvian Government T-Bills with tenor up to 1 year as at 31 December 2009 and 2008.

Currency risk

Currency risk is defined as a risk arising from the differences in the currency structure of the Bank's assets and liabilities. Changes in currency exchange rates cause changes in the value of assets and liabilities as well as the amount of revenue and expenses calculated in local currency. As a rule, the Bank holds the minimum foreign currency positions necessary for rendering services to customers. All foreign currency positions are monitored regularly according to the Financial Market rule book and FCMC rules, and estimated also at book and market value. The foreign currency positions are mainly covered by swap and forward transactions. For further information on the Bank's exposure to currency risk at year end refer to Note 34 – Currency analysis.

20 percent devaluation of the LVL against the following currencies as at 31 December would have increased (decreased) net profit and equity by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2009 and 2008:

'000 LVL	PROFIT OR LOSS
31 December 2009	
USD	9
EUR	(11)
31 December 2008	
USD	(14)
EUR	154

A 20 percent appreciation of the lat against the above currencies at 31 December would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

Notes to the Financial Statements (CONTINUED)

Price risk

Price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual instrument or factors affecting all instruments traded in the market. Price risk arises when the Bank takes a long or short position in a financial instrument. The Bank at 31 December maintained long position in LV Government T-Bills. An analysis of sensitivity of the Bank's net income for the year and equity to changes in securities prices based on positions existing as at 31 December 2009 and 2008 and a simplified scenario of a 5% change in all securities prices is as follows:

	2009		2008	
	NET INCOME	EQUITY	NET INCOME	EQUITY
5% increase in securities prices	-	495	-	577
5% decrease in securities prices	-	(495)	-	(577)

(c) Credit risk

Credit risk is the risk of financial loss occurring as a result of default by a borrower or counterparty on their obligation to the Bank. The Bank has developed policies and procedures for the management of credit exposures (both for on balance sheet and off balance sheet exposures), including guidelines to limit portfolio concentration and the establishment of Credit approval authorities, which actively monitors the Bank's credit risk. The Bank's credit policy is regularly reviewed and approved by the Management Board.

The Bank's credit policy establishes:

- Procedures for review and approval of loan/credit applications;
- Methodology for the credit assessment of borrowers (corporate, SME, commercial real estate and retail);
- Methodology for the assessment of counterparties, appraisal and insurance companies;
- Methodology for the evaluation of collateral;
- Credit documentation requirements;
- Procedures for the ongoing monitoring of loans and other credit exposures.

Corporate credit applications are originated by the relevant client managers and are then passed on to Credit Operations, which is responsible for the Bank's corporate loan portfolio. Risk assessment reports produced by the credit analysts are based on a structured analysis focusing on the customers' business and financial performance. The credit application and the risk assessment report, as part of the credit application, are then independently reviewed by the credit approval authority. The credit approval authority also checks that credit policy requirements have been met. Individual transactions are also reviewed by the Bank's product specialists or legal department depending on the specific risks and pending final approval of the Credit approval authorities.

Retail and real estate credit applications are reviewed by the Bank's Real Estate Finance unit through the use of scoring models and application data verification procedures developed together with Credit Operations.

The Bank continuously monitors the performance of individual credit exposures and regularly reassesses the creditworthiness of its customers. The review is based on the customer's most recent financial statements and other information submitted by the borrower, or otherwise obtained by the Bank. The current market value of collateral is regularly assessed by either independent appraisal companies or the Bank's specialists.

To assess the credit risk of the customers, the Bank has several scoring modules in place. For scoring of corporate customers, the Bank uses UniCredit Bank Austria AG scale, according to which customers are classified in one out of 10 risk classes, where 1 is the lowest risk, while 10 indicates the highest risk of failure. Separate scoring cards are used for private banking, real estate and trade finance customers.

Apart from individual customer analysis, the whole credit portfolio is assessed by CRO with regard to credit concentration and market risks. The Bank's maximum exposure to credit risk is generally reflected in the carrying amounts of financial assets on the balance sheet. The impact of possible netting of assets and liabilities to reduce potential credit exposure is not significant.

CRO monitors concentrations of credit risk by industry/sector and by geographic location. For the analysis of concentration of credit risk with respect to loans and receivables of customers refer to Note 18 – Loans and receivables.

Notes to the Financial Statements (CONTINUED)

(d) Liquidity risk

Liquidity risk is the risk that the Bank will encounter difficulty in raising funds to meet its commitments. Liquidity risk exists when the maturities of assets and liabilities do not match. The matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of financial institutions, including the Bank. It is unusual for financial institutions ever to be completely matched since business transacted is often of an uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses.

The Bank maintains liquidity management with the objective of ensuring that funds will be available at all times to honour all cash flow obligations as they become due. The Bank's liquidity policy is reviewed and approved by the Management Board.

The Bank seeks to actively support a diversified and stable funding base comprising debt securities in issue, long-term and short-term loans from other banks, core corporate and retail customer deposits, accompanied by diversified portfolios of highly liquid assets, in order to be able to respond quickly and smoothly to unforeseen liquidity requirements.

The liquidity management policy of the Bank requires:

- projecting cash flows by major currencies and considering the level of liquid assets necessary in relation thereto;
- maintaining a diverse range of funding sources;
- managing the concentration and profile of debts;
- maintaining debt financing plans;
- maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any interruption to cash flow;
- maintaining liquidity and funding contingency plans;
- monitoring balance sheet liquidity ratios against regulatory requirements.

The ALM/Treasury Department receives information from business units regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. The ALM/Treasury Department then provides for an adequate portfolio of short-term liquid assets to be maintained, largely made up of short-term liquid trading securities, loans to banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Bank as a whole.

The daily liquidity position is monitored and regular liquidity stress testing under a variety of scenarios covering both normal and more severe market conditions is performed by the Market Risk Unit – Under the normal market conditions, liquidity reports covering the liquidity position of the Bank are presented to ALCO Committee on a monthly basis. Decisions on the Bank's liquidity management are made by the Asset and Liability Management Committee and implemented by the Treasury Department.

The Bank calculates mandatory liquidity ratios on a daily basis in accordance with the requirement of the Financial and Capital Market Commission. The Bank was in compliance with these ratios during the twelve-month period ended 31 December 2009 and 31 December 2008. For maturity analysis of the Bank as at 31 December 2009 and 2008, refer to Note 35 - Maturity analysis.

(e) Operational risk

Operational risk is the risk of loss due to errors, infringements, interruptions, damages caused by internal processes or personnel or systems or caused by external events. This definition includes legal and compliance risks, but excludes strategic and reputational risk.

Operational events are those resulting from inadequate or failed internal processes, personnel and systems or from systematic and other external events: internal or external fraud, employment practices and workplace safety, clients' claims, products distribution, fines and penalties due to regulation breaches, damage to Bank's physical assets, business disruption and system failures, process management.

The Bank's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Bank's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

The Bank's operational risk management framework is a set of policies and procedures for controlling, measuring and mitigating the operational risk of the Bank and its branches in Estonia and Lithuania. The operational risk policies are common principles defining the roles of the Bank's bodies, the operational risk management function as well as the relationship with other functions in the Bank.

Notes to the Financial Statements (CONTINUED)

Operational risk policies (Rulebook and Procedures) are developed in line with UniCredit Group and UniCredit Bank Austria AG requirements and National Regulations, and approved by the Management Board. The methodology for data classification and completeness, scenario analysis, risk indicators and capital at risk measurement is set by UniCredit Group operational risk management function and applies to the Bank.

Operational risk management and its compliance with procedures are supervised by the CRO and in addition operational risk management office of UniCredit Bank Austria AG. The compliance with Bank standards is supported by a programme of periodic reviews undertaken by Internal Audit.

As a part of regular and comprehensive reporting, the Management Board is kept informed on any loss event that occur and important operational risks and their management.

The Bank applies Standardised Approach to calculate capital requirement for operational risk. Business operations are mapped to the relevant business lines and capital charges are calculated.

