AS “AKCIJU KOMERCBANKA “BALTIKUMS”” CONSOLIDATED AND BANK FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008

CONTENTS

REPORT OF THE MANAGEMENT

Dear Shareholders, customers and partners,

In 2008, despite local and international turmoil in the financial markets, performance indicators of AS "Akciju komercbanka "Baltikums"" (hereinafter referred to as the Bank, Banka Baltikums) continued to grow successfully and the Bank consolidated its position in the chosen niche.

Banka Baltikums continued to develop its strategy to offer dynamic, modern and, more importantly, an exclusive service for its customers with careful consideration given to moderate, balanced and sustained growth.

Similarly to previous years, the Bank concentrated its efforts in two clearly defined sectors: trade and shipping finance, as well as financial markets investment products and wealth management. In 2008, the Bank focussed in particular on its current and potential customers, offering them private banking, which is in growing demand nowadays, and extending its range of such products.

The Bank's profit for the year 2008 was LVL 3.36 million, against LVL 2 million profits a year before. At the close of the year, its assets volume amounted to LVL 109.32 million, i.e. by 11.9% more than in late 2007. In 2008, the Bank advanced LVL 34.21 million in loans (a rise of 39.2% against 2007) and attracted LVL 79.2 million in deposits (a rise of 8.7% against 2007). Increasing its equity (up to LVL 15.178 million) and growing its customer deposits allowed the Bank to strengthen its position in its chosen market niches in 2008.

Such results became possible in the fiscal year of 2008, when the world and Latvia were shaken by an unprecedented crisis and instability, due to the Bank's well-thought-out and precise strategy and its professional team. Banka Baltikums is one of the few Latvian banks that operate consistently in the chosen niche that was determined when the Bank was founded in 2001. Conservative approach to risk management ensures good profit indicators for the Bank and gives a feeling of safety in these hard times. In 2008, the Bank started several projects for improvement of efficiency of the Bank's operations.

As well as in the previous year, most of the loans advanced were assigned to projects associated with lending to ship-owners and international trade companies. The Bank has never aimed to attract of large amounts of deposits from individuals and then advance them as mortgage and consumer loans. Such an approach of the Bank is proved by the fact that Banka Baltikums ranks steadily as the last among all banks that are active in Latvia in the areas of both mortgage and consumer lending. Furthermore, very high liquidity has always been one of the Bank's priorities, which was justified especially in 2008.

In 2008, the Bank continued to optimise its customer base. Its holding companies operating in Russia, Ukraine and Kazakhstan made a substantial contribution to the attraction of customers. Despite such considerable increase in the number of customers, the Bank monitors closely customer operations by implementing the principles of 'Know Your Customer' and 'Know Your Customer's Business'.

In 2008, Banka Baltikums opened its representative offices in Almaty (Kazakhstan) and Kiev (Ukraine). Further extension of the network of international branches and representative offices is one of the Bank's strategic tasks in the short term future.

Operation of Banka Baltikums Cyprus Branch that was established in 2008 will ensure further development of the Bank's activities in the European Union and provision of bank services to its customers. The Bank plans to open the Baltikums Shipping Business Centre in Cyprus. Our customers – ship owners – will be able to receive a professional banking service catering specifically for this sector. The Bank's experience in sea and shipping business financing makes it possible to prepare competitive and professional offers under the projects for ship purchase or repair and modernisation of the current fleet, as well as full service for the process of ship purchasing.

Last year, Banka Baltikums extended the network of its correspondent banks for transfers in euros (EUR) and Japanese yen (JPY) in order to save customers' time and funds. We plan to continue this process in 2009.

REPORT OF THE MANAGEMENT

The process of optimisation of Baltikums Holding structure continued too, where Banka Baltikums was assigned a central place. Under such process, Banka Baltikums sold 93.46% of its shares in AS Baltikums to AS Latvijas Krājbanka in 2008. This step is related to the Bank's strict adherence to its earlier strategy and focuses less on retail banking now and in the future.

In 2008, AS IPS Baltikums Asset Management reorganized its operations and sold its pension plan business. Currently, it provides asset and wealth management services, offering full service to its customers, which enables it to retain and increase its business turnover and private capital. In 2009, AS IPS Baltikums Asset Management plans to establish a number of investment funds of different types and structure in order to satisfy investment appetite and to meet the requirements at the risk and profit level that is acceptable to customers.

In 2008, our customers appreciated the Bank's strategic and balanced approach, as indicated by both increased deposit volumes and substantial growth of the scope of the Bank's services used. We are grateful to our customers for co-operation and confidence in these complicated times, and hope to continue our successful partnership in the future.

Aleksandrs Peškovs
Chairman of the Council

Aldis Reims
Chairman of the Board

24 March 2009

THE SUPERVISORY COUNCIL AND BOARD OF THE BANK

As of the date of signing the financial statements, members of the Board and Council of the Bank were as follows:

Council as of 31 December 2008

Vārds, uzvārds	**Position**	**Date of appointment**
Aleksandrs Peškovs	Chairman of the Council	22 June 2001
Sergejs Peškovs	Member of the Council	22 June 2001
	Deputy Chairman of the Council	25 July 2002
Oļegs Čepuļskis	Member of the Council	22 June 2001
Andrejs Kočetkovs	Member of the Council	22 June 2001

There have been no changes in the Supervisory Council during the reporting year.

Management Board as of 31 December 2008

Vārds, uzvārds	**Position**	**Date of appointment**
Aldis Reims	Member of the Board	20 August 2001
	Acting Chairman of the Board	1 July 2002
	Chairman of the Board	25 April 2003
Dmitrijs Latiševs	Member of the Board	1 July 2002
	Deputy Chairman of the Board	25 April 2003
Leonarda Višņevska	Member of the Board	25 April 2003
Tatjana Drobina	Member of the Board	30 April 2008
Aleksandrs Halturins	Member of the Board	30 April 2008

Member of the Board Valdis Apaļka resigned from his position on 30 April 2008. On 30 April 2008 Tatjana Drobina and Aleksandrs Halturins were appointed as members of the Board.

On behalf of the Bank's management,

Aleksandrs Peškovs
Chairman of the Council

Aldis Reims
Chairman of the Board

24 March 2009

STATEMENT OF THE MANAGEMENT'S RESPONSIBILITIES

The management of the AS "Akciju Komercbanka "Baltikums"" (the Bank) is responsible for the preparation of the consolidated financial statements of the Bank and its subsidiaries (the Group) as well as for the preparation of the financial statements of the Bank.

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

The consolidated and Bank financial statements on pages 8 - 61 are prepared in accordance with the source documents and present fairly the financial position of the Group as at 31 December 2008 and the results of its performance and cash flows for the year ended 31 December 2008 as well as the financial position of the Bank as at 31 December 2008 and the results of its performance and cash flows for the year ended 31 December 2008.

The management of the Bank is responsible for the maintenance of a proper accounting system, safeguarding the Group's assets, and the prevention and detection of fraud and other irregularities in the Group. The management is also responsible for operating the Bank in compliance with the Law on Credit Institutions, regulations of the Finance and Capital Markets Commission and other legislation of the Republic of Latvia applicable to credit institutions.

On behalf of the Bank's management,

Aleksandrs Peškovs
Chairman of the Council

Aldis Reims
Chairman of the Board

Riga, 24 March 2009

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Independent Auditors' Report

To the shareholders of AS "Akciju komercbanka "Baltikums""

Report on the Financial Statements

We have audited the accompanying financial statements of AS "Akciju komercbanka "Baltikums"" ("the Bank"), which comprise the unconsolidated balance sheet as at 31 December 2008, the unconsolidated income statement, the unconsolidated statement of changes in shareholders' equity and the unconsolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes to the financial statements, as set out on pages 8 to 61. We have also audited the accompanying consolidated financial statements of AS "Akciju komercbanka "Baltikums"" and subsidiaries ("the Group"), which comprise the consolidated balance sheet as at 31 December 2008, and the consolidated income statement, the consolidated statement of changes in shareholders' equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes to the financial statements, as set out on pages 8 to 61.

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 as adopted by the European Union. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material 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 evidence about the amounts and disclosures in the financial statements. 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 assessments, we consider internal control relevant to the Bank's and Group'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 Bank's and Group's internal control. An 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.

KPMG Baltics SIA, a Latvian limited liability company and a member firm of the KPMG network of independent member firms affiliated with KPMG International, a Swiss cooperative.

Opinion

In our opinion, the unconsolidated financial statements of AS "Akciju komercbanka "Baltikums"" give a true and fair view of the financial position of the AS "Akciju komercbanka "Baltikums"" as at 31 December 2008, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2008, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Report on Other Legal and Regulatory Requirements

In addition, our responsibility is to assess whether the accounting information included in the management report, as set out on pages 2 and 3, 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.

KPMG Baltics SIA
License No 55

Ondrej Fikrle | *Inga Lipšāne*

Ondrej Fikrle
Partner pp KPMG Baltics SIA
Riga, Latvia
24 March 2009

Inga Lipšāne
Sworn Auditor
Certificate No. 112

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

INCOME STATEMENT

	Notes	2008		2007	
		Group LVL '000	Bank LVL '000	Group LVL '000	Bank LVL '000
Interest income	6	5,680	5,643	4,970	4,868
Interest expense	7	(1,549)	(1,480)	(1,680)	(1,684)
Net interest income		**4,131**	**4,163**	**3,290**	**3,184**
Fee and commission income	8	4,789	4,761	2,735	2,705
Fee and commission expense	9	(892)	(891)	(595)	(591)
Net commission and fee income		**3,897**	**3,870**	**2,140**	**2,114**
Loss from financial assets and liabilities carried at fair value through profit or loss	10	(3,453)	(3,453)	(720)	(759)
Net foreign exchange gains	11	3,578	3,580	446	449
Gains arising from disposal of property		3	-	189	-
Net (loss) profit from insurance	12	(61)	-	20	-
Other operating income	13	1,175	897	161	123
Operating income		**9,270**	**9,057**	**5,526**	**5,111**
Administrative expenses	14	(4,142)	(3,968)	(2,827)	(2,515)
Other operating expenses	15	(632)	(221)	(95)	(57)
Impairment of financial assets	16	(822)	(321)	(99)	(87)
Total operating expenses		**(5,596)**	**(4,510)**	**(3,021)**	**(2,659)**
Profit before income tax		**3,674**	**4,547**	**2,505**	**2,452**
Income tax expense	17	(1,198)	(1,191)	(488)	(488)
Profit for the period		**2,476**	**3,356**	**2,017**	**1,964**
Attributable to:					
Equity holders of the Bank		*2,740*	*3,356*	*2,009*	*1,964*
Minority interest		*(264)*	-	*8*	-
Profit for the period		**2,476**	**3,356**	**2,017**	**1,964**
Basic and diluted earnings per share (LVL)	41	**0.178**	**0.241**	**0.192**	**0.188**

The accompanying notes on pages 13 - 61 form an integral part of these financial statements.

The Council and Board of the Bank approve for issue to shareholders these financial statements as presented from page 8 - 61 on 24 March 2009. The financial statements are signed on behalf of the Council and Board of the Bank by:

Aleksandrs Peškovs
Chairman of the Council

Aldis Reims
Chairman of the Board

24 March 2009

BALANCE SHEET

Assets	Notes	2008 Group LVL '000	2008 Bank LVL '000	2007 Group LVL '000	2007 Bank LVL '000
Cash and balances with the Bank of Latvia	18	5,550	5,549	11,816	11,816
Deposits with credit institutions	19	37,178	37,169	41,744	41,545
Demand deposits with credit institutions		*36,653*	*36,644*	*40,415*	*40,412*
Term deposits with credit institutions		*525*	*525*	*1,329*	*1,133*
Financial assets at fair value through profit or loss		7,857	7,857	13,512	13,121
Fixed income securities	*20*	*7,638*	*7,638*	*13,235*	*12,892*
Non-fixed income securities	*20*	-	-	*33*	-
Derivative financial instruments	*37*	*219*	*219*	*229*	*229*
Debt securities and other fixed income securities	*20*	-	-	*15*	-
Available-for-sale financial assets	21	10	10	2,126	10
Fixed income securities		-	-	*2,116*	-
Non-fixed income securities		*10*	*10*	*10*	*10*
Loans and receivables	22	34,556	34,213	25,076	24,584
Financial assets held-to-maturity	23	14,581	14,581	-	-
Investments in subsidiaries and associates	24	2	3,171	3,071	5,930
Intangible assets	25	257	212	212	81
Property and equipment	26	1,738	1,735	359	352
Investment property	27	3,619	530	545	-
Non-current assets held for sale	28	3,889	1,070	-	-
Income tax receivable		39	-	-	-
Other assets	29	3,186	3,175	274	268
Prepayments and accrued income		47	47	30	24
Total assets		**112,509**	**109,319**	**98,765**	**97,731**

The accompanying notes on pages 13 - 61 form an integral part of these financial statements.

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Chairman of the Council

Aldis Reims
Chairman of the Board

24 March 2009

BALANCE SHEET

Liabilities and Equity	**Notes**	**2008**		**2007**	
		Group	**Bank**	**Group**	**Bank**
		LVL '000	**LVL '000**	**LVL '000**	**LVL '000**
Due to credit institutions on demand	30	7	7	1,501	1,501
Derivatives	37	135	135	188	188
Financial liabilities carried at amortized cost		90,850	89,688	82,735	82,901
Loans received from credit institutions	*31*	*1,270*	-	-	-
Customers' deposits	*32*	*79,096*	*79,204*	*72,142*	*72,291*
Notes payable	*33*	*10,484*	*10,484*	*10,593*	*10,610*
Deferred income and accrued expenses	34	101	101	103	95
Provisions	35	87	86	65	52
Current tax liabilities		629	629	254	254
Other liabilities	36	87	37	834	149
Total liabilities		**91,896**	**90,683**	**85,680**	**85,140**
Equity					
Share capital	38	15,178	15,178	10,525	10,525
Reserves	38	17	17	17	17
Retained earnings		3,137	3,441	2,361	2,049
Total equity attributable to equity holders of the Bank		**18,332**	**18,636**	**12,903**	**12,591**
Minority interest		2,281	-	182	-
Total equity		**20,613**	**18,636**	**13,085**	**12,591**
Total liabilities and equity		**112,509**	**109,319**	**98,765**	**97,731**
Off-balance sheet items					
Contingent liabilities and commitments	40	3,662	3,662	2,587	2,587

The accompanying notes on pages 13 - 61 form an integral part of these financial statements.