The Bank has developed a Business Continuity Plan and Disaster Recovery Plan for uninterrupted operation to overcome emergency cases and resume normal operation of the Bank. The plans are updated annually. Substantial operational risks are covered with relevant insurance.

5. CAPITAL MANAGEMENT

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

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

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

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

Capital adequacy refers to the sufficiency of the Bank's capital resources to cover the credit risk, market risk and operational risk arising from the portfolio of assets of the Bank and the memorandum items' exposures of the Bank.

In accordance with the Financial and Capital Market Commission's requirements, the Bank's risk based capital adequacy ratio as at 31 December 2009 was 9.5% (2008: 9.95%).

The Financial and Capital Market Commission requirements are principally consistent with the Basel Committee guidelines and the European Union directives for the calculation of equity to be utilised in the capital adequacy ratio. Based on these requirements set by the Financial and Capital Market Commission, the Bank's equity to be utilised in the capital adequacy ratio as at 31 December 2009 has been calculated as follows below:

DESCRIPTION	AMOUNTS	TOTAL PER TIER
Tier 1		
- Share capital	41,729	
- Retained earnings from prior years	4,114	
- Current year profit	1,565	
Less		
- Intangible assets	(9,291)	
Total Tier 1 for the Bank	38,117	38,117

Notes to the Financial Statements (CONTINUED)

Tier 2		
- Subordinated capital (unamortized portion)	15,846	
Total Tier 2 for the Bank	15,846	15,846
Total capital		53,963
Capital required		45,432
Total capital adequacy ratio		9,5%

Based on these requirements set by the Financial and Capital Market Commission, the Bank's equity to be utilised in the capital adequacy ratio as at 31 December 2008 has been calculated as follows below:

DESCRIPTION	AMOUNTS	TOTAL PER TIER
Tier 1		
- Share capital	41,729	
- Retained earnings from prior years	6,840	
- Current year profit	(2,726)	
Less		
- Intangible assets	(10,750)	
Total Tier 1 for the Bank	35,093	35,093

Tier 2		
- Subordinated capital (unamortized portion)	18,730	
- Deductions from the capital base	(1,183)	
Total Tier 2 for the Bank	17,547	17,547
Total capital		52,640
Capital required		42,311
Total capital adequacy ratio		9.95%

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

6. USE OF ESTIMATES AND JUDGEMENTS

The preparation of financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period, in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

KEY SOURCES OF ESTIMATION UNCERTAINTY:

Allowances for credit losses

Total allowances for impairment applies to financial assets evaluated individually for impairment and is based upon management's best estimate of the present value of the cash flows that are expected to be received. In estimating these cash flows, management makes judgements about a counterparty's financial situation and the net realisable value of any underlying collateral. Each impaired asset is assessed on its merits, and the workout strategy and estimate of cash flows considered recoverable are independently approved by the Credit Risk function.

Valuation of financial instruments

The determination of fair value for financial assets and liabilities for which there is no observable market price requires the use of valuation techniques as described in accounting policy. For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgement depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

Notes to the Financial Statements (CONTINUED)

Impairment of financial instruments

The determination of impairment indication is based on comparison of the financial instrument's carrying value and fair value. Due to downturns in the financial and capital markets, the market price (if the market is inactive) is not always a reliable source for impairment indication. The Bank uses valuation models based on quoted market prices of similar products.

For the purposes of impairment loss measurement, the Bank's management makes estimates of any expected changes in future cash flows from a specific financial instrument based on analysis of financial position of the issuer of the financial instrument.

Impairment of goodwill

Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired and is carried at cost less accumulated impairment losses.

DETERMINING FAIR VALUES

The determination of fair value for financial assets and liabilities for which there is no observable market price requires the use of valuation techniques as described in accounting policy, note 3. For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgement depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

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

	PUBLISHED PRICE QUOTATIONS (1)	VALUATION TECHNIQUES BASED ON MARKET OBSERVABLE INPUTS (2)	TOTAL
2009			
Financial assets			
Available for sale assets	9,893	-	9,893
Derivative financial instruments	-	3,258	3,258
	9,893	3,258	13,151
Financial liabilities			
Derivative financial instruments	-	624	624
	-	624	624
2008			
Financial assets			
Available for sale assets	11,790	-	11,790
Derivative financial instruments	-	18,074	18,074
	11,790	18,074	29,864
Financial liabilities			
Derivative financial instruments	-	3,770	3,770
	-	3,770	3,770

(1) quotes in an active market. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency and those prices represent actual and regularly occurring market transactions on an arm's length basis. Main asset classes included in this category are financial assets for which the fair value is obtained via pricing vendors or binding broker quotes and assets for which the fair value is determined by reference to indices.

(2) Included in this category are financial assets and liabilities that are measured using a valuation technique based on assumptions that are supported by prices from observable current market transactions in the same instrument or based on available market data. Main asset classes included in this category are financial assets for which pricing is obtained via pricing services but where prices have not been determined in an active market, financial assets with fair values based on broker quotes, investments in hedge funds private equity funds with fair value obtained via fund managers and assets that are valued using own models whereby the majority of assumptions are market observable.

Current market situation

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

Notes to the Financial Statements (CONTINUED)

7. INTEREST INCOME

	2009	2008
Interest income on loans and receivables:		
- on loans and receivables to non-banking customers	29,918	36,731
- on balances due from credit institutions	1,266	4,033
- other interest income	1,074	1,061
Interest income on held-to-maturity investments:		
- on bonds and other fixed income securities	151	270
Interest income on available-for-sale securities:		
- on bonds and other fixed income securities	539	338
Total interest income	32,948	42,433

8. INTEREST EXPENSE

	2009	2008
Interest expense on liabilities at amortised cost:		
- on balances due to credit institutions	(12,457)	(22,534)
- on deposits from non-banking customers	(10,452)	(3,554)
- subordinated liabilities	(534)	(288)
- other	(592)	(282)
Total interest expense	(24,035)	(26,658)

9. FEE AND COMMISSION INCOME

	2009	2008
Commission and fee income:		
- on guarantees	749	486
- on money transfers	393	326
- on account maintenance	89	84
- on loan granting	194	37
- on cash transactions	29	35
- other	133	229
Total commission and fee income	1,587	1,197

10. FEE AND COMMISSION EXPENSE

	2009	2008
Commission and fee expense:		
- on risk participation agreements	(1,962)	(363)
- on guarantees	-	(68)
- on money transfers	(23)	(16)
- on cash transactions	(20)	(12)
- other	(397)	(41)
Total commission and fee expense	(2,402)	(500)

Notes to the Financial Statements (CONTINUED)

11. NET FOREIGN EXCHANGE PROFIT/ LOSSES

	2009	2008
Profit/(loss) from foreign currency transactions	20,475	(16,658)
Gain/(loss) from revaluation of foreign currency positions	(11,548)	15,034
Net result on foreign exchange	8,927	(1,624)

12. IMPAIRMENT LOSSES

An analysis of the change in allowance for impairment losses of the Bank is presented as follows:

	2009	2008
Impairment losses		
Loans and advances due from customers	(7,078)	(8,703)
Goodwill	(633)	-
Investment in associate	(383)	-
Guarantees	(298)	-
Other assets	(10)	-
	(8,402)	(8,703)
Reversals of impairment losses		
Loans and advances due from customers	2,303	851
	2,303	851
Net impairment losses	(6,099)	(7,852)

13. GENERAL ADMINISTRATIVE EXPENSES

	2009	2008
Remuneration	(3,747)	(3,786)
Depreciation and amortisation	(1,173)	(981)
Computer and IT service expenses	(866)	(1,140)
Social security contributions and other employee related costs	(867)	(872)
Rent of premises	(572)	(594)
Representation expenses and business relations	(299)	(366)
Communication and post expenses	(124)	(125)
Value-added tax	(115)	(67)
Consulting services	(114)	(355)
Security expenses	(101)	(147)
Business trips	(89)	(184)
Office materials	(43)	(44)
Other	(1,104)	(830)
Total administrative expenses	(9,214)	(9,491)

14. INCOME TAX EXPENSE

	2009	2008
Corporate income tax for the year (Lithuania)	(164)	(156)
Deferred tax income/ (expense)	228	20
Total	64	(136)

Notes to the Financial Statements (CONTINUED)

The table below shows the reconciliation between total tax expense and theoretical amount that would arise using basic tax rate, which was 15% in 2009 (15% in 2008) for Latvia and 15% in 2009 (18% in 2008) for Lithuania:

	2009	2008
Profit/ (loss) before taxation	1,501	(2,590)
Expected tax calculation at tax rate 15%	(225)	389
Expenses on sale of public securities	48	-
Net of non-deductible expense/exempt income	(35)	4
Goodwill impairment	(95)	-
Impairment of investment in associates	(57)	-
Impact of tax rate in other jurisdictions	52	2
Change in unrecognized deferred tax asset	376	-
Unrecognized deferred tax asset	-	(531)
Total tax expense	64	(136)

15. CASH AND DEPOSITS WITH THE BANK OF LATVIA

	31.12.2009	31.12.2008
Cash	8,599	1,576
Due from Bank of Latvia		
- Minimum reserve deposit	7,304	16,012
- Nostro accounts	-	2,773
Total cash and deposits with the Bank of Latvia	15,903	20,361

The correspondent account with the Bank of Latvia is non-interest bearing.

In accordance with regulations set by the Financial and Capital Market Commission, the Bank's cash and current account balance with the Central Bank of Latvia should be not less than the required reserves calculated on basis of the average monthly customer deposits. The Bank has complied with the aforementioned requirements in 2009 and 2008.

16. DEMAND BALANCES AND TERM DEPOSITS DUE FROM CREDIT INSTITUTIONS

	31.12.2009	31.12.2008
Not impaired or past due		
Nostro accounts and Demand deposits		
Latvian commercial banks	3,514	700
OECD banks	67,714	16,925
Non-OECD banks	30,208	18,126
Total demand balances	101,436	35,751
Loans and Term deposits		
Latvian commercial banks	-	47,518
OECD banks	-	218
Non-OECD banks	-	8,569
Total loans and Term deposits	-	56,305
Overdue or impaired	-	-
Total demand balances and term deposits due to credit institutions	101,436	92,056

Notes to the Financial Statements (CONTINUED)

(a) Concentration of placements with banks and other financial institutions

As at 31 December 2009 and 2008 the Bank had two and two banks and financial institutions, respectively, whose balances exceeded 10% of total placements with banks and other financial institutions. The gross value of these balances as at 31 December 2009 and 2008 were LVL 78,480 thousand and LVL 57,693 thousand, respectively.

17. HELD-TO-MATURITY INVESTMENTS

	31.12.2009	31.12.2008
Latvian government bonds (S&P – BB, Moody – Baa 3)	3,121	3,120
Total held-to-maturity investments	3,121	3,120

As at 31 December 2009 the aggregate values of un-amortized discounts and premiums amounted to LVL 7 thousand (2008: 10) and LVL 2 thousand (2008: 2), respectively.

18. LOANS AND RECEIVABLES

(a) The table below shows the division of the loans by type:

	31.12.2009	31.12.2008
Commercial loans		
Loans to large corporates	212,334	122,402
Loans to small and medium size companies	368,924	475,292
Total commercial loans	581,258	597,694
Loans to individuals		
Consumer loans	4,231	814
Credit cards	71	105
Mortgage loans	30,317	22,526
Other	8,233	21,924
Total loans to individuals	42,852	45,369
Gross loans and advances to customers	624,110	643,063
Impairment allowance	(16,005)	(11,798)
Net loans and advances to customers	608,105	631,265

The Latvian banking legislation requires that any credit exposure to a non-related entity or group of non-related entities may not exceed 25% of a credit institution's equity for the definition of equity under the Latvian banking legislation). In 2009, the Bank was in compliance with the aforementioned requirement.

Notes to the Financial Statements (CONTINUED)

(b) Composition of the loan portfolio by industry types:

	31.12.2009	31.12.2008
Municipal authorities	2,227	7,028
Trade	64,284	72,170
Manufacturing	125,791	114,447
Energy	6,859	4,538
Finance	8,598	73,056
Real estate	232,926	256,730
Agriculture, forestry and timber	7,092	11,603
Other	133,481	58,122
Loans to individuals	42,852	45,369
Gross loans and advances to customers	624,110	643,063
Impairment allowance	(16,005)	(11,798)
Net loans and advances to customers	608,105	631,265

(c) The geographical segmentation of the loans:

	31.12.2009	31.12.2008
Latvia	262,633	368,562
OECD countries	4,802	5,544
Non-OECD countries	356,675	268,957
Gross loans and advances to customers	624,110	643,063
Impairment allowance	(16,005)	(11,798)
Net loans and advances to customers	608,105	631,265

(d) Loan portfolio quality

1. Ageing structure of loan portfolio

The table below shows separate loan groups at their carrying amount. The Bank holds collateral against loans and advances to customers in the form of mortgage interests over property, other registered securities over assets, and guarantees.

	TOTAL	OF WHICH NOT PAST DUE ON THE REPORTING DATE	OF WHICH PAST DUE BY THE FOLLOWING TERMS				NET CARRYING VALUE OF IMPAIRED LOANS
			LESS THAN 30 DAYS	31-90 DAYS	91-180 DAYS	MORE THAN 180 DAYS	
As at 31 December 2009							
Net carrying amount	608,105	473,595	42,705	27,642	33,080	31,083	134,510
Out of which impaired	90,881	7,095	6,390	16,777	30,731	29,888	83,786
As at 31 December 2008							
Net carrying amount	631,265	527,931	70,080	21,946	9,180	2,128	103,334
Out of which impaired	19,633	6,978	965	1,341	8,221	2,128	12,655

Notes to the Financial Statements (CONTINUED)

II. Analysis of collateral

The following table provides the analysis of commercial loan portfolio, net of impairment, by types of collateral as at 31 December 2009 and 2008:

	31.12.2009	% OF LOAN PORTFOLIO	31.12.2008	% OF LOAN PORTFOLIO
Commercial buildings	261,250	43.0	153,016	24.2
Commercial assets pledge	37,456	6.2	60,150	9.5
Land mortgage	50,811	8.4	105,822	16.8
Mortgage on residential properties	33,827	5.6	58,778	9.3
Traded securities	-	-	-	-
Guarantee	160,459	26.4	182,736	29.0
Deposit	26,061	4.3	31,835	5.0
Other	38,241	6.1	38,928	6.2
Total	608,105	100	631,265	100

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

Risk participation agreements

During the year 2009, the Bank concluded so called Risk Participation Agreements with UniCredit Bank Austria AG, which effectively transfers credit risk of specific selected loans to the parent bank. This selected portfolio amounted to LVL 92 million (net carrying amount) as at 31 December 2009.

During the year 2009, the Bank obtained ownership of the following assets by taking over control of collateral accepted as security for commercial loans:

	31.12.2009	31.12.2008
Property	430	-
Total	430	-

III. Impaired loans

When reviewing the loans the Bank sets the following categories for individual loans to assess their credit risk:

	31.12.2009		31.12.2008	
	GROSS	IMPAIRMENT ALLOWANCE	GROSS	IMPAIRMENT ALLOWANCE
Standard	596,685	221	619,969	166
Watch	3,232	633	4,041	659
Substandard	15,954	7,068	12,639	5,291
Doubtful	6,667	4,673	5,065	3,507
Loss	1,572	1,572	1,349	1,349
Collective portfolio impairment allowance	-	1,838	-	826
Total	624,110	16,005	643,063	11,798

The Bank has estimated loan impairment for commercial loans based on an analysis of the future cash flows of impaired loans and based on its past loss experience on portfolios of loans for which no indications of impairment have been identified.

In determining the impairment allowance for commercial loans, the following key assumptions were used:

- Management has assumed a time lag of 3 months to identify impairment after the loss triggering event;
- Management has assumed a historic annual loss rate of 9.1% (2008: 3.6%).