The Council and Board of the Bank approve for issue to shareholders these financial statements as presented from page 8 - 61 on 24 March 2009. The financial statements are signed on behalf of the Council and Board of the Bank by:

Aleksandrs Peškovs
Chairman of the Council

Aldis Reims
Chairman of the Board

24 March 2009

STATEMENT OF CHANGES IN EQUITY

GROUP

	Share capital LVL`000	Reserve capital LVL`000	Retained earnings LVL`000	Total equity attributable to equity holders LVL`000	Minority interest LVL`000	Total equity LVL`000
Balance as at 31 December 2006	**7,450**	**17**	**1,484**	**8,951**	**174**	**9,125**
Dividends paid	-	-	(1,132)	(1,132)	-	(1,132)
Profit for the year	-	-	2,009	2,009	8	2,017
Issue of share capital	3,075	-	-	3,075	-	3,075
Balance as at 31 December 2007	**10,525**	**17**	**2,361**	**12,903**	**182**	**13,085**
Dividends paid	-	-	(1,964)	(1,964)	-	(1,964)
Profit for the year	-	-	2,740	2,740	(264)	2,476
Effect of disposal of interest in subsidiary	-	-	-	-	2,363	2,363
Issue of share capital	4,653	-	-	4,653	-	4,653
Balance as at 31 December 2008	**15,178**	**17**	**3,137**	**18,332**	**2,281**	**20,613**

BANK

	Note	Share capital LVL '000	Reserve capital LVL '000	Retained earnings LVL '000	Total LVL '000
Balance as at 31 December 2006		**7,450**	**17**	**1,217**	**8,684**
Dividends paid		-	-	(1,132)	(1,132)
Profit for the year		-	-	1,964	1,964
Issue of share capital		3,075	-	-	3,075
Balance as at 31 December 2007		**10,525**	**17**	**2,049**	**12,591**
Dividends paid		-	-	(1,964)	(1,964)
Profit for the year		-	-	3,356	3,356
Issue of share capital	38	4,653	-	-	4,653
Balance as at 31 December 2008		**15,178**	**17**	**3,441**	**18,636**

The accompanying notes on pages 13 - 61 form an integral part of these financial statements.

The Council and Board of the Bank approve for issue to shareholders these financial statements as presented from page 8 - 61 on 24 March 2009. The financial statements are signed on behalf of the Council and Board of the Bank by:

Aleksandrs Peškovs
Chairman of the Council

Aldis Reims
Chairman of the Board

24 March 2009

STATEMENT OF CASH FLOWS

	Note	2008		2007	
		Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Cash flow from operating activities					
Profit before income tax		3,674	4,547	2,505	2,452
Amortization and depreciation		148	148	95	91
Impairment of financial assets		822	321	99	87
Loss on foreign exchange revaluation		326	325	272	273
Profit from the sale of property and equipment		-	-	(53)	-
Investment property and other revaluation		(159)	(126)	(170)	(34)
Loss from the sale of subsidiaries		(582)	-	-	-
		4,229	**5,215**	**2,748**	**2,869**
Loans and receivables		(9,854)	(9,950)	(8,319)	(8,378)
Available-for-sale financial assets		2,116	-	(212)	-
Financial assets classified as trading assets		(425)	(491)	(3,227)	(3,547)
Financial assets at fair value through profit or loss		25	-	-	-
Financial assets held-to-maturity		(10,297)	(8,730)	(78)	(78)
Prepayments and accrued income		(17)	(23)	109	92
Other assets		(6,768)	(3,977)	94	94
Customers' deposits		6,954	6,913	34,239	32,764
Financial liabilities held for trading		(53)	(53)	188	188
Other and current tax liabilities		(1,839)	(406)	(164)	(135)
Deferred income and accrued expense		4	6	(24)	(28)
Net cash from/(used in) operating activities before tax		**(15,925)**	**(11,496)**	**25,354**	**23,841**
Corporate income tax paid		(488)	(488)	(220)	(220)
Net cash from/(used in) operating activities		**(16,413)**	**(11,984)**	**25,134**	**23,621**
Cash flow from investing activities					
Acquisition of property and equipment and intangible assets		(1,757)	(1,662)	(351)	(345)
Proceeds from sale of property and equipment		185	-	4	-
Acquisition of subsidiaries net of cash acquired		(1,524)	-	(3,077)	(1,332)
Proceeds from sale of subsidiaries net of cash disposed of		8,675	2,759	232	-
Other inflow from investment activities		(771)	(530)	191	-
Net cash from/(used in) investing activities		**4,808**	**567**	**(3,001)**	**(1,677)**
Cash flow from financing activities					
Proceeds from share issue		4,653	4,653	3,075	3,075
Proceeds from issue of notes		-	-	7,114	7,117
Dividends paid		(1,964)	(1,964)	(1,132)	(1,132)
Net cash from financing activities		**2,689**	**2,689**	**9,057**	**9,060**
Net changes in cash and cash equivalents		**(8,916)**	**(8,728)**	**31,190**	**31,004**
Cash and cash equivalents at the beginning of the year		**51,938**	**51,739**	**21,020**	**21,008**
Effects of exchange rates fluctuations on cash held		(326)	(325)	(272)	(273)
Cash and cash equivalents at the end of the year	38	**42,696**	**42,686**	**51,938**	**51,739**

The accompanying notes on pages 13 - 61 form an integral part of these financial statements.

The financial statements on pages 8 - 61 have been authorized by the management of the Bank for issue and signed on its behalf by:

Aleksandrs Peškovs	Aldis Reims
Chairman of the Council	*Chairman of the Board*

24 March 2009

1. GENERAL INFORMATION

JSC "Akciju komercbanka "Baltikums"" (the Bank) was established on 22 June 2001, when it was incorporated in the Republic of Latvia as a joint stock company. The address of the Bank is Maza Pils iela 13, Riga, LV 1050. The Bank is a commercial bank specializing in the financing of export and import operations, trade and shipping finance as well as investment management. The Bank operates in accordance with Latvian legislation and the license issued by the Bank of Latvia.

The immediate controlling party of the Bank is AS "Baltikums bankas grupa", which owns 100% of shares. AS "Baltikums bankas grupa" is owned in equal portions by four Latvian entities, which belong to 9 private individuals. Two individuals indirectly own 25% of the Bank each. The remaining amount is owned by two entities and the ownership is spread between related persons.

The Bank is a majority shareholder in a number of subsidiaries located in Riga, Latvia, which comprise Baltikums Group (the Group). SIA "Baltikums Līzings" specializes in finance leasing and lending, IPS "Baltikums Asset Management" is an investment company, SIA "Konsalting Invest" is a property developer and SIA "Baltikums Direct" manages representative offices in Russia, Ukraine, Kazakhstan and in Azerbaijan.

2. BASIS OF PREPARATION

(1) Statement of Compliance

The financial statements of the Bank and the Group 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 the balance sheet date.

The consolidated financial statements were authorized for issue by the Board of Directors on 24 March 2009. The financial statement may be amended by the shareholders.

(2) Functional and presentation currency

These consolidated and Bank financial statements are presented in Latvian lats, which is the Group's and the Bank's functional currency. Except as indicated, financial information presented in Latvian lats has been rounded to the nearest thousand.

(3) Basis of measurement

The financial statements have been prepared under the historical cost convention except for the following, which are at fair value: non-hedging derivative financial instruments, financial assets and liabilities designated at fair value through profit or loss, financial assets available for sale except for those whose fair value cannot be reliably estimated and investment property. Other financial assets and liabilities, insurance reserves and non-financial assets and liabilities are carried at amortised cost.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting principles used in the preparation of the consolidated and the Bank's and Group's 2008 financial statements are consistent with those used in 2007.

(1) Consolidation

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Subsidiaries' financial statements are included in consolidation as at the date when control is obtained until the date control ceases. The accounting policies of subsidiaries have been changed where necessary to align them with the policies of the Group.

Intra-group balances, and any unrealized income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

(2) Goodwill

Goodwill represents the excess of the cost of a business combination over the Bank's interest in the fair value of the net identifiable assets and contingent liabilities of the acquired subsidiary at the date of acquisition. Goodwill on acquisitions of business operation is included in intangible assets.

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. Gains and 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 recognized immediately in the statement of income.

(3) Foreign currency

Transactions in foreign currencies are translated into the functional currency of the Bank at the exchange rate set by Bank of Latvia 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 amortized cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortized 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 recognized in profit or loss, except for differences arising on the retranslation of available-for-sale equity 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 recognized directly in equity.

The exchange rates for the most significant currencies as set by the Bank of Latvia at reporting date are as follows:

	31 December 2008	31 December 2007
EUR	0.7028	0.7028
USD	0.4950	0.4840

(4) Financial instruments

Classification:

Financial instruments are classified into one of the following categories:

Financial instruments designated at fair value through profit or loss are held-for-trading financial instruments and financial assets and liabilities that the Bank and the Group initially defines as assets and liabilities designated at fair value through profit or loss.

A financial instrument is classified as held for trading if is acquired or incurred principally for the purpose of selling or repurchasing in the near term or is 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.

Derivatives are also categorized as held for trading unless they are designated as hedging instruments for hedge accounting purposes.

Held-to-maturity financial instruments are non-derivative financial assets with fixed or determinable payments and a fixed term with respect to which the Bank and the Group have a positive intent and ability to hold to maturity, and which are not designated at fair value through profit or loss, or available for sale. Held-to-maturity financial instruments include certain debt securities.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those that (a) the Bank and the Group intend to sell immediately or in the short-term, (b) those that the Bank and the Group upon initial recognition designate as at the fair value through profit or loss or as available for sale; or (c) those for which the holder may not recover substantially all of its initial investments, other than because of credit deterioration. Loans and receivables include amounts due from credit institutions on term, loans and receivables from customers and other financial assets which comply to these classification criteria.

Available-for-sale assets are those non-derivative financial assets classified at inception as available for sale or assets other than classified as held for trading, held to maturity or loans and receivables. Available-for-sale instruments include short term investments and certain debt and equity securities. Generally, this category is assigned by the Bank and the Group to financial assets that are held for an indeterminate period of time and may be sold based on liquidity or interest rate needs, or as a result of changes in exchange rates and share prices.

Financial liabilities carried at amortized cost represent financial liabilities of the Bank and the Group other than financial instruments designated at fair value through profit or loss. This category includes due to credit institutions on term, customer deposits and other financial liabilities.

Reclassification of financial assets

In October 2008 the IASB issued Reclassification of Financial Assets (Amendments to IAS 39 Financial Instruments: Recognition and Measurement and IFRS 7 Financial Instruments: Disclosures). The amendment to IAS 39 permits an entity to reclassify non-derivative financial assets, other than those designated at fair value through profit or loss upon initial recognition, out of the fair value through profit or loss (i.e., trading) category if they are no longer held for the purpose of being sold or repurchased in the near term, as follows:

- If the financial asset would have met the definition of loans and receivables, or if the financial asset had not been required to be classified as held for trading at initial recognition, then it may be reclassified if the entity has the intention and ability to hold the financial asset for the foreseeable future or until maturity.
- If the financial asset would not have met the definition of loans and receivables, then it may be reclassified out of the trading category only in 'rare circumstances'.

The amendment to IFRS 7 introduces additional disclosure requirements if an entity has reclassified financial assets in accordance with the amendment to IAS 39. The amendments are effective retrospectively from 1 July 2008.

Pursuant to these amendments, the Group and Bank reclassified certain non-derivative financial assets out of trading assets and into loans and advances to customers and available-for-sale investment securities. For details on the impact of these reclassifications, see Note 23.

(5) Recognition

The Group initially recognizes loans and advances, deposits, debt securities issued and subordinated liabilities on the date at which they are originated. Regular way purchases and sales of financial assets are recognized on the trade date at which the Group commits to purchase or sell the asset. All other financial assets and liabilities (including assets and liabilities designated at fair value through profit or loss) are initially recognized on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

(6) Amortized cost measurement

The amortized cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initial amount recognized and the maturity amount, minus any reduction for impairment.

(7) Measurement

A financial asset or financial liability is initially measured at fair value plus (for an item not subsequently measured at fair value through profit or loss) transaction costs that are directly attributable to its acquisition or issue.

Subsequent to initial measurement, all financial assets and liabilities designated at fair value through profit or loss and all available for sale financial assets are measured at fair value except those instruments which have no quoted market price in an active market or for which no reliable fair value measurement is possible; such instruments are carried at cost less transaction costs and impairment.

All financial liabilities, loans and receivables and held-to-maturity assets are measured at amortized cost using the effective interest rate method. All instruments are subject to revaluation when impaired.

Profit or loss arising from changes in the fair value of financial instruments designated through profit or loss are recognized in the income statement. Profit or loss arising from changes in the fair value of available-for-sale financial instruments is recognized through equity.

(8) Derecognition

The Group and Bank derecognize a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group and Bank is recognized as a separate asset or liability.

The Group and Bank derecognize a financial liability when its contractual obligations are discharged or cancelled or expire.

(9) Offsetting

Financial assets and liabilities are set off and the net amount presented in the balance sheet when, and only when, the Group and Bank have a legal right to set off the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted by the accounting standards, or for gains and losses arising from a group of similar transactions such as in the Group's trading activity.