Notes to the Financial Statements (CONTINUED)

IV. Movements in the impairment allowance

Movements in the loan impairment allowance by classes of commercial loans for the year ended 31 December 2009 and 2008 are as follows:

	2009	2008
Specific allowance for impairment		
Balance at 1 January	10,972	3,093
Charge for the year	6,076	8,703
Recoveries	(2,303)	(851)
Write-off	(557)	-
Effect of foreign currency translation	(21)	27
Balance at 31 December	14,167	10,972
Collective allowance for impairment		
Balance at 1 January	826	826
Charge for the year	1,012	-
Balance at 31 December	1,838	826
Total allowance for impairment	16,005	11,798

V. Restructured loans

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

	2009	2008
Interest waiver	11,173	-
Interest capitalized	2,660	-
Principal payments waiver	20,146	6,086
Total	33,979	6,086

Significant credit exposures

As at 31 December 2009 and 2008 the Bank had 29 and 38 borrowers or related borrowers, respectively, whose loan balances exceeded 10% of its equity. The gross value of these loans as at 31 December 2009 and 2008 was LVL 308,880 thousand and LVL 322,242 thousand, respectively.

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

19. DERIVATIVE FINANCIAL INSTRUMENTS

The fair values of derivative instruments held for trading by the Bank as at December 31, 2009:

	CONTRACT/ NOTIONAL AMOUNT	ASSETS FAIR VALUE	LIABILITIES FAIR VALUE
Net currency forwards	298,333	3,258	624
Interest rate swaps	5,622	-	-
Total derivative financial instruments	303,955	3,258	624

Derivative financial instruments held as at 31 December 2009 comprise contracts in LVL, EUR, LTL, EEK and JPY. Maturities of derivatives vary from 4 January 2010 to 29 September 2010.

Notes to the Financial Statements (CONTINUED)

Derivatives held for trading by the Bank as at 31 December 2008:

	CONTRACT/ NOTIONAL AMOUNT	ASSETS FAIR VALUE	LIABILITIES FAIR VALUE
Net currency forwards	207,933	18,074	3,754
Interest rate swaps	2,108	-	16
Total derivative financial instruments	210,041	18,074	3,770

20. CLASSIFICATION AND FAIR VALUE OF ASSETS AND LIABILITIES

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

The estimated fair values of all other financial assets and liabilities are calculated using discounted cash flow techniques based on estimated future cash flows and discount rates for similar instruments at the balance sheet date.

Classification of assets, liabilities and equity of the Bank as at 31 December 2009 was as follows:

31.12.2009	FINANCIAL ASSETS / LIABILITIES AT FAIR VALUE THROUGH PROFIT AND LOSS	FINANCIAL ASSETS / LIABILITIES AT FAIR VALUE THROUGH PROFIT AND LOSS	FINANCIAL ASSETS AVAILABLE FOR SALE	NON-FINANCIAL ASSETS / LIABILITIES	TOTAL	FAIR VALUE
Assets						
Cash and deposits with the Bank of Latvia	15,903	-	-	-	15,903	15,903
Demand balances due from credit institutions	101,436	-	-	-	101,436	101,436
Held-to-maturity investments	3,121	-	-	-	3,121	3,121
Loans due from non-banking customers	608,105	-	-	-	608,105	612,257
Held-for-trading financial assets	-	3,258	-	-	3,258	3,258
Available-for-sale assets	-	-	9,893	-	9,893	9,893
Property and equipment	-	-	-	615	615	615
Intangible assets	-	-	-	9,291	9,291	9,291
Investment property	-	-	-	430	430	430
Deferred tax asset	-	-	-	182	182	182
Other assets	-	-	-	422	422	422
Total assets	728,565	3,258	9,893	10,940	752,656	756,808

31.12.2009	FINANCIAL ASSETS / LIABILITIES AT FAIR VALUE THROUGH PROFIT AND LOSS	FINANCIAL ASSETS / LIABILITIES AT FAIR VALUE THROUGH PROFIT AND LOSS	NON-FINANCIAL ASSETS / LIABILITIES	TOTAL	FAIR VALUE
Liabilities					
Demand balances due to credit institutions	21,172	-	-	21,172	21,172
Held-for-trading financial liabilities	-	624	-	624	624
Term deposits due to financial institutions	364,356	-	-	364,356	364,356
Deposits due to non-banking customers	296,878	-	-	296,878	296,878
Subordinated liabilities	18,729	-	-	18,729	18,729
Provisions	-	-	297	297	297
Current tax liability	-	-	26	26	26
Other liabilities	-	-	2,783	2,783	2,783
Equity	-	-	47,791	47,791	47,791
Total liabilities and equity	701,135	624	50,897	752,656	752,656

Notes to the Financial Statements (CONTINUED)

Classification of assets, liabilities and equity of the Bank as at 31 December 2008 was as follows:

31.12.2008	FINANCIAL ASSETS / LIABILITIES AT AMORTISED COST	FINANCIAL ASSETS / LIABILITIES AT FAIR VALUE THROUGH PROFIT AND LOSS	FINANCIAL ASSETS AVAILABLE FOR SALE	NON-FINANCIAL ASSETS / LIABILITIES	TOTAL	FAIR VALUE
Assets						
Cash and deposits with the Bank of Latvia	20,361	-	-	-	20,361	20,361
Demand balances due from credit institutions	35,751	-	-	-	35,751	35,751
Held-to-maturity investments	3,120	-	-	-	3,120	3,120
Loans and term deposits due from credit institutions	56,305	-	-	-	56,305	56,305
Loans due from non-banking customers	631,265	-	-	-	631,265	631,265
Held-for-trading financial assets	-	18,074	-	-	18,074	18,074
Available-for-sale assets	-	-	11,790	-	11,790	11,790
Investments in associates	383	-	-	-	383	383
Property and equipment	-	-	-	853	853	853
Intangible assets	-	-	-	10,750	10,750	10,750
Income tax receivable	-	-	-	447	447	447
Other assets	-	-	-	465	465	465
Total assets	747,185	18,074	11,790	12,515	789,564	789,564

31.12.2008	FINANCIAL ASSETS / LIABILITIES AT AMORTISED COST	FINANCIAL ASSETS / LIABILITIES AT FAIR VALUE THROUGH PROFIT AND LOSS	NON-FINANCIAL ASSETS / LIABILITIES	TOTAL	FAIR VALUE
Liabilities					
Demand balances due to credit institutions		33,936	-	33,936	33,936
Held-for-trading financial liabilities		-	3,770	3,770	3,770
Term deposits due to financial institutions		542,760	-	542,760	542,760
Deposits due to non-banking customers		142,180	-	142,180	142,180
Subordinated liabilities		18,730	-	18,730	18,730
Deferred tax liability		-	-	46	46
Current tax liability		-	-	135	135
Other liabilities		-	-	2,152	2,152
Equity		-	-	45,855	45,855
Total liabilities and equity		737,606	3,770	789,564	789,564

21. AVAILABLE – FOR – SALE FINANCIAL ASSETS

	31.12.2009	31.12.2008
Held by the Bank		
Debt and other fixed-income instruments:		
- Government and municipal bonds (Latvia) (S & P = B)	8,124	10,066
- Corporate bonds (Norway) (S & P = A+; Moody = Aa3)	1,769	1,724
Total available for sale financial assets	9,893	11,790

Notes to the Financial Statements (CONTINUED)

22. INVESTMENTS IN ASSOCIATES

NAME	BUSINESS	31.12.2009		31.12.2008		COUNTRY OF INCORPORATION
		VALUE	SHARE %	VALUE	SHARE %	
SIA "UniCredit Leasing"	Financial institution (Leasing company)	-	49%	383	49%	Latvia

Due to financial performance of UniCredit Leasing the Bank has created impairment allowance for investment in associated company in amount of 100% of LVL 383 thousand as at 31 December 2009.