(10) Identification and measurement of impairment

Loans are stated in the balance sheet at the amount of the principal outstanding, less any impairment allowances. Impairment losses and recoveries are recognized monthly based on regular loan reviews. Allowances during the period are reflected in the income statement.

At each balance sheet 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 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 an advance by the Group 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 the specific asset level. All loans and advances and held-to-maturity investment securities are assessed for specific impairment.

Impairment losses on assets carried at amortized 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 recognized in profit or loss and reflected in an allowance account against loans and advances. Interest on the impaired asset continues to be recognized 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.

(11) Fair value measurement

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 Group and the Bank measure 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 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.

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 with the same instrument 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 recognized in profit or loss 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. 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.

(12) 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. The Bank classifies all derivative financial instruments as trading.

Derivatives are initially recognized 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 recognized immediately in the income statement.

(13) Repo transactions

Repo transactions are recognized as financing transactions. When the Bank or the Group is the seller of securities, securities continue to be recognized on the balance sheet. Proceeds from the sale are recognized as a liability to the purchaser of the securities. When the Bank or the Group is the purchaser of securities, the purchased securities are not recognized on the balance sheet. The amount paid for securities is recognized as a loan provided to the seller. The Bank and the Group are involved in two types of such transactions – classic *repo* and *buy/sellback* transactions. The result of *repo* and *buy/sellback* transactions is recognized in the profit or loss statement as interest income or expense according to the accrual principle.

(14) Investment in subsidiaries

Investments in subsidiaries are carried at the initial cost less impairment, if any, in the Bank financial statements. The Bank recognizes income from the investment only to the extent that the Bank receives distributions from accumulated profits of the subsidiary arising after the date of acquisition.

(15) Impairment of non-financial assets

The carrying amounts of the Bank's and Group's non-financial assets, other than investment 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.

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 amortization, if no impairment loss had been recognised.

(16) Investment property

Investment property is property held either to earn rental income or for capital appreciation or for both.

When the use of a property changes such that it is reclassified as property and equipment, its fair value at the date of reclassification becomes its cost for subsequent accounting.

Investment property is initially recognized in the balance sheet at its acquisition cost. Subsequently, investment property is carried at its cost less any accumulated depreciation and any accumulated impairment losses. The useful life of investment property has been estimated at 20 years, with the annual depreciation rate of 5%.

(17) Non-current assets held for sale

The Group and Bank classify assets as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. The Group and Bank measure assets classified as held for sale at the lower of their carrying amount and fair value less costs to sell.

(18) Property and equipment

Items of property and equipment are measured at acquisition cost including direct costs, net of accumulated depreciation and impairment losses, if any. Depreciation is calculated on a straight-line basis. Based on the useful life and residual value of the respective item of property and equipment, the following annual depreciation rates are applied:

Furniture and equipment	20%
Computers	25%
Other	20%

Gains and losses on the disposal of property and equipment are recognized in the income statement in the period of disposal. Repair and maintenance costs are charged to the income statement as incurred. Capital repairs of property and equipment are added to property and equipment at cost, and useful life is extended.

Depreciation methods, useful lives and recoverable amounts are reviewed at each reporting date.

(19) Investments in associates

Associates are those entities in which the Group has significant influence, but no control, over the financial and operating policies. The consolidated financial statements include the Group's share of the total recognized gains and losses of associates on an equity accounted basis, from the date that significant influence commences until the date that significant influence ceases. When the Group's share of losses exceeds its interest in an associate, the Group's carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of an associate.

(20) Intangible assets and goodwill

Intangible assets are identifiable non-monetary assets without physical substance (licenses, software that is separately identifiable from electronic devices, and others) held for rendering of services or other purposes if it is expected that an economic benefit attributable to these assets will flow to the Group and the Bank.

Intangible assets are recorded at acquisition cost less accumulated amortization and amortized to the income statement in equal amounts over the useful life of the intangible asset. The amortization rate for software is 20%

Goodwill represents the excess of the cost of a business combination over the Bank's interest in the fair value of the net identifiable assets and contingent liabilities of the acquisition at the date of acquisition. Goodwill on acquisitions of business operation is included in intangible assets.

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 and losses on the disposal of a business acquisition include the carrying amount of goodwill relating to assets sold.

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

(21) Income and expense recognition

All significant income and expense categories, including interest income and expenses, are recognized on an accrual basis.

Interest income and expenses are recognized in the income statement based on the effective interest rate of the asset/liability. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. When calculating the effective interest rate, the Group estimates future cash flows considering all contractual terms of the financial instrument but not future credit losses.

Interest income and expenses include discount or premium amortization or other difference between the book value of an interest bearing instrument and its value on the maturity date calculated based on the effective interest rate method. In case of impairment of interest bearing assets, interest continues to be accrued on the net carrying amount using the effective interest method.

Fees and commission (excluding commission for long-term loans issued) are accounted for when collected or incurred. Income and expense that refers to the accounting period are reflected in the income statement regardless of the date of receipt or payment. Commission for long-term loans issued is recognized using the effective interest rate method over the life of the loan.

Net trading income comprises gains less losses related to trading assets and liabilities, and includes all realized and unrealized fair value changes, interest, dividends and foreign exchange differences.

(22) Taxes

Income tax expense comprises current and deferred tax. Income tax expense is recognized in the income statement except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet 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 recognized 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 recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. 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 realized.

(23) Cash and cash equivalents

Cash and cash equivalents comprise cash and deposits with the Bank of Latvia and other credit institutions with original maturity of less than 3 months less balances due to the Bank of Latvia and credit institutions with original maturity of less than 3 months. The balances under sale and repurchase agreements are not included in the cash and cash equivalents.

(24) Leases

Finance lease

A finance lease is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset to a lessee. Title may or may not eventually be transferred. When assets are leased out under a finance lease, the net investment in finance lease is recognized as a receivable. The net investment in finance lease represents the difference between the gross receivable and unearned finance income.

Operating lease

An operating lease is a lease other than a finance lease. Assets leased out under an operating lease, are presented within property and equipment in the balance sheet, less accumulated depreciation. They are depreciated over their expected useful lives on a basis consistent with similar owned property and equipment.

(25) Segment reporting

A segment is a distinguishable component of the Bank and the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

(26) Provisions

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

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.

(27) Short-term employee benefits

Short-term employee benefits are measured on an undiscounted basis and are expensed as the related service is provided. Neither the Bank nor the Group have any pension obligations to its retired employees.

All provisions are recognized at the amount expected to be paid under short-term profit sharing plans if the Bank and the Group have 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.

(28) Off-balance sheet items

Off-balance-sheet items include guarantees, letters of credit and unused credit lines provided to customers as well as unused limits on credit cards and loans.

(29) Assets under management

Assets managed by the Bank and the Group on behalf of customers are not treated as assets of the Bank and the Group. The Bank and the Group assumes no risk on the assets.

(30) Fair values of assets and liabilities

A number of the Bank and the Group's accounting policies and disclosures require the determination of fair value for financial assets and liabilities. The methods described below have been used for the determination of fair values. When applicable, further information about the assumptions made in determining fair values is disclosed in the respective notes.

Due from other credit institutions

The fair value of placements on demand, overnight deposits and floating rate placements is their carrying amount. The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using prevailing money-market interest rates for debts with similar credit risk and remaining maturity.

Loans to customers

The estimated fair value of loans represents the discounted amount of estimated future cash flows expected to be received. The interest rates used to discount estimated cash flows are based on the prevailing money-market interest rates curve plus an adequate credit spread.

Shares and other securities with non-fixed income

The fair value of shares and other securities with non-fixed income is determined by reference to their quoted bid price at the reporting date, if available. For a non-material amount of non-listed shares, where disposal is limited, the assumption was made that the reliable estimate of fair value is not possible.

The fair value of S.W.I.F.T shares was determined based on the "transfer amount", approved for the respective year by the shareholders' meeting, representing the price for new share allocation and the participants' quit price.

Derivative financial instruments

The fair value of currency swaps is estimated by discounting the contractual cash flows to be received and to be paid in appropriate foreign currencies for the residual maturity, and translating the difference of the discounted cash flows into lats, applying the exchange rate set by the Bank of Latvia. EURIBOR and LIBOR interest rates are used as benchmarks for a risk-free interest rate for discounting purposes.

Due to other credit institutions and customers

The estimated fair value of deposits with no stated maturity, which includes non-interest-bearing deposits, is the amount repayable on demand. The estimated fair value of overnight deposits is their carrying amount. The estimated fair value of fixed interest-bearing deposits not quoted in the active market is based on discounted cash flows using interest rates for new debts with similar remaining maturity.

(31) Earnings per share

The Group presents basic earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the period.

(32) New standards and interpretations not yet effective

A number of new standards, amendment to standards and interpretations are not yet effective for the year ended 31 December 2008, and have not been applied in preparing these consolidated financial statements:

IFRIC 13 Customer Loyalty Programs addresses the accounting by entities that operate or otherwise participate in customer loyalty programs under which the customer can redeem credits for awards such as free or discounted goods or services. IFRIC becomes mandatory for the Bank's 2009 financial statements and will be applicable retrospectively. The interpretation is not relevant to the Group and Bank.

Amendment to *IFRS 2 Share-based Payment – Vesting Conditions and Cancellations* clarifies the definition of vesting conditions, introduces the concept of non-vesting conditions, requires non-vesting conditions to be reflected in grant-date fair value and provides the accounting treatment for non-vesting conditions and cancellations. The amendment is not relevant to the Group and Bank.

Revised *IFRS 3 Business Combinations (2008)* incorporate the following changes:

- the definition of a business has been broadened
- contingent consideration will be measured at fair value, with subsequent changes in fair value recognized in profit or loss
- transaction cost, other than share and dent issue costs, will be expensed as incurred
- any pre-existing interest in an acquiree will be measured at fair value, with the related gain or loss recognized in profit or loss
- any non-controlling (minority) interest will be measured at either fair value, or at its proportionate interest in the identifiable assets and liabilities of an acquiree, on a transaction-by-transaction basis.

Revised IFRS 3, which becomes mandatory for the Group and Bank's 2010 consolidated financial statements, will be applied prospectively and therefore, will have no impact on prior periods in the financial statements.

IFRS 8 Operating Segments introduces the "management approach" to segment reporting. The Group and Bank are currently in the process of evaluating the potential effect of this amendment.

Revised *IAS 1 Presentation of Financial Statements (2007)* introduces the term "total comprehensive income," which represents changes in equity during a period other than those changes resulting from transactions with owners in their capacity as owners. Total comprehensive income may be presented in either a single statement of comprehensive income (effectively combining both the income statement and all non-owner changes in equity in a single statement), or in an income statement and a separate statement of comprehensive income. The Group and Bank will apply this amendment from the annual period beginning 1 January 2009.

Revised *IAS 23 Borrowing Costs* removes the option to expense borrowing costs and requires that an entity capitalize borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. Revised IAS 23 will become mandatory for the Bank's 2009 financial statements and will constitute a change in accounting policy for the Bank. In accordance with the transitional requirements, the Group and Bank will apply the revised IAS 23 to qualifying assets for which capitalization of borrowing costs commences on or after the effective date. Therefore there will be no impact on prior periods in the Bank's 2009 financial statements.

Amended *IAS 27 Consolidated and Separate Financial Statements (2008)* requires accounting for changes in ownership interests in a subsidiary that occur without loss of control to be recognized as an equity transaction. When the Bank loses control of a subsidiary, any interest retained in the former subsidiary will be measured at fair value with the gain or loss recognized in profit or loss. The amendments to IAS 27, which become mandatory for the Group and Bank's 2010 financial statements, is not expected to have a significant impact on these financial statements.

Amendments to IAS 32 and IAS 1 *Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation* require puttable instruments and instruments that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation to be classified as equity if certain conditions are met. The amendments, which become mandatory for the Group and Bank's 2009 financial statements with retrospective application required, are not expected to have any significant impact on the financial statements.

Amendments to IAS 39 *Financial Instruments: Recognition and Measurement – Eligible Hedged Items* clarify the application of existing principles that determine whether specific risks or portions of cash flows are eligible for designation in a hedging relationship. The amendments will become mandatory for the Bank's 2010 financial statements, with retrospective application required. The Group and Bank are currently in the process of evaluating the potential effect of this amendment.

IFRIC 15 *Agreements for the Construction of Real Estate* clarifies that revenue arising from agreements for the construction of real estate is recognized 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 recognized when all of the revenue recognition criteria of IAS 18.14 are satisfied (e.g., upon completion of construction or upon delivery). The Group has not yet completed its analysis of the impact of the new Interpretation as this must be assessed on a contract by contract basis.

IFRIC 16 *Hedges of a Net Investment in a Foreign Operation* clarifies that:

- net investment hedging can be applied only to foreign exchange differences arising between the functional currency of a foreign operation and the parent entity's functional currency and only in an amount equal to or less than the net assets of the foreign operation
- the hedging instrument may be held by any entity within the group except the foreign operation that is being hedged
- on disposal of a hedged operation, the cumulative gain or loss on the hedging instrument that was determined to be effective is reclassified to profit or loss.

The Interpretation allows an entity that uses the step-by-step method of consolidation an accounting policy choice to determine the cumulative currency translation adjustment that is reclassified to profit or loss on disposal of a net investment as if the direct method of consolidation had been used. IFRIC 16, which becomes mandatory for the Bank's 2009 financial statements, applies prospectively to the Bank's existing hedge relationships and net investments. The Group and Bank are currently in the process of evaluating the potential effect of this Interpretation.

IFRIC 17 *Distributions of Non-cash Assets to Owners* applies to non-reciprocal distributions of non-cash assets to owners acting in their capacity as owners and is effective prospectively for annual periods beginning on or after 15 July 2009. In accordance with the Interpretation a liability to pay a dividend shall be recognized when the dividend is appropriately authorized 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 recognized 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 recognized in profit or loss. 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 board of directors/shareholders it is not possible to determine the effects of application in advance.

4. RISK MANAGEMENT

Within the framework of internal control system, the Bank and the Group have developed and follow the Risk Management Policy or fundamental principles which are defined below:

1) general guidelines observed by the Bank and the Group in its activities aimed at decreasing all types of risks which may lead to losses;
2) description of risk transactions and other risks to which the Bank and the Group is exposed;
3) general daily control of risk transactions and management of transaction related risks.

The Risk Management Policy describes and determines the aggregate of measures to ensure that the possibility to suffer losses is minimized in the event the invested resources are not repaid in due time or the Bank or the Group suffer other losses. The Board and the Council of the Bank have approved the Risk Management Policy. The Board and the Council of the Bank have also approved all other policies listed below related to risk management. The Bank's board supervises the Risk Management System, but the structural units of the respective sectors are responsible for the daily activities. The Risk Management System is monitored by the Internal Audit Division on a regular basis is being continuously developed pursuant to the development of the Bank and the Group and activities in the financial markets.

(1) Credit risk

Credit risk is the risk of potential loss resulting from the non-fulfilment of contractual obligations by the Bank and the Group's debtor or counterparty.

Credit risk is managed in accordance with the credit risk management policy approved by the Council. This policy details the basic principles of credit risk management, identification, assessment, restriction and control.

The management of risks related to ordinary loans involves the assessment of the potential borrower's credit standing that is performed by the Financial Analysis and Risk Management Department. Decisions on granting loans are made by the Credit Committee based on the above analysis and evaluation of collateral. Subsequent to loan granting, the Financial Analysis and Risk Management Department performs a regular analysis of the borrower's financial position, which enables the Bank and the Group to take prompt action in the case of deterioration of the borrower's financial position.

Credit risk that is related to inter-bank operations (or operations with financial institutions), including the credit risk related to inter-bank settlements, is controlled by the Asset and Liability Committee that sets limits for transactions with each counter party.

The Bank and the Group monitor the concentration of significant balance sheet and off balance items' credit risk by geographical regions (i.e., countries, groups of countries, specific regions within the countries etc), client groups (i.e., central governments, local authorities, state enterprises, private enterprises, private individuals, etc) and industries.

(2) Foreign exchange risk

Foreign exchange risk is the risk of potential loss as a result of the revaluation of balance sheet and off-balance sheet items denominated in foreign currencies due to change in exchange rates.

The Bank and the Group continuously monitor the open positions of foreign currencies and regularly assesses the structure of assets and liabilities by currency. In order to improve the currency structure of its balance sheet, in 2007 the Bank and the Group issued bonds in EUR currency, taking into account the then still increasing share of EUR denominated assets.

As at 31 December 2008 and 2007 respectively, the lat was pegged to the EUR .

The Asset and Liability Committee sets limits for the open position in each currency providing an acceptable overall level of foreign currency risk.

An analysis of sensitivity of the Bank's net income for the year and equity to changes in the foreign currency exchange rates based on positions existing as at 31 December 2008 and 2007 and a simplified scenario of a 5% change in USD or EUR to LVL exchange rates is as follows:

'000 LVL	2008		2007	
	Net income	Equity	Net income	Equity
5% appreciation of USD against LVL	-16	-16	1	1
5% depreciation of USD against LVL	16	16	-1	-1
5% appreciation of EUR against LVL	-12	-12	1	1
5% depreciation of EUR against LVL	12	12	-1	-1

(3) Interest rate risk

Interest rate risk is the risk of potential loss the Bank and the Group may incur as a result of interest rate fluctuations.

For the purpose of controlling the interest rate risk, the Asset and Liability Committee performs regular analyses of assets and liabilities by maturity and type of interest. An increase of interest rates by 100 basis points would result in the following change to the income statement and equity:

	2008 LVL '000	2007 LVL '000
LVL	89	51
EUR	-89	-46
USD	-187	-85

The interest repricing analysis is disclosed in Note 49.

(4) Liquidity risk

Liquidity risk is the risk of potential loss as a result of sales of assets or acquisition of resources at unfavorable prices in order for the Bank and the Group to fulfil its liabilities to creditors and depositors.

Liquidity risk management is based on the analysis of the structure of assets and liabilities performed by the Bank's Financial Analysis and Risk Management Department. That includes the analysis of dynamics in customer funds by customer group and assessment of the possibilities of external borrowing. Based on this information, the Asset and Liability Committee monitors the Bank and the Group's ability to fulfil all its commitments. Operating short-term liquidity management, i.e. the attraction and placement of resources, in the Bank and the Group is performed by the Resources Department of the Bank and the Group based on the short-term liquidity forecast.

Details of the reported ratio of net liquid assets at the reporting date and during the reporting period were as follows:

At 31 December	2008	2007
At the period end	60.7%	89.4%
Minimum for the period	57.8%	74.1%
Maximum for the period	85.3%	89.7%

Net liquid assets include cash and cash equivalents, bonds and receivables from credit institutions net of current liabilities.

(5) Country risk

Country risk is the risk of potential losses arising from transactions with residents of foreign countries (or their securities) due to changes in the economic, political, and legal environment of the respective countries.

Before entering into transactions with residents of foreign countries, the Bank and the Group perform an assessment of the influence of economic, social, political and legal circumstances on the residents' ability to fulfil their obligations.

(6) Operational risks

The Bank and the Group's organizational structure, precise job specifications, clear division of responsibilities as well as control procedures allow the Bank and the Group to monitor operational risks. The Bank has also developed an action plan for various crisis situations. The Bank and the Group have set up an independent "Internal audit service" (IAS) with its main functions to ensure that the Bank's and the Group's activities comply with existing legislation, approved plans, policies and other internal Bank and the Group documents and to monitor the compliance of the Bank's and the Group's department activities with internal control procedures.

(7) Reputational risk

The Bank and the Group recognize the importance of the prevention of money laundering and prevention of terrorism financing. The Reputation Risk Management Department was set up in the Bank to implement an internal control system, which monitors the timely control of clients and their business partners. IAS regularly monitors execution of money laundering and terrorism financing prevention policy and procedures.

(8) Capital adequacy calculation

The FCMC sets and monitors capital requirements for the Bank.

According to the requirements of the Financial and Capital Market Commission, the capital adequacy ratio should be maintained at 8% at least. As of 31 December 2008, the Bank and the Group were in compliance with the law "On Credit Institutions" and the requirements of the Financial and Capital Market Commission for capital adequacy and minimum equity. For the calculation of capital adequacy ratio refer to Note 50.

(9) Know-your-Client ('KYC') policies

The primary goal of the Bank's KYC policy is a well-established customer identification program which includes the ascertainment of beneficial owners, client business and client partners.

The Bank's KYC policy includes, apart from obligatory identification of the customer, an interview and the completion of the customer's form. Based on this information, a new basic profile of the customer emerges, which becomes the keystone for the customer's file.

The main objective of this stage is to understand the business and profile of the customer. All activities of the Bank and the Group are aimed at increasing the financial transaction security level. In the future, this attitude will allow the Bank and the Group to develop the optimum service configuration for each customer. Additionally, the Bank and the Group sharply decrease the risk of unusual and suspicious financial operations emerging in the future.

As the working relationship between the customer and the Bank progresses, further understanding of the customer's business deepens. The customer's profile expands and should contain detailed information, business description and transaction type. Knowing the customers' business and their transactions allows the Bank and the Group to prevent any efforts of unauthorized money transfers, access to the account's information and other crimes.

5. USE OF ESTIMATES AND JUDGMENTS

Key sources of estimation uncertainty

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. Although these estimates are based on management's best knowledge of current events and actions, actual results ultimately may differ from those estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized 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:

(i) Allowances for credit losses

The specific counterparty component of the 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 judgments about a counterparty's financial situation and the net realizable 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 reviewed by the Credit Risk function.

(ii) 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 judgment depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

(iii) 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 financial and capital markets, the market price 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 the analysis of the financial position of the issuer of the financial instrument.

(iv) Valuation of investment property

Investment property is stated at its fair value with all changes in fair value recorded to profit and loss. When measuring the fair value of the investment property, the management relies on valuation prepared by an external valuer and assesses the reliability of such valuation in lights of the current market situation.

(v) Impairment of non-current assets held for sale

When assessing the net realizable value of the non-current assets held for sale, the management prepares several valuation models (e.g. replacement cost, discounted future cash flows) and compares them to observable market data (e.g. similar transactions taking place on the market, offer made by potential buyers). The net realizable value assessment includes estimated selling expenses, the timing of the sale, and the liquidity of the market.

(vi) Current market conditions

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, Latvia 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 Latvian and global business environment on the operations and the financial position of the Bank and the Group. The future developments in the business environment may differ from management's assessment.

6. INTEREST INCOME

	2008		2007	
	Group LVL '000	Bank LVL '000	Group LVL '000	Bank LVL '000
Interest income on assets at amortized cost:	3,279	3,242	3,808	3,769
Credit institutions	*424*	*423*	*1,712*	*1,701*
Loans and receivables	*2,855*	*2,819*	*2,096*	*2,068*
Interest income from available-for-sale securities	1,604	1,604	57	-
Interest income from securities at fair value through profit or loss	-	-	1,098	1,096
Interest income from held-to-maturity securities	797	797	-	-
Other interest income	-	-	7	3
	5,680	**5,643**	**4,970**	**4,868**

7. INTEREST EXPENSE

	2008		2007	
	Group LVL '000	Bank LVL '000	Group LVL '000	Bank LVL '000
Interest expense from liabilities measured at amortized cost:	1,389	1,320	1,557	1,561
Credit institutions	*111*	*42*	*133*	*133*
Customers deposits	*485*	*485*	*698*	*702*
Notes payable	*793*	*793*	*726*	*726*
Payments to deposits guarantee fund	160	160	123	123
	1,549	**1,480**	**1,680**	**1,684**

8. FEE AND COMMISSION INCOME

	2008		2007	
	Group LVL '000	Bank LVL '000	Group LVL '000	Bank LVL '000
Payment transactions	3,975	3,975	2,213	2,213
Corporate banking fee income	222	222	315	315
Securities transactions	45	45	22	22
Trust operation	197	197	8	8
Account servicing	182	182	84	84
Management of investment funds and plans	27	-	28	-
Other	141	140	65	63
	4,789	**4,761**	**2,735**	**2,705**

9. FEE AND COMMISSION EXPENSE

	2008		2007	
	Group LVL '000	Bank LVL '000	Group LVL '000	Bank LVL '000
Correspondent accounts	762	762	479	479
Cash transactions and payment card transaction	51	51	50	50
Customer acquisition and distribution of fund shares	41	41	50	46
Brokerage in placing of investment	1	-	-	-
Securities transactions	37	37	16	16
	892	**891**	**595**	**591**

10. LOSS FROM FINANCIAL ASSETS AND LIABILITIES CARRIED AT FAIR VALUE THROUGH PROFIT OR LOSS

	2008		2007	
	Group LVL '000	Bank LVL '000	Group LVL '000	Bank LVL '000
Gain/(loss) on revaluation of financial assets and liabilities at fair value through profit or loss	-	-	(1)	-
Profit/ (loss) from trading on financial assets and liabilities held-for-trading	(1,930)	(1,930)	93	5
Loss on revaluation of financial assets and liabilities held-for-trading	(1,523)	(1,523)	(812)	(764)
Net loss from financial assets and liabilities at fair value through profit or loss	**(3,453)**	**(3,453)**	**(720)**	**(759)**

11. NET FOREIGN EXCHANGE GAINS

	2008		2007	
	Group LVL '000	Bank LVL '000	Group LVL '000	Bank LVL '000
Net gain on foreign exchange trading	3,904	3,905	718	722
Loss on foreign exchange revaluation	(326)	(325)	(272)	(273)
	3,578	**3,580**	**446**	**449**

12. NET (LOSS) PROFIT FROM INSURANCE

The following table reflects the net profit of the Group's life insurance company The result for the year 2008 is presented for the period from 1 January until disposal on 4 September:

	2008 Group LVL '000	2007 Group LVL '000
Earned premiums		
Gross premiums written	119	298
Reinsurance amount in premiums written	(4)	(8)
Changes in unearned premium and risk reserves	(3)	(3)
Net earned premiums	**112**	**287**
Change in the life insurance net reserves	(17)	58
Other technical income, net	-	10
Gross claims	(157)	(337)
Change in reserves for non-life insurance claims	1	2
Net claims incurred	**(173)**	**(267)**
Net profit from insurance	**(61)**	**20**

On 4 September 2008 AS "Baltikums Dzīvība" had been sold to AS "Latvijas Krājbanka". For further details on the sale see Note 24.

Net income from other operating activities of the insurance company amounted to LVL 105 thousand resulting in total net income of LVL 125 thousand in 2007.

13. OTHER OPERATING INCOME

	2008		2007	
	Group LVL '000	Bank LVL '000	Group LVL '000	Bank LVL '000
Penalties received	164	164	108	108
Fee on real estate management	-	-	31	-
Rent of investment property	237	26	-	-
Gain on sale of subsidiaries	747	686	4	-
Other	27	21	18	15
	1,175	**897**	**161**	**123**

14. ADMINISTRATIVE EXPENSES

	2008		2007	
	Group LVL '000	Bank LVL '000	Group LVL '000	Bank LVL '000
Remuneration to the Council and Board	367	351	235	191
Salaries and remuneration to the staff	1,338	1,322	895	779
Social contributions	356	349	250	213
Other staff costs	168	165	97	95
Communications and transport	170	167	150	138
Professional services	501	488	430	415
Rent, utilities and maintenance	656	658	478	411
Depreciation and amortization	252	157	95	91
Computer network	68	67	54	54
Advertising and marketing	64	64	32	27
Other taxes	103	100	59	58
Insurance	32	32	18	18
Other	67	48	34	25
	4,142	**3,968**	**2,827**	**2,515**

The average number of employees in the Bank in 2008 was 115 (2007: 80); in the Group in 2008 was 128 (2007: 112).