23. PROPERTY AND EQUIPMENT AND INTANGIBLE ASSETS

The following table shows the movements in the Bank's property and equipment and intangible assets during the year ended 31 December 2009:

	LEASEHOLD IMPROVEMENTS	TRANSPORT VEHICLES	EQUIPMENT	COMPUTER SOFTWARE	GOODWILL	TOTAL
Historical cost						
As at 31 December 2008	1,378	47	1,477	5,424	7,028	15,354
Additions	-	-	29	341	-	370
Disposals	-	-5	-	-256	-	-261
As at 31 December 2009	1,378	42	1,506	5,509	7,028	15,463
Accumulated depreciation and amortization						
As at 31 December 2008	1,120	25	904	1,702	-	3,751
Charge for the year	42	7	213	911	-	1,173
Impairment losses	-	-	-	-	633	633
As at 31 December 2009	1,162	32	1,117	2,613	633	5,557
Net book value						
As at 31 December 2008	258	22	573	3,722	7,028	11,603
As at 31 December 2009	216	10	389	2,896	6,395	9,906

Goodwill relates to acquisition of Lithuanian and Estonian branches on 1 September 2007.

The following table shows the movements in the Bank's property and equipment during the year ended 31 December 2008:

	LEASEHOLD IMPROVEMENTS	TRANSPORT VEHICLES	EQUIPMENT	COMPUTER SOFTWARE	GOODWILL	TOTAL
Historical cost						
As at 31 December 2007	1,344	47	1,368	3,735	7,028	13,522
Additions	34	-	182	1,693	-	1,909
Disposals	-	-	-73	-4	-	-77
As at 31 December 2008	1,378	47	1,477	5,424	7,028	15,354
Accumulated depreciation and amortization						
As at 31 December 2007	1,081	15	765	984	-	2,845
Charge for the year	39	10	212	720	-	981
Reversal due to disposals	-	-	-73	-2	-	-75
As at 31 December 2008	1,120	25	904	1,702	-	3,751
Net book value						
As at 31 December 2007	263	32	603	2,751	7,028	10,677
As at 31 December 2008	258	22	573	3,722	7,028	11,603

In the current economical environment, the Bank tests the carrying amount of goodwill for impairment semi-annually. The testing of goodwill is performed at the cash generating unit level as single step test. An impairment loss is recognized directly, if the carrying value exceeds the value in use based on discounted cash-flow approach. Value in use was determined by discounting the future cash flows generated from the continuing use of the unit and was based on the following key assumptions:

The return on equity is expected to be in the range between 11-14 %, the cost of capital is assumed at 10-11%. The revenues to risk-weighted assets are planned below 3 % excluding interest on capital and the cost-income ratio is expected at 40%. The Bank will continuously

Notes to the Financial Statements (CONTINUED)

increase the fee and commission and its share in total revenues up to 20-25% due to the increasing service in transaction-banking via GWS and in Global Transaction Banking (GTB). The Bank will remain lending bank for corporate customers and will increasingly focus on developing its local expertise in cash management and hedging services with regard to interest rate risk. The cost of risk is expected to remain at current level. The risk-weighted assets growth in Lithuania and Estonia in 2009 was far above the market due to expansion of lending and is assumed to grow further at 10%.

ANALYSIS OF MOVEMENTS IN THE IMPAIRMENT ALLOWANCE	31.12.2009	31.12.2008
Balance at the beginning of the year	-	-
Net charge/(recovery) for the year	633	-
Balance at the end of the year	633	-

24. OTHER ASSETS

	31.12.2009	31.12.2008
Prepayments (advance payments for administrative expenses)	229	409
Other assets	193	56
Total other assets	422	465

25. DUE TO CREDIT INSTITUTIONS

	31.12.2009	31.12.2008
Demand balances	21,172	33,936
Term deposits	364,356	542,760
Total due to credit institutions	385,528	576,696

Concentration of deposits and balances from banks and other financial institutions

As at 31 December 2009 and 2008 the Bank had one and two banks and financial institutions, respectively, whose balances exceeded 10% of total deposits and balances from banks and other financial institutions. The gross value of these balances as at 31 December 2009 and 2008 were LVL 272,491 thousand and LVL 426,302 thousand, respectively.

26. DEPOSITS FROM NON-BANKING CUSTOMERS

	31.12.2009	31.12.2008
Current accounts and demand deposits		
- Retail	4,295	4,199
- Corporate	46,907	38,477
Term deposits		
- Retail	22,241	14,967
- Corporate	223,435	84,537
Total deposits from non-banking customers	296,878	142,180

(a) Blocked accounts as at 31 December 2009, the Bank maintained customer deposit balances of LVL 10,358 thousand (2008: LVL 12,937 thousand) which were blocked by the Bank as collateral for loans and off-balance sheet credit instruments granted by the Bank.

(b) Concentrations of current accounts and customer deposits

As at 31 December 2009 and 2008, the Bank had none customers whose balances exceeded 10% of total customer accounts.

Notes to the Financial Statements (CONTINUED)

27. OTHER LIABILITIES

	31.12.2009	31.12.2008
Accrual for services	1,368	750
Deferred income	804	597
Tax liabilities	154	96
Other	457	709
Total other liabilities	2,783	2,152

28. DEFERRED TAX

Temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes give rise to net deferred tax assets and liabilities as at 31 December 2009 and 2008. Deferred tax assets arising from tax loss carry-forwards have been recognised in these financial statements. The future tax benefits will only be realised if profits will be available against which the unused tax losses can be utilised and there are no changes to the law and regulations that adversely affect the Bank's ability to claim the deductions in future periods.

	31.12.2009	31.12.2008
At the beginning of the year	(46)	(66)
Deferred tax income (Note 14)	228	20
At the end of the year	182	(46)

Deferred income tax assets and liabilities are attributable to the following items:

	31.12.2009	31.12.2008
Property and equipment	(367)	(66)
Tax losses carried forward	252	-
Other provisions	297	20
Total deferred tax	182	(46)
Attributable to:		
Latvia	164	(90)
Lithuania	18	44
Total deferred tax at the end of the year	182	(46)

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

	ASSETS		LIABILITIES		NET	
	2009	2008	2009	2008	2009	2008
Property and equipment	43	90	-406	-465	-363	-375
Other provisions	275	188	-	-	275	188
Tax loss carry-forwards	252	628	-	-	252	628
Total deferred tax assets/(liabilities)	570	906	-406	-465	164	441
Unrecognized tax loss carry – forwards	-	-531	-	-	-	-531
Recognized net deferred tax assets/(liabilities)	570	375	-406	-465	164	-90
Recognized net deferred tax assets/(liabilities) attributable to Lithuania	18	44	-	-	18	44
Net deferred tax assets/(liabilities)	588	419	-406	-465	182	-46

Notes to the Financial Statements (CONTINUED)

The rate of tax applicable for deferred taxes was 15% (2008: 15%).

The tax loss carry-forwards expire in 7 years (in 2016).

Deferred tax in Lithuanian branch was recognised as tax asset LVL 18 thousand in 2009 (LVL 44 thousand in 2008).

Movement in temporary differences during the year ended 31 December 2009:

	BALANCE 1 JANUARY 2009	RECOGNIZED IN INCOME	BALANCE 31 DECEMBER 2009
Property and equipment	(66)	(301)	(367)
Other liabilities	-	297	297
Tax loss carry-forwards	20	232	252
Net Deferred Tax assets/ (liabilities)	(46)	228	182

29. CAPITAL AND RESERVES

Share capital

The nominal value of one share is LVL 10 (2008: LVL 10).

The Bank's shareholder as at 31 December 2008 and 2009 was as follows:

	31.12.2009		31.12.2008	
	SHARE CAPITAL	% OF TOTAL SHARE CAPITAL	SHARE CAPITAL	% OF TOTAL SHARE CAPITAL
UniCredit Bank Austria AG	41,729	100%	41,729	100%
Total	41,729	100%	41,729	100%

Revaluation reserve

The revaluation reserve relates to revaluations on available-for-sale financial assets.