15. OTHER OPERATING EXPENSES

	2008		2007	
	Group LVL '000	Bank LVL '000	Group LVL '000	Bank LVL '000
Membership fees	23	23	26	23
Fee on real estate management	26	2	-	-
Loss from disposal of subsidiary companies	320	-	32	-
Fee on managing acquisition/disposal of subsidiaries	262	195		
Other	1	1	37	34
	632	**221**	**95**	**57**

16. IMPAIRMENT OF ASSETS

Impairment of assets for the Bank

	2008 LVL '000	2007 LVL '000
Total allowance as of 1 January	**91**	**10**
Increase in loan loss allowances	283	88
Increase in securities' loss allowances	38	-
Release of previously established allowances	-	(1)
Change for the year	321	87
Change of previously established allowances due to currency fluctuations	1	(6)
Total allowance as of 31 December	**413**	**91**

Impairment of assets for the Group

	2008 LVL '000	2007 LVL '000
Total allowance as of 1 January	**119**	**28**
Increase in loan loss allowances	285	108
Increase in securities' loss allowances	38	-
Impairment of non-current assets held for sale (Note 28)	505	-
Release of previously established allowances	(6)	(9)
Change for the year	822	99
Change of previously established allowances due to currency fluctuations	2	(8)
Total allowance as of 31 December	**943**	**119**

17. INCOME TAX EXPENSE

	2008		2007	
	Group LVL '000	Bank LVL '000	Group LVL '000	Bank LVL '000
Current year tax expense	1,198	1,191	488	488
	1,198	**1,191**	**488**	**488**

The table below shows the reconciliation between the current tax expense and the theoretically calculated tax amount using the basic tax rate, which was 15% in 2008 and 2007.

	2008		2007	
	Group LVL '000	Bank LVL '000	Group LVL '000	Bank LVL '000
Profit before tax	3,674	4,547	2,505	2,452
Theoretically calculated tax at rate 15%	551	682	376	368
Non-deductible expenses and exempt income net	647	509	113	120
Effect of tax losses utilized, not previously recognized	-	-	(1)	-
Income tax expense	**1,198**	**1,191**	**488**	**488**

Deferred tax has not been recognized due to materiality.

18. CASH AND BALANCES WITH THE BANK OF LATVIA

	2008		2007	
	Group LVL '000	Bank LVL '000	Group LVL '000	Bank LVL '000
Cash	262	261	331	331
Balance with the Bank of Latvia	5,288	5,288	11,485	11,485
	5,550	5,549	11,816	11,816

According to the regulations of the Financial and Capital Markets Commission, the total amount of funds on the account with the Central Bank should not be less than the amount of the obligatory reserves calculated from the average amount of customer deposits during the month. During 2008 the Bank complied with these requirements. As at December 31 2008 the determined amount of obligatory reserves was LVL 4,696 thousand.

19. DEPOSITS WITH CREDIT INSTITUTIONS

	2008		2007	
	Group LVL '000	Bank LVL '000	Group LVL '000	Bank LVL '000
Demand deposits with credit institutions				
Credit institutions registered in Latvia	2,608	2,599	524	521
Credit institutions registered in OECD countries	24,454	24,454	27,894	27,894
Credit institutions of other countries	9,591	9,591	11,997	11,997
Total demand deposits with credit institutions	**36,653**	**36,644**	**40,415**	**40,412**
Term deposits with credit institutions	**525**	**525**	**1,329**	**1,133**
Total deposits with credit institutions	**37,178**	**37,169**	**41,744**	**41,545**

As at 31 December 2008, the Bank had correspondent accounts with 35 banks (2007: 34). The largest account balances are due from Sberbank (Russia) of LVL 8,317 thousand (2007: LVL 11,350 thousand) and Raiffeisen Zentralbank Oesterreich LVL 12,486 thousand – (2007: LVL 8,815 thousand).

As at 31 December 2008 the Bank had amounts due from 5 banks and other financial institutions (2007: 4), which exceeded 10% of total due from credit institutions. The aggregate value of these balances as of 31 December 2008 was LVL 36,455 thousand (2007: LVL 34,022 thousand).

The average effective interest rate on due amounts from credit institutions is 3.05% (2007: 3.19%).

20. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2008		2007	
	Group LVL '000	Bank LVL '000	Group LVL '000	Bank LVL '000
Fixed income securities held for trading				
Latvian government debt securities	-	-	305	-
Eurobonds issued by Latvian credit institutions	244	244	1,000	962
Eurobonds issued by companies and credit institutions of other countries	7,394	7,394	11,930	11,930
Latvian government debt securities	-	-	15	-
Investments in non-fixed income securities held for trading				
Shares of private non-financial companies	-	-	33	-
	7,638	7,638	13,283	12,892

21. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2008		2007	
	Group LVL '000	Bank LVL '000	Group LVL '000	Bank LVL '000
Fixed income securities				
Debt securities issued by private companies	-	-	2,115	-
Debt securities issued by financial institutions	-	-	1	-
Investments in non-fixed income securities				
SWIFT shares	10	10	10	10
Total financial assets available-for-sale	**10**	**10**	**2,126**	**10**

22. LOANS AND RECEIVABLES

(a) Loans

	2008		2007	
	Group LVL '000	Bank LVL '000	Group LVL '000	Bank LVL '000
Financial institutions	-	205	608	601
Private companies	33,392	33,144	23,420	22,962
Individuals	1,564	1,239	1,167	1,112
Total loans	**34,956**	**34,588**	**25,195**	**24,675**
Loan loss allowance (Note 16)	(400)	(375)	(119)	(91)
Net loans	**34,556**	**34,213**	**25,076**	**24,584**

(b) Analysis of loans by type

	2008		2007	
	Group LVL '000	Bank LVL '000	Group LVL '000	Bank LVL '000
Loan portfolio				
Corporate loans	26,041	25,673	16,358	16,358
Industrial loans	3,198	3,198	3,369	3,369
Payment cards loans	52	52	60	60
Mortgage loans	21	21	662	662
Other loans	870	870	2,593	2,077
Accrued interest	312	312	217	213
Total Loan portfolio	**30,494**	**30,126**	**23,259**	**22,739**
Securities loans				
Reverse repo	4,460	4,460	1,934	1,934
Accrued interest	2	2	2	2
Total securities loans	**4,462**	**4,462**	**1,936**	**1,936**
Total loans	**34,956**	**34,588**	**25,195**	**24,675**
Loan loss allowance (Note 16)	(400)	(375)	(119)	(91)
Loans net	**34,556**	**34,213**	**25,076**	**24,584**

(c) Geographical segmentation of the loans	2008		2007	
	Group LVL '000	Bank LVL '000	Group LVL '000	Bank LVL '000
Loans to residents of Latvia	7,404	7,036	7,037	6,544
Loans to residents of OECD countries	6,525	6,525	5,386	5,370
Loans to residents of the other countries	20,713	20,713	12,555	12,548
Accrued interest	314	314	217	213
Total loans	**34,956**	**34,588**	**25,195**	**24,675**
Loan loss allowance (Note 16)	(400)	(375)	(119)	(91)
Loans net	**34,556**	**34,213**	**25,076**	**24,584**

The average interest rate on the loan portfolio is 11.36 % (2007: 11.37%). The average interest rate on repo transactions is 3.14% (2007: 4.93%).

(d) Significant credit exposures

As at 31 December 2008 and 2007 the Bank had no borrowers or groups of related borrowers, respectively, whose loan balances exceeded 10% of loans and receivables from customers.

According to regulatory requirements, the Bank is not allowed to have a credit exposure to one client or group of related clients of more than 25% of Bank's equity. As at December 31 2008 and 2007 the Bank was in compliance with this requirement.

(e) Ageing structure of loan portfolio

Bank LVL '000	Carrying amount	Of which neither past due nor impaired on the reporting date	Of which not impaired on the reporting date and past due in the following periods: Less than 30 days	Between 30 and 60 days	Between 61 and 90 days	Between 91 and 180 days	Between 181 and 360 days	More than 360 days
	31 Dec 2008							
Loans	34,588	34,243	21	42	0	64	0	218
	31 Dec 2007							
Loans	24,675	24,429	16	3	9	1	208	9

Group LVL '000	Carrying amount	Of which neither past due nor impaired on the reporting date	Of which not impaired on the reporting date and past due in the following periods: Less than 30 days	Between 30 and 60 days	Between 61 and 90 days	Between 91 and 180 days	Between 181 and 360 days	More than 360 days
	31 Dec 2008							
Loans	34,956	34,433	81	42	0	65	2	333
	31 Dec 2007							
Loans	25,195	24,827	19	3	9	1	209	127

The Bank has estimated loan impairment for commercial loans based on an analysis of the future cash flows for impaired loans.

(f) Impaired loans

	2008 '000 LVL		2007 '000 LVL	
	Group	**Bank**	**Group**	**Bank**
Impaired loans gross	876	834	265	217
Impairment allowance	(400)	(375)	(119)	(90)
Net Loans and receivables from customers	**476**	**459**	**146**	**127**
Fair value of collateral related to impaired loans	**857**	**857**	**321**	**321**

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

2008 '000 LVL	**Gross**	**Impairment allowance**
Standard	33,754	-
Watch	300	30
Substandard	-	-
Doubtful	497	308
Lost	37	37
Total	**34,588**	**375**

(g) Industry analysis of the loan portfolio

	2008 '000 LVL	**2007 '000 LVL**
Metal ware production	858	1,263
Wholesale	3,805	3,982
Water transport	11,382	10,793
Financial services	3,201	386
Real estate	465	520
Private individuals	1,086	1,491
Other services	13,416	6,149
Total	**34,213**	**24,584**

(h) Analysis of loans by type of collateral

LVL'000	**31 December 2008**	**% of loan portfolio**	**31 December 2007**	**% of loan portfolio**
Commercial buildings	3,092	9	3,530	14
Commercial assets pledge	1,898	6	597	2
Commercial assets: water transport	17,884	52	13,349	54
Goods: scrap metal	4,193	12	4,209	17
Traded securities	4,462	13	1,936	8
Other	2,684	8	963	5
Total	**34,213**	**100**	**24,584**	**100**

23. FINANCIAL ASSETS HELD-TO-MATURITY

	2008		2007	
	Group LVL '000	Bank LVL '000	Group LVL '000	Bank LVL '000
Debt securities and other fixed income securities				
Eurobonds issued by Latvian credit institutions	868	868	-	-
Eurobonds issued by companies and credit institutions of other countries	13,713	13,713	-	-
	14,581	**14,581**	-	-

As at 31 December 2008, financial investments held-to-maturity consisted of financial assets of LVL 14,936 thousand (of which coupons amount to LVL 430 thousand), which at the initial recognition was classified by the Bank as financial instruments at fair value through profit or loss (2007: 0 LVL).

Reclassification out of held for trading financial instruments

Pursuant to the amendments to IAS 39 and IFRS 7 (described in Note 3 (4)), the Bank reclassified certain trading assets to financial assets held to maturity . The Bank identified financial assets eligible under the amendments, for which it had changed its intent such that it no longer held these financial assets for the purpose of selling in the short term. For the trading assets identified for reclassification that would have met the definition of financial assets held to maturity, the Bank had the intention and ability to hold them for the foreseeable future or until maturity. For the trading assets identified for reclassification, the Bank determined that the deterioration of the financial markets during the third quarter of 2008 constituted rare circumstances that permit reclassification out of the trading category.

Under IAS 39 as amended, the reclassifications were made, effective from 1 July 2008 at fair value at that date. The table below sets out the financial assets reclassified and their carrying and fair values:

	1 July 2008		31 December 2008	
'000 LVL	**Carrying value**	**Fair value**	**Carrying value**	**Fair value**
Trading assets reclassified to held-to-maturity financial assets	5,755	5,755	5,807	4,358
	5,755	**5,755**	**5,807**	**4,358**

The table below sets out the amounts actually recognized in profit or loss and equity during 2008 in respect of financial assets reclassified out of trading assets:

'000LVL	**Net income**	**Equity**
Period before reclassification		
Net loss on financial instruments at fair value through profit or loss reclassified to held-to-maturity financial assets	242	-
Period after reclassification		
Financial instruments reclassified to held-to-maturity financial assets		
Interest income	207	-
Net impairment loss	-	-

The table below sets out the amounts that would have been recognized in the period following reclassification during 2008 if the reclassifications had not been made:

LVL '000	**Profit or loss**
Net loss on financial instruments at fair value through profit or loss reclassified to held-to-maturity financial assets	(1,398)

In 2008, effective interest rates on trading assets reclassified to held-to-maturity financial assets ranged from 6.5% to 14% with expected recoverable cash flows of LVL 18,779 thousand.

24. INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES

(a) Investments in subsidiaries (Bank)

Company	**Share in equity**	**2008 Cost LVL '000**	**2007 Cost LVL '000**
SIA "Baltikums Līzings"	100%	345	345
IPAS "Baltikums Asset Management"	100%	-	5,578
AS IPS "Baltikums Asset Management"	100%	111	-
SIA "Baltikums Direct"	100%	7	7
SIA "Konsalting Invest"	51%	2,708	-
		3,171	**5,930**

SIA "Baltikums Direct"

SIA "Baltikums Direct" was acquired in September 2007 and operates as the coordinator of activities between other Group companies operating in Russia, Ukraine and Kazakhstan, whose responsibilities include attracting clients and representing the Bank's and Group's interests in those countries.

Profit for the year ended 31 December 2008 is LVL 2 thousand (2007: a loss of LVL 17 thousand). SIA "Baltikums Direct net assets as at 31 December 2008 amounted to LVL 2 thousand (2007: nil).

SIA "Baltikums Līzings"

Main business activities of the company are provision of leasing and other financing services. For the year ended 31 December 2008, net profit of SIA "Baltikums Līzings" was LVL 9 thousand (2007: nil). As at 31 December 2008, net assets of SIA "Baltikums Līzings" amounted to LVL 345 thousand (2007: LVL 336 thousand).

(b) In February 2008 the Bank acquired from IPAS "Baltikums Asset Management"49% of AS "Baltikums apdrošināšanas Grupa" for LVL 3,071 thousand. In October 2008, the Bank sold 49% of AS "Baltikums apdrošināšanas Grupa" for LVL 3,073 thousand, resulting into a gain on sale of LVL 2 thousand.

In February 2008 the Bank bought 93.46% of AS "Baltikums Dzīvība" from IPAS "Baltikums Asset Management" with the purpose to sell and in September 2008 sold 93.46% for LVL 2,542 thousand, with a gain on sale of LVL 188 thousand.

(c) Summary of acquisitions and disposals of subsidiaries during the year 2008.

Acquisitions in 2008:	Shareholding acquired	Net assets at the date of the deal LVL '000	Consideration received/(paid) LVL '000	Goodwill LVL '000
IPAS "Baltikums Asset Management"	100%	111	(111)	-
SIA "Konsalting Invest"	100%	1,423	(1,516)	93
		1 534	**(1 627)**	**93**

Disposals in 2008:	Shareholding sold	Net assets at the date of the deal LVL '000	Goodwill released LVL '000	Consideration received/ (paid) LVL '000	Net result from the deal LVL '000
AS "Baltikums apdrošināšanas Grupa"	49%	(3 071)	-	3 073	2
IPAS "Baltikums Asset Management"	100%	(181)	(3)	431	247
AS "Baltikums Dzīvība"	93.46%	(2 436)	(120)	2 542	14
SIA "Konsalting Invest"	49%	(2 545)	(46)	2 820	229
Total		**(8 233)**	**(169)**	**8 866**	**492**
Cash disposed				(191)	
Consideration received net of cash disposed				**8 675**	

	Pre-acquisition carrying amounts: SIA "Konsalting Invest" LVL'000	Pre-acquisition carrying amounts: AS IPS "Finasta Asset Management" LVL'000	Recognised values on acquisition LVL'000
Long-term investments	2,718	-	2,718
Loans to customers and debtors	6	-	6
Current assets	78	111	189
Long-term liabilities	(1,374)	-	(1,374)
Short term liabilities	(5)	-	(5)
Net identifiable assets	**1,423**	**111**	**1,534**
Goodwill on acquisition			**93**
Consideration paid, satisfied in cash			**1,627**
Cash acquired			(103)
Net cash outflow			**1,524**

SIA "Konsalting Invest"

The activities of SIA "Konsalting Invest" comprise investment and rental of real estate. One hundred percent of SIA "Konsalting Invest" was acquired in April 2008 for LVL 1,516 thousand. Management of the Group concluded that there were no differences between the fair value and pre-acquisition carrying amounts of net assets of the acquired subsidiary at the date of acquisition.

During 2008 the share capital of the company was increased to LVL 5,309 thousand. In December 2008, a 49% share in the company was sold to a related party. Loss for 2008 was LVL 455 thousand (2007 loss LVL 17 thousand). The shareholders equity and reserves of SIA Konsulting Invest as at 31 December 2008 were LVL 4,654 thousand (31 December 2007 – LVL 612 thousand).

IPAS "Baltikums Asset Management"

IPAS Baltikums Asset Management has established the following open-end mutual funds - Baltic Index Fund, Government bond fund and International Equity Fund of Funds. IPAS "Baltikums Asset Management" also received a license to manage state pension system funds. In September 2008 IPAS "Baltikums Asset Management" was sold to a third party with funds, which were under management, and the Bank bought 100% of AS IPS "Finasta", which has been renamed AS IPS "Baltikums Asset Management". The licence to operate as a mutual find manager was re-registered 11 November 2008. As at 31 December 2008 the net loss of AS IPS "Baltikums Asset Management" was LVL 25 thousand, net assets amounted to LVL 102 thousand.

(d) Investments in associates (Bank and group)

Company	Share in equity	2008 Cost LVL '000	2007 Cost LVL '000
LLC "Балтикумс Траст" (Kiev)	25%	1	-
LLC "Балтикумс Траст" (Sankt- Petersburg)	25%	1	-
AS "Baltikums Apdrošināšanas Grupa"	49%	-	3,071
LLC "Baltikums Trast" (Moscow)	25%	-	-
Total (rounded)		**2**	**3,071**

In 2008, LLC "Baltikums Direct", a wholly owned subsidiary of the Bank, acquired 25% of LLC "Балтикумс Траст" (Kiev) and 25% of LLC "Балтикумс Траст" (Sankt- Petersburg).

25. INTANGIBLE ASSETS

Group

	Goodwill LVL '000	Software LVL '000	Total LVL '000
Acquisition cost			
As of 31 December 2006	**155**	**214**	**369**
Additions for the period	8	36	44
Disposals during the period	-32	0	-32
As of 31 December 2007	**131**	**250**	**381**
Additions for the period	93	165	258
Disposals during the period	-179	0	-179
As of 31 December 2008	**45**	**415**	**460**
As of 31 December 2006	-	**132**	**132**
Amortization for the period	-	37	37
As of 31 December 2007	-	**169**	**169**
Amortization for the period	-	34	34
As of 31 December 2008	-	**203**	**203**
Net book value			
As of 31 December 2006	**155**	**82**	**237**
As of 31 December 2007	**131**	**81**	**212**
As of 31 December 2008	**45**	**212**	**257**

Bank

	Goodwill LVL '000	Software LVL '000	Total LVL '000
Acquisition cost			
As of 31 December 2006	-	**211**	**211**
Additions for the period	-	36	36
Disposals during the period	-	0	0
As of 31 December 2007	-	**247**	**247**
Additions for the period	-	165	165
Disposals during the period	-	0	0
As of 31 December 2008	-	**412**	**412**
As of 31 December 2006	-	**129**	**129**
Amortization for the period	-	37	37
As of 31 December 2007	-	**166**	**166**
Amortization for the period	-	34	34
As of 31 December 2008	-	**200**	**200**
Net book value			
As of 31 December 2006	-	**82**	**82**
As of 31 December 2007	-	**81**	**81**
As of 31 December 2008	-	**212**	**212**

The amounts of goodwill in the table above are shown at their gross amounts and there are no accumulated impairment losses.

26. PROPERTY AND EQUIPMENT

	Land for own use LVL '000		Leasehold improvement LVL '000		Vehicles LVL '000		Office equipment LVL '000		Total LVL '000	
	Group	Bank	Group	Bank	Group	Bank	Group	Bank	Group	Bank
Cost										
As of 31 December 2006	-	-	-	-	39	39	316	296	355	335
Additions	-	-	169	169	41	41	100	99	310	309
Additions as a result of acquisition of subsidiaries	-	-	-	-	-	-	5	-	5	
Disposals			-	-	-	-	(1)	(1)	(1)	(1)
As of 31 December 2007	-	-	169	169	80	80	420	394	669	643
Additions	1,255	1,255	-	-	18	18	224	224	1 497	1 497
Additions as a result of acquisition of subsidiaries	-	-	-	-	-	-	3	-	3	-
Reduction as a result of disposal of subsidiaries	-	-	-	-	-	-	(19)	-	(19)	-
Disposals	-	-	-	-	-	-	(62)	(55)	(62)	(55)
As of 31 December 2008	1,255	1,255	169	169	98	98	566	563	2,088	2,085
Depreciation										
As of 31 December 2006	-	-	-	-	9	9	238	229	247	238
Depreciation	-	-	11	11	9	9	39	34	59	54
Accumulated depreciation as a result of acquisition of subsidiaries	-	-	-	-	-	-	5	-	5	-
Disposals	-	-	-	-	-	-	(1)	(1)	(1)	(1)
As of 31 December 2007	-	-	11	11	18	18	281	262	310	291
Depreciation			42	42	16	16	56	56	114	114
Accumulated depreciation as a result of acquisition of subsidiaries	-	-	-	-	-	-	(14)	-	(14)	-
Disposals	-	-	-	-	-	-	(60)	(55)	(60)	(55)
As of 31 December 2008	-	-	53	53	34	34	263	263	350	350
Net book value										
As of 31 December 2006	-	-	-	-	30	30	78	67	108	97
As of 31 December 2007	-	-	158	158	62	62	139	132	359	352
As of 31 December 2008	1,255	1,255	116	116	64	64	303	300	1,738	1,735

27. INVESTMENT PROPERTY

The investment property of the Group consists of the following property items:

	2008		2007	
	Group LVL '000	Bank LVL '000	Group LVL '000	Bank LVL '000
Land and building on 12 Ūdens street, Riga	3,344	255	-	-
Land and building on 28 Raiņa street, Daugavpils	275	275		-
Land plots in Latvia	-	-	545	-
	3,619	**530**	**545**	**-**

	Group LVL '000	Bank LVL '000
As of 31 December 2007	**545**	-
Acquisition of land and building on 12 Ūdens street, Riga	3,446	262
Acquisition of land and building on 28 Raiņa street, Daugavpils	277	277
Depreciation of building on 12 Ūdens street, Riga	(102)	(8)
Depreciation of building on 28 Raiņa street, Daugavpils	(2)	(1)
Reduction as a result of disposal of subsidiary	(545)	-
As of 31 December 2008	**3,619**	**530**

Land plots in amount of 545 thousand LVL were owned by AS "Baltikums Dzīvība". As a result of the sale of AS "Baltikums Dzīvība", land plots were excluded from the Group's assets.

28. NON-CURRENT ASSETS HELD FOR SALE

	2008		2007	
	Group LVL '000	Bank LVL '000	Group LVL '000	Bank LVL '000
Assets held for sale	4,394	1,070	-	-
	4,394	**1,070**	-	-
Impairment loss (Note 16)	(505)	-	-	-
	3,889	**1,070**	-	-

Non-current assets held for sale are carried at the lower of the carrying amount or fair value less costs to sell, and include unlisted real estate investment and licensed mass media companies' shares. There is no active market for such an investment and there have been no recent transactions to provide basis for fair value. In addition, the discounted cash flow method would result in a wide range of fair values as there is no certainty regarding the future cash flows in this industry. During the reporting year the Bank acquired investments with a book value of LVL 1,070 thousand and the management believes that the fair value of those investments at the year end does not differ from their book value.

During the reporting year, the Group had acquired investments for a total amount of LVL 4,394 thousand. The management of the Group concluded that there were no differences between the fair value and pre-acquisition carrying amounts of net assets of the acquired subsidiary at the date of acquisition, with the exception of one investment that has been disposed.

29. OTHER ASSETS

	2008		2007	
	Group LVL '000	Bank LVL '000	Group LVL '000	Bank LVL '000
Prepayment for AS Baltikums shares	2,820	2,820	-	-
MasterCard receivable	-	-	2	2
Cash with brokers for securities settlements	63	63	121	121
Taxes receivable (VAT)	84	84	83	80
Receivables from SPOT deals	39	39	-	-
Receivables from securities deals	107	107	-	-
Other debtors	73	62	69	65
	3,186	**3,175**	**275**	**268**
Impairment loss (Note 16)	-	-	(1)	-
	3,186	**3,175**	**274**	**268**

On 15 December 2008 the Bank acquired 49.86 % of the share capital of AAS „Baltikums" (non- life insurance company, acting in Latvia) in the amount of LVL 2,820 thousand. The total sum was paid in cash. At acquisition, the equity of AAS „Baltikums" was LVL 5,862 thousand, with the Bank's interest at LVL 2,923 thousand. As of 31 December 2008 the Bank had not yet received permission from the Financial and Capital Markets Commission for shares acquisition.

30. DUE TO CREDIT INSTITUTIONS ON DEMAND

	2008		2007	
	Group LVL '000	Bank LVL '000	Group LVL '000	Bank LVL '000
Credit institutions registered in Latvia	-	-	1,501	1,501
Credit institutions registered in other countries	7	7	-	-
	7	7	**1,501**	**1,501**

As at 31 December 2008 Bank did not have any banks or credit institutions whose account balances exceeded 10% of total due to credit institutions (2007: 1 bank).

The average interest rate on amounts due to credit institutions registered in Latvia in 2008 was 4.35% (7.05% in 2007).

31. LOANS RECEIVED FROM CREDIT INSTITUTIONS

	2008		2007	
	Group LVL '000	Bank LVL '000	Group LVL '000	Bank LVL '000
Credit institutions registered in Latvia	1,270	-	-	-
	1,270	-	-	-

Annual interest rate on amounts due to credit institutions registered in Latvia (SEB) in 2008 was EURIBOR 6M + 1.75%, (2007: EURIBOR 6M + 1.75%).

32. FINANCIAL LIABILITIES CARRIED AT AMORTIZED COST: CUSTOMERS DEPOSITS

	2008		2007	
	Group LVL '000	Bank LVL '000	Group LVL '000	Bank LVL '000
Current accounts:				
Financial institutions	1,391	1,392	1,321	1,337
Corporate	62,786	62,791	64,349	64,349
Individuals	4,130	4,130	1,283	1,283
	68,307	**68,313**	**66,953**	**66,969**
Term deposits:				
Financial institutions	1,827	1,929	123	256
Corporate	7,934	7,934	4,507	4,507
Individuals	1,028	1,028	559	559
	10,789	**10,891**	**5,189**	**5,322**
Deposits total	**79,096**	**79,204**	**72,142**	**72,291**

As of 31 December 2008, the Bank maintained customer deposit balances of LVL 197 thousand (2007: LVL 173 thousand) which were blocked by the Bank as collateral for loans and off-balance sheet credit instruments granted by the Bank.