	31.12.2009	31.12.2008
Available-for-sale financial assets revaluation reserves	383	12
Total	383	12
Balance at 31 December 2007	8	
Revaluation reserve increase	4	
Balance at 31 December 2008	12	
Revaluation reserve increase	371	
Balance at 31 December 2009	383	

30. SUBORDINATED LIABILITIES

On 21 March 2006 a subordinated loan agreement between the Bank and UniCredit Bank Austria AG was signed. In accordance with the agreement UniCredit Bank Austria AG grants the Bank a facility in an aggregate amount of LVL 18,729 thousand (EUR 26,649 thousand) without the rights to be converted to the shares for seven years to meet the general financing requirements of the Bank (balance as at 31 December 2009 is LVL 18,729 thousand, as at 31 December 2008: LVL 18,730 thousand).

Facility amount	Maturity	Interest rate
7,133	29 March 2013	0.98%
5,694	29 March 2018	3.57%
5,902	29 March 2018	3.57%

Notes to the Financial Statements (CONTINUED)

31. CASH AND CASH EQUIVALENTS

	31.12.2009	31.12.2008
Cash and demand deposits with the Bank of Latvia	15,903	20,361
Balances due from credit institutions	101,436	92,056
Balances due to credit institutions	(46,916)	(221,659)
Total cash and cash equivalents	70,423	(109,242)

32. RELATED PARTY TRANSACTIONS

Related parties are defined as shareholder that controls the Bank, members of the Supervisory Board and the Management Board, key management personnel, their close relatives and companies in which they have a controlling interest as well as associated companies. The Bank's ultimate controlling party as at 31 December 2009 and 2008 was UniCredit S.P.A.

Loans and receivables to related parties as at 31 December are analyzed as follows:

	31.12.2009	31.12.2008
Management	8	532
Total loans and receivables to related parties	8	532

Loans in the amount of LVL 8 thousand are consumer loans.

Average interest rates to related parties as at 31 December 2009 are as follows:

	31.12.2009	31.12.2008
Management	1.54%	4.6-8.0%

Remuneration paid to the management as at 31 December 2009 is as follows:

	2009	2008
Remuneration to the Management Board	643	790
Total remuneration to the Management Board	643	790

Balances due from related credit institutions as at 31 December 2009 are analyzed as follows:

	31.12.2009	31.12.2008
Correspondent accounts	962	1,507
Term deposits with related credit institutions	65,010	52,521
Total balances due from related credit institutions	65,972	54,028

Balances due to related credit institutions and deposits from other related parties as at 31 December 2009 are analyzed as follows:

	31.12.2009	31.12.2008
Correspondent accounts	1,093	529
Term deposits from related credit institutions	308,856	463,234
Total balances due to related credit institutions	309,949	463,763

Transactions with related credit institutions for the year ended 31 December 2009 are analysed as follows:

	2009	2008
Interest income	189	533
Interest expense	9,615	13,258
Fee and commission income	9	2
Fee and commission expense	1,861	91
Total amount of transactions with related credit institutions	11,674	13,884

All transactions with related parties have been carried out using the arm's length principle.

Notes to the Financial Statements (CONTINUED)

33. TRANSACTIONS WITH ASSOCIATE

Balances due from associate as at 31 December 2009 are analysed as follows:

	31.12.2009	31.12.2008
Loans to associate	2,834	68,781
Total balances due from associate	2,834	68,781

Balances due to associate as at 31 December 2009 are analysed as follows:

	31.12.2009	31.12.2008
Demand balances due to associate	3,732	571
Total balances due to associate	3,732	571

Transactions with associate for year ended 31 December 2009 are analysed as follows:

	2009	2008
Interest income	3,308	4,375
Interest expense	(7)	(9)
Fee and commission income	26	11
Fee and commission expense	-	(1)
Total amount of transactions with associate	3,327	4,376

All transactions with related parties have been carried out using the arm's length principle.

Notes to the Financial Statements (CONTINUED)

34. CURRENCY ANALYSIS

The Latvian banking legislation requires that open positions in each foreign currency may not exceed 10% of the Bank's equity and that the total foreign currency open position may not exceed 20% of the equity. As at 31 December 2009 and 2008 the Bank was in compliance with this requirement.

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

	LVL	EUR	USD	OTHER CURRENCIES	TOTAL
Assets					
Cash and balances due from the Bank of Latvia	7,634	418	213	7,638	15,903
Demand balances due from credit institutions	-	76,413	1,071	23,952	101,436
Held-to-maturity investments	3,121	-	-	-	3,121
Loans and receivables	6,930	544,347	48,620	8,208	608,105
Held-for-trading financial assets	3,170	7	-	81	3,258
Available-for-sale financial instruments:	9,893	-	-	-	9,893
Intangible assets	8,603	16	-	672	9,291
Property and equipment	339	-	-	276	615
Investment property	430	-	-	-	430
Deferred tax asset	182	-	-	-	182
Other assets	82	184	5	151	422
Total assets	40,384	621,385	49,909	40,978	752,656
Liabilities and equity					
Demand balances due to credit institutions	2,722	11,047	7,335	68	21,172
Held-for-trading financial liabilities:	547	72	-	5	624
Deposits	43,724	462,978	33,659	120,873	661,234
Subordinated liabilities	-	-	-	18,729	18,729
Provisions	-	123	-	174	297
Current tax liabilities	26	-	-	-	26
Other liabilities	1,290	973	41	479	2,783
Equity	47,791	-	-	-	47,791
Total liabilities and equity	96,100	475,193	41,035	140,328	752,656
Net long/ (short) position (on balance sheet)	(55,716)	146,192	8,874	(99,350)	-
Memorandum items - claims arising from foreign exchange					
Spot exchange transaction	-	10,640	70	4,858	15,568
Forward foreign exchange transaction	72,551	73,831	-	151,950	298,332
Total	72,551	84,471	70	156,808	313,900
Memorandum items - liabilities arising from foreign exchange					
Spot exchange transactions	10,635	4,908	98	-	15,641
Forward foreign exchange transactions	3,544	225,725	8,802	55,694	293,765
Total	14,179	230,633	8,900	55,694	309,406
Net long/ (short) position (off balance - sheet)	58,372	(146,162)	(8,830)	101,114	4,494
Net long/ (short) position	2,656	30	44	1,764	4,494
As at 31 December 2008					
Total assets	92,198	610,911	50,283	36,172	789,564
Total liabilities	113,245	446,310	82,959	147,050	789,564
Net long/ (short) position (on balance sheet)	(21,047)	164,601	(32,676)	(110,878)	-
Net long/ (short) position (off-balance sheet)	37,523	(163,915)	33,454	107,676	14,738
Net long/ (short) position	16,476	686	778	(3,202)	14,738

Notes to the Financial Statements (CONTINUED)