The average term deposits rate was 4.21% in 2008 (4.69% in 2007). The average demand deposits rate was 0.33% in 2008 (1.10% in 2007).

As at 31 December 2008 the Bank had no customer/customer group with deposits exceeding 10% of the total customer deposits and as at December 31, 2007 the Bank had one such customers/customer groups. On 31 December 2007 that customers/customer groups balances were LVL 7,901 thousand.

33. FINANCIAL LIABILITIES CARRIED AT AMORTIZED COST: NOTES PAYABLE

In April 2006 the Bank carried out a second issue of bonds. The maturity date of the bonds is 20 April 2009. The size of the issue is EUR 5 million (LVL 3,514 thousand), and the coupon rate is 6.875%.

In February 2007 the Bank carried out the third issue of bonds with a maturity date of 2 February 2010. The size of the issue is EUR 10 million (LVL 7,028 thousand), and a floating coupon rate of 3 month EURIBOR + 3.0%. All bonds are publicly traded at Riga Stock Exchange.

	2008		2007	
	Group LVL '000	Bank LVL '000	Group LVL '000	Bank LVL '000
Notes payable	10,514	10,514	10,661	10,678
Non-amortized commission on issue	(30)	(30)	(68)	(68)
	10,484	**10,484**	**10,593**	**10,610**

34. DEFERRED INCOME AND ACCRUED EXPENSES

	2008		2007	
	Group LVL '000	Bank LVL '000	Group LVL '000	Bank LVL '000
Prepaid income	35	35	26	26
Accrued expenses	66	66	77	69
	101	**101**	**103**	**95**

35. PROVISIONS

	Group LVL '000	Bank LVL '000
As of 31 December 2007	**65**	**52**
Increase in provisions	35	34
Excluded from consolidation	(13)	-
As of 31 December 2008	**87**	**86**

Provisions consist of provisions for unused vacations of employees.

36. OTHER LIABILITIES

	2008		2007	
	Group LVL '000	Bank LVL '000	Group LVL '000	Bank LVL '000
Insurance liabilities	-	-	664	-
Funds in transit	7	7	27	27
Settlements related to credit cards	20	20	23	23
Unrealized loss from *spot* transactions	-	-	63	63
Settlements related to placing investments	36	-	-	
Other creditors	24	10	57	36
	87	**37**	**834**	**149**

37. DERIVATIVE FINANCIAL ASSETS AND LIABILITIES

	2008 '000 LVL		2007 '000 LVL	
	Carrying value	Notional value	Carrying value	Notional value
Assets				
Forward contracts	219	7,619	229	49,696
Total derivative financial assets	**219**	**7,619**	**229**	**49,696**
Liabilities				
Forward contracts	135	7,535	188	49,655
Total derivative liabilities	**135**	**7,535**	**188**	**49,655**

As of 31 December 2008 the Bank had 14 foreign exchange forward contracts outstanding (2007: 61 contracts).

38. SHARE CAPITAL AND RESERVES

As of 31 December 2008 the authorized share capital comprised 15,178,200 ordinary shares (2007: 10,525,000) with a par value of LVL 1 and are fully paid. The holders of ordinary shares are entitled to receive dividends as declared and are entitled to one vote per share at shareholders' meetings. All shares rank equally with regard to the Bank's residual assets.

	2008		2007	
	Quantity	LVL	Quantity	LVL
Share capital				
Ordinary shares with voting rights	15,178,200	15,178,200	10,525,000	10,525,000
	15,178,200	**15,178,200**	**10,525,000**	**10,525,000**

Share capital was increased three times during 2008 by 4,653,200 shares in total. On 5 March, 1.8 million new shares were issued at LVL 1 per share; on 9 April 2.2 million shares were issued at LVL 1 per share; and on 18

June, 653,200 shares were issued at LVL 1 per share. The new shares were distributed among current shareholders according to prior shareholders' structure (See Note 1).

Dividends

Dividends payable are restricted to the maximum retained earnings of the Bank, which are determined according to the legislation of Latvia. In accordance with the legislation of Latvia, as of the balance sheet date, reserves available for distribution amount to LVL 3,356 thousand (2007: LVL 1,964 thousand).

Reserve capital amounting to LVL 17 thousand represents a historically-established reserve accumulated from retained earnings in accordance with the legislation of the Republic of Latvia. The reserve capital is not subject to any restrictions and can be distributed to the shareholders upon the appropriate decision.

39. CASH AND CASH EQUIVALENTS

	2008		2007	
	Group LVL '000	**Bank LVL '000**	**Group LVL '000**	**Bank LVL '000**
Cash	262	261	331	331
Due from the Bank of Latvia	5,288	5,288	11,485	11,485
Due from credit institutions on demand and within 3 months	37,153	37,144	41,623	41,424
Due to credit institutions on demand and within 3 months	(7)	(7)	(1,501)	(1,501)
	42,696	**42,686**	**51,938**	**51,739**

40. CONTINGENT LIABILITIES AND COMMITMENTS

At any time the Bank has outstanding commitments to extend credit. These commitments take the form of approved loans, 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 five 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 to completely perform as contracted.

	2008		2007	
	Group LVL '000	**Bank LVL '000**	**Group LVL '000**	**Bank LVL '000**
Unutilized loan facilities	3,289	3,289	2,407	2,407
Unutilized credit card facilities	293	293	168	168
Guarantees	80	80	12	12
	3,662	**3,662**	**2,587**	**2,587**

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.

41. EARNINGS PER SHARE

As of 31 December 2008 the Bank has no dilutive potential for ordinary shares and therefore, diluted earnings per share are the same as the basic earnings per share.

Basic earnings per share are calculated by dividing the net income attributable to the shareholders by the weighted average number of ordinary shares in issue during the year.

	2008		2007	
	Group LVL '000	**Bank LVL '000**	**Group LVL '000**	**Bank LVL '000**
Net income attributable to Equity holders of the Bank	2,476	3,356	2,009	1,964
Weighted average number of shares outstanding during the year	13,944,000	13,944,000	10,470,000	10,470,000
Basic earnings per share, LVL	**0.178**	**0.241**	**0.192**	**0.188**

42. ASSETS UNDER MANAGEMENT

	2008		2007	
Assets under management	**Group LVL '000**	**Bank LVL '000**	**Group LVL '000**	**Bank LVL '000**
Due from Latvian credit institutions	2	2	6	6
Non-fixed income securities	194	194	-	-
Fixed-income securities,	5,700	5,700	500	500
of which pledged in repo transactions	*5,651*	*5,651*	*946*	*946*
Other assets	703	703	42	42
Total Assets under management	**6,599**	**6,599**	**1,494**	**1,494**
Liabilities under management				
Non-resident trust liabilities	6,321	6,321	-	-
Resident trust liabilities	278	278	1,494	1,494
Total liabilities under management	**6,599**	**6,599**	**1,494**	**1,494**

There were outstanding balances with related parties included in the assets under management by the Bank as of 31 December 2008. As of 31 December 2008 assets under management by the Group with related parties were LVL 151 thousand (2007: nil).

43. TRANSACTIONS WITH RELATED PARTIES

Related parties are defined as shareholders who have significant influence over the Bank, companies in which they have a controlling interest, members of the Council and the Management Board, key management personnel, their close relatives and companies in which they have a controlling interest, as well as associated companies. All transactions with related parties have been carried out at an arm's length basis.

Loans, deposits and other claims and liabilities to related parties include the following:

	2008		2007	
	Group LVL '000	Bank LVL '000	Group LVL '000	Bank LVL '000
Loans to customers	164	846	621	621
Derivatives	10	10	-	-
Credit lines	95	270	76	76
Total loans and other claims	**269**	**1 126**	**697**	**697**
Notes payable	-	-	-	17
Term and demand deposits	874	3,580	1,814	1,963
Total deposits and other liabilities	**874**	**3,580**	**1,814**	**1,980**

	2008		2007	
	Group Interest rate %	Bank Interest rate %	Group Interest rate %	Bank Interest rate %
Loans to customers	8.87	8.87	6.68	6.68
Term and demand deposits	3.74	3.74	2.72	2.72

The Council and the Board remuneration in 2008 was LVL 367 thousand (2007: LVL 235 thousand).

	2008		2007	
Income from related party transactions	Group LVL '000	Bank LVL '000	Group LVL '000	Bank LVL '000
Commission income	14	23	24	26
Interest income	45	47	41	41
Other	-	-	-	5
Expenses from related party transactions				
Interest expenses	22	72	49	53
Other	5	27	-	381

44. CLASSIFICATION OF FINANCIAL INSTRUMENTS AND OTHER ASSETS (BANK)

LVL'000 31 December 2008	Loans and receivables	Held to maturity	Held for trading	Available-for-sale	Non-financial assets	Total
Assets						
Cash and balances with the Bank of Latvia	5,549	-	-	-	-	**5,549**
Deposits with credit institutions	37,169	-	-	-	-	**37,169**
Financial assets at fair value through profit or loss	-	-	7,857	-	-	**7,857**
Available-for-sale financial assets	-	-	-	10	-	**10**
Loans and receivables	34,213	-	-	-	-	**34,213**
Financial assets held-to-maturity	-	14,581	-	-	-	**14,581**
Investment in subsidiaries and associates	-	-	-	-	3,171	**3,171**
Intangible assets	-	-	-	-	212	**212**
Property and equipment	-	-	-	-	1,735	**1,735**
Investment property	-	-	-	-	530	**530**
Non-current assets held for sale	-	-	-	-	1,070	**1,070**
Other assets	-	-	-	-	3,175	**3,175**
Prepayments and accrued income	-	-	-	-	47	**47**
Total	**76,670**	**14,581**	**7,857**	**10**	**10,201**	**109,319**

LVL'000 31 December 2007	Loans and receivables	Held to maturity	Held for trading	Available-for-sale	Non-financial assets	Total
Assets						
Cash and balances with the Bank of Latvia	11,816	-	-	-	-	**11,816**
Deposits with credit institutions	40,412	1,133	-	-	-	**41,545**
Financial assets at fair value through profit or loss	-	-	13,121	-	-	**13,121**
Available-for-sale financial assets	-	-	-	10	-	**10**
Loans and receivables	24,584	-	-	-	-	**24,584**
Investment in subsidiaries and associates	-	-	-	-	5,930	**5,930**
Intangible assets	-	-	-	-	81	**81**
Property and equipment	-	-	-	-	352	**352**
Other assets	-	-	-	-	268	**268**
Prepayments and accrued income	-	-	-	-	24	**24**
Total	**76,812**	**1,133**	**13,121**	**10**	**6,655**	**97,731**

The classification for the Group is not significantly different from that of the Bank disclosed above.

45. MATURITY ANALYSIS OF ASSETS AND LIABILITIES (BANK)

The table below reflects the maturity analysis of assets and liabilities based on the term from the balance sheet date until the maturity dates of the respective assets and liabilities. The remaining period to maturity of assets and liabilities as of 31 December 2008 was as follows:

2008 LVL '000	Up to 1 month including	From 1 to 3 months	From 3 months to 6 months	From 6 months to 1 year	From 1 year to 5 years	5 years and over, or no maturity	Total LVL '000
ASSETS							
Cash and balances with the Bank of Latvia	5,549	-	-	-	-	-	**5,549**
Deposits with credit institutions	37,169	-	-	-	-	-	**37,169**
Financial assets at fair value through profit or loss	219	-	-	-	7,638	-	**7,857**
Available-for-sale financial assets	-	-	-	-	-	10	**10**
Loans and receivables	6,699	2,757	2,068	8,754	13,935	-	**34,213**
Financial assets held-to-maturity	7,493	226	82	2,218	4,562	-	**14,581**
Investment in subsidiaries and associates	-	-	-	-	-	3,171	**3,171**
Intangible assets	-	-	-	-	-	212	**212**
Property and equipment	-	-	-	-	-	1,735	**1,735**
Investment property	-	-	-	-	530	-	**530**
Non-current assets held for sale	-	-	-	1,070	-	-	**1,070**
Other assets	3,175	-	-	-	-	-	**3,175**
Prepayments and accrued income	-	-	-	47	-	-	**47**
Total assets	**60,304**	**2,983**	**2,150**	**12,089**	**26,665**	**5,128**	**109,319**
LIABILITIES AND EQUITY							
Due to credit institutions on demand	7	-	-	-	-	-	**7**
Derivatives	135	-	-	-	-	-	**135**
Financial liabilities carried at amortized cost	76,896	1,083	4,357	258	7,094	-	**89,688**
Deferred income and accrued expenses	66	35	-	-	-	-	**101**
Provisions	86	-	-	-	-	-	**86**
Current tax liabilities	629	-	-	-	-	-	**629**
Other liabilities	37	-	-	-	-	-	**37**
Total equity attributable to shareholders	-	-	-	-	-	18,636	**18,636**
Total liabilities and equity	**77,856**	**1,118**	**4,357**	**258**	**7,094**	**18,636**	**109,319**
Off-balance-sheet items	3,662	-	-	-	-	-	
Maturity gap	**(17,552)**	**1,865**	**(2,207)**	**11,831**	**19,571**	**(13,508)**	

The maturity analysis of the Group is not significantly different from that of the Bank disclosed above.