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

	LVL	EUR	USD	OTHER CURRENCIES	TOTAL
Assets					
Cash and balances due from the Bank of Latvia	7,634	418	213	7,638	15,903
Demand balances due from credit institutions	-	76,413	1,071	23,952	101,436
Held-to-maturity investments	3,121	-	-	-	3,121
Loans and receivables	6,930	544,347	48,620	8,208	608,105
Held-for-trading financial assets	3,170	7	-	81	3,258
Available-for-sale financial instruments:	9,893	-	-	-	9,893
Intangible assets	8,603	16	-	672	9,291
Property and equipment	339	-	-	276	615
Investment property	430	-	-	-	430
Deferred tax asset	182	-	-	-	182
Other assets	82	184	5	151	422
Total assets	40,384	621,385	49,909	40,978	752,656
Liabilities and equity					
Demand balances due to credit institutions	2,722	11,047	7,335	68	21,172
Held-for-trading financial liabilities:	547	72	-	5	624
Deposits	43,724	462,978	33,659	120,873	661,234
Subordinated liabilities	-	-	-	18,729	18,729
Provisions	-	123	-	174	297
Current tax liabilities	26	-	-	-	26
Other liabilities	1,290	973	41	479	2,783
Equity	47,791	-	-	-	47,791
Total liabilities and equity	96,100	475,193	41,035	140,328	752,656
Net long/ (short) position (on balance sheet)	(55,716)	146,192	8,874	(99,350)	-
Memorandum items - claims arising from foreign exchange					
Spot exchange transaction	-	10,640	70	4,858	15,568
Forward foreign exchange transaction	72,551	73,831	-	151,950	298,332
Total	72,551	84,471	70	156,808	313,900
Memorandum items - liabilities arising from foreign exchange					
Spot exchange transactions	10,635	4,908	98	-	15,641
Forward foreign exchange transactions	3,544	225,725	8,802	55,694	293,765
Total	14,179	230,633	8,900	55,694	309,406
Net long/ (short) position (off balance - sheet)	58,372	(146,162)	(8,830)	101,114	4,494
Net long/ (short) position	2,656	30	44	1,764	4,494
As at 31 December 2008					
Total assets	92,198	610,911	50,283	36,172	789,564
Total liabilities	113,245	446,310	82,959	147,050	789,564
Net long/ (short) position (on balance sheet)	(21,047)	164,601	(32,676)	(110,878)	-
Net long/ (short) position (off-balance sheet)	37,523	(163,915)	33,454	107,676	14,738
Net long/ (short) position	16,476	686	778	(3,202)	14,738

Notes to the Financial Statements (CONTINUED)

35. MATURITY ANALYSIS

The table below allocates the Bank's assets, liabilities equity and memorandum items to maturity groups based on the time remaining from the balance sheet date to the contractual maturity dates as at 31 December 2009:

	WITHIN 1 MONTH	1 – 3 MONTHS	3 – 6 MONTHS	6 –12 MONTHS	1 – 5 YEARS	OVER 5 YEARS AND UNDATED	TOTAL
Assets							
Cash and balances due from the Bank of Latvia	15,903	-	-	-	-	-	15,903
Demand balances due from credit institutions	101,436	-	-	-	-	-	101,436
Held-to-maturity investments	-	-	-	-	3,121	-	3,121
Loans and receivables	84,007	33,652	36,905	82,228	218,593	152,720	608,105
Held-for-trading financial assets	1,180	890	1,188	-	-	-	3,258
Available-for-sale financial instruments:	1,769	-	-	8,124	-	-	9,893
Intangible assets	-	-	-	-	9,291	-	9,291
Property and equipment	-	-	-	-	615	-	615
Investment property	-	-	-	-	430	-	430
Deferred tax assets	182	-	-	-	-	-	182
Other assets	398	9	2	6	7	-	422
Total assets	204,875	34,551	38,095	90,358	232,057	152,720	752,656
Liabilities and equity							
Demand balances due to credit institutions	21,172	-	-	-	-	-	21,172
Held-for-trading financial liabilities	274	3	288	59	-	-	624
Deposits	170,067	78,083	52,468	122,046	183,513	55,057	661,234
Subordinated liabilities	-	-	-	-	7,123	11,606	18,729
Provisions	297	-	-	-	-	-	297
Current tax liabilities	26	-	-	-	-	-	26
Other liabilities	2,783	-	-	-	-	-	2,783
Equity	-	-	-	-	-	47,791	47,791
Total liabilities and equity	194,619	78,086	52,756	122,105	190,636	114,454	752,656
Net liquidity gap	10,256	(43,535)	(14,661)	(31,747)	41,421	38,266	-
As at 31 December 2008							
Total assets	148,223	62,235	60,937	93,940	178,679	245,550	789,564
Total liabilities	218,750	115,160	127,275	56,619	160,958	110,802	789,564
Net liquidity gap	(70,527)	(52,925)	(66,338)	37,321	17,721	134,748	-

Notes to the Financial Statements (CONTINUED)

The table below allocates the Bank's assets, liabilities and equity and memorandum items to maturity groups based on the time remaining from the balance sheet date to the contractual maturity dates as at 31 December 2008:

	WITHIN 1 MONTH	1 – 3 MONTHS	3 – 6 MONTHS	6 – 12 MONTHS	1 – 5 YEARS	OVER 5 YEARS AND UNDATED	TOTAL
Assets							
Cash and balances due from the Bank of Latvia	20,361	-	-	-	-	-	20,361
Demand balances due from credit institutions	35,751	-	-	-	-	-	35,751
Held-to-maturity investments	-	-	-	-	-	3,120	3,120
Loans and receivables	86,395	41,072	58,780	93,940	174,088	233,295	687,570
Held-for-trading financial assets:	3,799	14,184	91	-	-	-	18,074
Available-for-sale financial instruments:	1,141	6,979	1,946	-	-	1,724	11,790
Investments in associates	-	-	-	-	-	383	383
Intangible assets	-	-	-	-	3,722	7,028	10,750
Property and equipment	-	-	-	-	853	-	853
Current tax receivable	447	-	-	-	-	-	447
Other assets	329	-	120	-	16	-	465
Total assets	148,223	62,235	60,937	93,940	178,679	245,550	789,564
Liabilities and equity							
Demand balances due to credit institutions	33,936	-	-	-	-	-	33,936
Held-for-trading financial liabilities	2,331	1,003	436	-	-	-	3,770
Deposits	180,150	114,157	126,839	56,619	154,135	53,040	684,940
Subordinated liabilities	-	-	-	-	6,823	11,907	18,730
Deferred tax liabilities	46	-	-	-	-	-	46
Current tax liabilities	135	-	-	-	-	-	135
Other liabilities	2,152	-	-	-	-	-	2,152
Equity	-	-	-	-	-	45,855	45,855
Total liabilities and equity	218,750	115,160	127,275	56,619	160,958	110,802	789,564
Net liquidity gap	(70,527)	(52,925)	(66,338)	37,321	17,721	134,748	-
As at 31 December 2007							
Total assets	162,898	19,225	79,050	74,522	240,067	159,862	735,624
Total liabilities	337,823	63,566	40,041	27,648	156,122	110,424	735,624
Net liquidity gap	(174,925)	(44,341)	39,009	46,874	83,945	49,438	-

Analysis of financial liabilities' contractual undiscounted cash flows

The table below presents the cash flows payable by the Bank under contractual financial liabilities, including derivative financial liabilities, by remaining contractual maturities as at the reporting date.

The amounts disclosed in the table are the contractual undiscounted cash flows in comparison with the carrying amounts of financial liabilities, comprising discounted cash flows as at the reporting date.

The analysis as at 31 December 2009 was as follows:

NON-DERIVATIVE FINANCIAL INSTRUMENTS	CARRYING AMOUNT	CONTRACTUAL CASH FLOWS	UP TO 1 MONTH	FROM 1 TO 3 MONTHS	FROM 3 TO 12 MONTHS	OVER 1 YEAR
Demand balances due to credit institutions	21,172	21,172	21,172	-	-	-
Current accounts and deposits	661,234	661,234	170,067	78,083	174,514	238,570
Total	682,406	682,406	191,239	78,083	174,514	238,570

Notes to the Financial Statements (CONTINUED)

The analysis as at 31 December 2008 was as follows:

NON-DERIVATIVE FINANCIAL INSTRUMENTS	CARRYING AMOUNT	CONTRACTUAL CASH FLOWS	UP TO 1 MONTH	FROM 1 TO 3 MONTHS	FROM 3 TO 12 MONTHS	OVER 1 YEAR
Demand balances due to credit institutions	33,936	33,936	33,936			
Current accounts and deposits	684,940	684,940	180,150	114,157	183,458	207,175
Total	718,876	718,876	214,086	114,157	183,458	207,175

36. INTEREST RATE REPRICING ANALYSIS

The table below allocates the Bank's assets, liabilities and memorandum items to interest rate re-pricing maturity group as at 31 December 2009:

	WITHIN 1 MONTH	1 – 3 MONTHS	3 – 6 MONTHS	6 – 12 MONTHS	1 – 5 YEARS	OVER 5 YEARS	NON-INTEREST BEARING	TOTAL
Assets								
Cash and balances due from the Bank of Latvia	-	-	-	-	-	-	15,903	15,903
Demand balances due from credit institutions	101,436	-	-	-	-	-	-	101,436
Held-to-maturity investments	-	-	-	-	3,121	-	-	3,121
Loans and receivables	207,244	211,581	97,253	57,032	10,671	24,324	-	608,105
Held-for-trading financial assets	-	-	-	-	-	-	3,258	3,258
Available-for-sale financial instruments	1,769	-	-	8,124	-	-	-	9,893
Intangible assets	-	-	-	-	-	-	9,291	9,291
Property and equipment	-	-	-	-	-	-	615	615
Investment property	-	-	-	-	-	-	430	430
Deferred tax assets	-	-	-	-	-	-	182	182
Other assets	-	-	-	-	-	-	422	422
Total assets	310,449	211,581	97,253	65,156	13,792	24,324	30,101	752,656
Liabilities								
Demand balances due to credit institutions	21,172	-	-	-	-	-	-	21,172
Held-for-trading financial liabilities	-	-	-	-	-	-	624	624
Deposits	260,064	249,718	45,679	84,423	21,190	-	160	661,234
Subordinated liabilities	11,606	7,123	-	-	-	-	-	18,729
Provisions	-	-	-	-	-	-	297	297
Current tax liabilities	-	-	-	-	-	-	26	26
Other liabilities	-	-	-	-	-	-	2,783	2,783
Equity	-	-	-	-	-	-	47,791	47,791
Total liabilities and equity	292,842	256,841	45,679	84,423	21,190	-	51,681	752,656
Total interest sensitivity gap	17,607	(45,260)	51,574	(19,267)	(7,398)	24,324	(21,580)	-
As at 31 December 2008								
Total assets	267,252	228,339	121,893	40,216	24,417	73,175	34,272	789,564
Total liabilities	223,617	232,667	128,046	60,023	56,530	36,723	51,958	789,564
Total interest sensitivity gap	43,635	(4,328)	(6,153)	(19,807)	(32,113)	36,452	(17,686)	-

Notes to the Financial Statements (CONTINUED)

The table below allocates the Bank's assets, liabilities and memorandum items to interest rate re-pricing maturity group as at 31 December 2008:

	WITHIN 1 MONTH	1 – 3 MONTHS	3 – 6 MONTHS	6 – 12 MONTHS	1 – 5 YEARS	OVER 5 YEARS	NON- INTEREST BEARING	TOTAL
Assets								
Cash and balances due from the Bank of Latvia	18,785	-	-	-	-	-	1,576	20,361
Demand balances due from credit institutions	35,751	-	-	-	-	-	-	35,751
Held-to-maturity investments	-	3,120	-	-	-	-	-	3,120
Loans and receivables	211,575	218,240	119,947	40,216	24,417	73,175	-	687,570
Held-for-trading financial assets:	-	-	-	-	-	-	18,074	18,074
Available-for-sale financial instruments:	1,141	6,979	1,946	-	-	-	1,724	11,790
Investments in associates	-	-	-	-	-	-	383	383
Intangible assets	-	-	-	-	-	-	10,750	10,750
Property and equipment	-	-	-	-	-	-	853	853
Current tax receivable	-	-	-	-	-	-	447	447
Other assets	-	-	-	-	-	-	465	465
Total assets	267,252	228,339	121,893	40,216	24,417	73,175	34,272	789,564
Liabilities								
Demand balances due to credit institutions	33,936	-	-	-	-	-	-	33,936
Held-for-trading financial liabilities	-	-	-	-	-	-	3,770	3,770
Deposits	189,681	213,937	128,046	60,023	56,530	36,723	-	684,940
Subordinated liabilities	-	18,730	-	-	-	-	-	18,730
Deferred tax liabilities	-	-	-	-	-	-	46	46
Current tax liabilities	-	-	-	-	-	-	135	135
Other liabilities	-	-	-	-	-	-	2,152	2,152
Equity	-	-	-	-	-	-	45,855	45,855
Total liabilities and equity	223,617	232,667	128,046	60,023	56,530	36,723	51,958	789,564
Total interest sensitivity gap	43,635	(4,328)	(6,153)	(19,807)	(32,113)	36,452	(17,686)	-
As at 31 December 2007								
Total assets	591,648	97,613	25,606	1,093	4,738	1,417	13,509	735,624
Total liabilities	411,772	164,058	47,299	17,637	21,302	21,186	52,370	735,624
Total interest sensitivity gap	179,876	(66,445)	(21,693)	(16,544)	(16,564)	(19,769)	(38,861)	-

37. AVERAGE EFFECTIVE INTEREST RATES

In 2009 average domestic and foreign currency interest rates of the Bank were as follows with amounts expressed in %:

	EUR	USD	LVL
Assets			
Balances due from credit institutions	0.28	0.28	0.00
Loans and receivables to non-banking customers	5.24	3.20	6.20
Investment securities	-	0.00	6.23
Liabilities			
Balances due to the credit institutions	2.61	0.68	1.36
Deposits from non-banking customers	3.15	3.17	7.66

Notes to the Financial Statements (CONTINUED)

In 2008 average domestic and foreign currency interest rates of the Bank were as follows with amounts expressed in %:

	EUR	USD	LVL
Assets			
Balances due from credit institutions	2.49	0.62	7.10
Loans and advances to non-banking customers	6.80	12.76	11.77
Investment securities	-	-	4.94
Liabilities			
Balances due to the credit institutions	3.88	1.13	6.26
Deposits from non-banking customers	3.95	3.35	7.77

38. AVERAGE EXCHANGE RATES OF FOREIGN EXCHANGE FORWARD AND SWAP DEALS

CURRENCY PAIR	AVERAGE SWAP TENOR	DEAL TYPE	AMOUNT IN BASE CURRENCY	WEIGHTED AVERAGE CURRENCY EXCHANGE DEAL RATE	FX POSITION IN COUNTER CCY
EUR/LVL	36d	BUY	12,000	0.7091	8,509
EUR/LVL	190d	SELL	98,000	0.7403	72,551
EUR/EEK	135d	SELL	75,500	15.8274	1,194,971
EUR/USD	6d	BUY	12,553	1.4339	18,000
EUR/JPY	33d	SELL	25,808	131.7400	3,400,000
EUR/LTL	112d	SELL	37,254	3.4896	130,000

39. LITIGATION

Management is unaware of any significant actual, pending or threatened claims against the Bank.

40. COMMITMENTS AND CONTINGENCIES

At any time the Bank has outstanding commitments to extend credit. These commitments take the form of approved loans and credit card limits and overdraft facilities.

The Bank provides financial guarantees and letters of credit to guarantee the performance of customers to third parties. These agreements have fixed limits and generally extend for a period of up to ten years.

The contractual amounts of commitments are set out in the following table by category. The amounts reflected in the table for commitments assume that amounts are fully advanced. The amounts reflected in the table for guarantees and letters of credit represent the maximum accounting loss that would be recognized at the balance sheet date if counterparties failed completely to perform as contracted.

CONTRACTED AMOUNT	31.12.2009	31.12.2008
Loan and credit line commitments	50,879	144,971
Credit card commitments	431	472
Guarantees and letters of credit	86,837	87,825
Other	-	545
Total	138,147	233,813

The total outstanding contractual commitments to extend credit indicated above does not necessarily represent future cash requirements, as these commitments may expire or terminate without being funded.

Notes to the Financial Statements (CONTINUED)

41. OPERATING LEASES

(a) Leases as lessee

Non-cancellable operating lease rentals are payable as follows:

	2009	2008
Less than one year	36	74
Between one and five years	41	78
Total	77	152

The Bank leases a number of premises and equipment under operating lease. The leases typically run for an initial period of five to ten years, with an option to renew the lease after that date. Lease payments are usually increased annually to reflect market rentals. None of the leases includes contingent rentals.

During the current year LVL 74 thousand was recognised as an expense in the income statement in respect of operating leases (2008: LVL 69 thousand).

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