45. MATURITY ANALYSIS OF ASSETS AND LIABILITIES (BANK) (continued)

2007 LVL '000	Up to 1 month including	From 1 to 3 months	From 3 months to 6 months	From 6 months to 1 year	From 1 year to 5 years	5 years and over, or no maturity	Total LVL '000
ASSETS							
Cash and balances with the Bank of Latvia	11,816	-	-	-	-	-	**11,816**
Deposits with credit institutions	41,206	218	97	-	24	-	**41,545**
Financial assets at fair value through profit or loss	13,121	-	-	-	-	-	**13,121**
Available-for-sale financial assets	-	-	-	-	-	10	**10**
Loans and receivables	4,723	1,491	2,438	4,292	11,640	-	**24,584**
Investment in subsidiaries and associates	-	-	-	-	-	5,930	**5,930**
Intangible assets	-	-	-	-	-	81	**81**
Property and equipment	-	-	-	-	-	352	**352**
Other assets	-	-	-	-	-	268	**268**
Prepayments and accrued income	-	-	-	24	-	-	**24**
Total assets	**70,866**	**1,709**	**2,535**	**4,316**	**11,664**	**6,641**	**97,731**
LIABILITIES AND EQUITY							
Due to credit institutions on demand	1,501	-	-	-	-	-	**1,501**
Derivatives	124	64	-	-	-	-	**188**
Financial liabilities carried at amortized cost	68,687	1,556	1,724	165	10,769	-	**82,901**
Deferred income and accrued expense	95	-	-	-	-	-	**95**
Provisions	52	-	-	-	-	-	**52**
Current tax liabilities	-	254	-	-	-	-	**254**
Other liabilities	149	-	-	-	-	-	**149**
Total equity attributable to shareholders	-	-	-	-	-	12,591	**12,591**
Total liabilities and equity	**70,608**	**1,874**	**1,724**	**165**	**10,769**	**12,591**	**97,731**
Off-balance-sheet items	2,587	-	-	-	-	-	
Maturity gap	**(258)**	**(165)**	**811**	**4,151**	**895**	**(5,950)**	**-**

The maturity analysis of the Group is not significantly different from that of the Bank disclosed above.

46. FINANCIAL RISK MANAGEMENT

Liquidity risk (Bank)

Residual contractual maturities of financial liabilities of the Bank are presented below. The Group's residual contractual maturities of financial liabilities have not been presented as the difference to the Bank's analysis is insignificant.

LVL '000

31 December 2008	Carrying amount	Gross nominal inflow / (outflow)	Less than 1 month	1-3 months	3 months to 1 year	1-5 years
Non-derivative liabilities						
Due to credit institutions on demand	7	(7)	(7)	-	-	-
Customers' deposits	79,204	(79,265)	(76,905)	(1,002)	(1,228)	(130)
Notes payable	10,484	(11,161)	-	(140)	(3,904)	(7,118)
Total non-derivative liabilities	**89,695**	**(90,433)**	**(76,912)**	**(1,142)**	**(5,132)**	**(7,248)**
Derivative liabilities						
Trading: outflow	(135)	(135)	(135)	-	-	-
Trading: inflow	219	219	219	-	-	-
Total derivative liabilities	84	84	84	-	-	-
Unrecognized loan commitments	3,582	(3,582)	(3,582)	-	-	-
Total liabilities	**93,361**	**(93,931)**	**(80,410)**	**(1,142)**	**(5,132)**	**(7,248)**

LVL '000

31 December 2007	Carrying amount	Gross nominal inflow / (outflow)	Less than 1 month	1-3 months	3 months to 1 year	1-5 years
Non-derivative liabilities						
Due to credit institutions on demand	(1,501)	(1,501)	(1,501)	-	-	-
Customers' deposits	(72,291)	(72,363)	(68,647)	(1,587)	(1,947)	(182)
Notes payable	(10,610)	(12,058)	-	(137)	(615)	(11,306)
Total non-derivative liabilities	**(84,402)**	**(85,922)**	**(70,148)**	**(1,724)**	**(2,562)**	**(11,488)**
Derivative liabilities						
Trading: outflow	(188)	(188)	(124)	(64)	-	-
Trading: inflow	229	229	229	-	-	-
Total derivative liabilities	**41**	**41**	**105**	**(64)**	**-**	**-**
Unrecognized loan commitments	(2,525)	(2,525)	(2,525)	-	-	-
Total liabilities	**(86,968)**	**(88,406)**	**(72,568)**	**(1,788)**	**(2,562)**	**(11,488)**

47. CURRENCY ANALYSIS OF ASSETS AND LIABILITIES (BANK)

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.

The LVL equivalent of monetary assets and liabilities as at 31 December 2008 by the currencies in which they are denominated is as follows:

2008 LVL '000	LVL LVL '000	USD LVL '000	EUR LVL '000	Other currencies LVL '000	Total LVL '000
ASSETS					
Cash and balances with the Bank of Latvia	4,388	58	1,093	10	5,549
Deposits with credit institutions	2,501	18,146	7,495	9,027	37,169
Financial assets at fair value through profit or loss	219	7,172		466	7,857
Available-for-sale financial assets	-	-	10	-	10
Loans and receivables	287	15,156	18,770	-	34,213
Financial assets held-to-maturity	-	10,222	4,359	-	14,581
Investment in subsidiaries and associates	3,171	-	-	-	3,171
Intangible assets	212	-	-	-	212
Property and equipment	1,675	-	60	-	1,735
Investment property	530	-	-	-	530
Non-current assets held for sale	1,070				1,070
Other assets	3,081	70	20	4	3,175
Prepayments and accrued income	36	6	5	-	47
Total assets	**17,170**	**50,830**	**31,812**	**9,507**	**109,319**
LIABILITIES AND EQUITY					
Due to credit institutions on demand	-	6	1	-	7
Derivatives	135	-	-	-	135
Financial liabilities carried at amortized cost	1 344	42 246	34 425	11 673	89 688
Deferred income and accrued expenses	66	25	10	-	101
Provisions	86	-	-	-	86
Current tax liabilities	629	-	-	-	629
Other liabilities	8	25	4	-	37
Total equity attributable to shareholders	18,636	-	-	-	18,636
Total liabilities and equity	**20,904**	**42,302**	**34,440**	**11,673**	**109,319**
Assets (liabilities) arising from currency exchange					
Spot and forward transaction receivables	6,463	5,323	7,034	4,658	23,478
Spot and forward transaction liabilities	(2,890)	(14,517)	(4,639)	(1,309)	(23,355)
Net long/short currency position	**(161)**	**(666)**	**(233)**	**1,183**	**123**

The currency analysis of the Group is not significantly different from that of the Bank disclosed above.

48. CURRENCY ANALYSIS OF ASSETS AND LIABILITIES (BANK) (continued)

2007 LVL '000	LVL LVL '000	USD LVL '000	EUR LVL '000	Other currencies LVL '000	Total LVL '000
ASSETS					
Cash and balances with the Bank of Latvia	9,727	36	2,038	15	**11,816**
Deposits with credit institutions	8	18,123	11,183	12,231	**41,545**
Financial assets at fair value through profit or loss	229	8,932	3,136	824	**13,121**
Available-for-sale financial assets	-	-	10	-	**10**
Loans and receivables	1,427	5,927	17,230	-	**24,584**
Investment in subsidiaries and associates	5,930	-	-	-	**5,930**
Intangible assets	81	-	-	-	**81**
Property and equipment	352	-	-	-	**352**
Other assets	48	142	39	39	**268**
Prepayments and accrued income	22	1	1	-	**24**
Total assets	**17,824**	**33,161**	**33,637**	**13,109**	**97,731**
LIABILITIES AND EQUITY					
Due to credit institutions on demand	1,501	-	-	-	**1,501**
Derivatives	188	-	-	-	**188**
Financial liabilities carried at amortized cost	2,059	31,092	38,370	11,380	**82,901**
Deferred income and accrued expenses	69	16	10	-	**95**
Provisions	52	-	-	-	**52**
Current tax liabilities	254	-	-	-	**254**
Other liabilities	85	29	1	34	**149**
Total equity attributable to shareholders	12,591	-	-	-	**12,591**
Total liabilities and equity	**16,799**	**31,137**	**38,381**	**11,414**	**97,731**
Assets (liabilities) arising from currency exchange					
Spot and fwd transaction receivables	2,445	17,543	22,098	23,904	**65,990**
Spot and fwd transaction liabilities	(4,457)	(19,554)	(17,331)	(24,671)	**(66,013)**
Net long/(short) currency position	**(987)**	**13**	**23**	**928**	**(23)**

The currency analysis of the Group is not significantly different from that of the Bank disclosed above.

49. REPRICING MATURITY ANALYSIS (BANK)

Interest rate risk relates to changes in the value of the financial instrument as a result of changes in the market rates. As at 31 December 2008, interest rate re-pricing categories were:

2008 LVL '000	Up to 1 month including	From 1 to 3 months	From 3 months to 6 months	From 6 months to 1 year	From 1 year to 5 years	Over 5 year	Non interest bearing	Total LVL '000
ASSETS								
Cash and balances with the Bank of Latvia	5,288	-	-	-	-	-	261	5,549
Deposits with credit institutions	37,144	-	-	-	25	-	-	37,169
Financial assets at fair value through profit or loss	378	514	191	151	4,224	2,399	-	7,857
Available-for-sale financial assets	-	-	-	-	-	-	10	10
Loans and receivables	21,135	231	1,451	6,612	3,376	1,284	124	34,213
Financial assets held-to-maturity	74	226	82	2,218	11,482	499	-	14,581
Investment in subsidiaries and associates	-	-	-	-	-	-	3,171	3,171
Intangible assets	-	-	-	-	-	-	212	212
Property and equipment	-	-	-	-	-	-	1,735	1,735
Investment property	-	-	-	-	-	-	530	530
Non-current assets held for sale	-	-	-	-	-	-	1,070	1,070
Other assets	-	-	-	-	-	-	3,175	3,175
Prepayments and accrued income	-	-	-	-	-	-	47	47
Total assets	**64,019**	**971**	**1,724**	**8,981**	**19,107**	**4,182**	**10,335**	**109,319**
TOTAL LIABILITIES AND EQUITY								
Due to credit institutions on demand	7	-	-	-	-	-	-	7
Derivatives	135	-	-	-	-	-	-	135
Financial liabilities carried at amortized cost	76,921	7,951	4,440	257	119	-	-	89,688
Deferred income and accrued expenses	-	-	-	-	-	-	101	101
Provisions	-	-	-	-	-	-	86	86
Current tax liabilities	-	-	-	-	-	-	629	629
Other liabilities	-	-	-	-	-	-	37	37
Total equity attributable to shareholders	-	-	-	-	-	-	18,636	18,636
Total liabilities and equity	**77,063**	**7,951**	**4,440**	**257**	**119**	**-**	**19,489**	**109,319**
Off-balance-sheet liabilities	-	-	-	-	-	-	3,662	3,662
Interest rate risk net position	**(13,044)**	**(6,980)**	**(2,716)**	**8,724**	**18,988**	**4,182**	**(9,154)**	-
Interest rate risk gross (cumulative) position	**(13,044)**	**(20,024)**	**(22,740)**	**(14,016)**	**4,972**	**9,154**	-	-

49. REPRICING MATURITY ANALYSIS (BANK) (continued)

2007 LVL '000	Up to 1 month including	From 1 to 3 months	From 3 months to 6 months	From 6 months to 1 year	From 1 year to 5 years	Over 5 year	Non interest bearing	Total LVL '000
ASSETS								
Cash and balances with the Bank of Latvia	11,485	-	-	-	-	-	331	**11,816**
Demand deposits with credit institutions	41,206	339	-	-	-	-	-	**41,545**
Financial assets at fair value through profit or loss	343	1,091	637	294	10,756	-	-	13,121
Investments in non-fixed income securities	-		-	-	-	10	-	**10**
Loans and receivables	16,963	63	2,090	3,846	1,214	281	127	**24,584**
Investment in subsidiaries and associates	-	-	-	-	-	-	5,930	**5,930**
Intangible assets	-	-	-	-	-	-	81	**81**
Property and equipment	-	-	-	-	-	-	352	**352**
Other assets	-	-	-	-	-	-	268	**268**
Prepayments and accrued income	-	-	-	-	-	-	24	**24**
Total assets	**69,997**	**1,493**	**2,727**	**4,140**	**11,970**	**291**	**7,113**	**97,731**
TOTAL LIABILITIES AND EQUITY								
Due to credit institutions on demand	1,501	-	-	-	-	-	-	**1,501**
Derivatives	124	64	-	-	-	-	-	**188**
Financial liabilities carried at amortized cost	68,687	12,166	1,724	165	159	-	-	**82,901**
Other liabilities	-	-	-	-	-	-	95	**95**
Deferred income and accrued expenses	-	-	-	-	-	-	52	**52**
Current tax liabilities	-	-	-	-	-	-	254	**254**
Other liabilities	-	-	-	-	-	-	149	**149**
Total equity attributable to shareholders	-	-	-	-	-	-	12,591	**12,591**
Total liabilities and equity	**70,312**	**12,230**	**1,724**	**165**	**159**	**-**	**13,141**	**97,731**
Off-balance-sheet liabilities	**-**	**-**	**-**	**-**	**-**	**-**	**2,587**	**2,587**
Interest rate risk net position	**(315)**	**(10,737)**	**1,003**	**3,975**	**11,811**	**291**	**(6,028)**	**-**
Interest rate risk gross (cumulative) position	(315)	(11,052)	(10,049)	(6,074)	5,737	6,028	-	-

The repricing maturity analysis of the Group is not significantly different from that of the Bank disclosed above.

50. CAPITAL ADEQUACY CALCULATION (BANK)

	2008	2007
	'000 LVL	'000 LVL
Tier 1 capital		
Share capital	15,178	10,525
Reserves	17	17
Retained earnings	85	85
Profit for the year	3,356	1,964
Goodwill	(212)	(81)
Total tier 1 capital	**18,424**	**12,510**
Tier 2 capital	-	-
Decrease of Tier 1 capital and Tier 2 capital due to prepayment for acquisition of shares in AAS Baltikums	**(2,820)**	**(5,424)**
Equity	**15,604**	**7,086**
Risk-weighted assets		
Banking book	69,085	44,922
Trading book	12,165	16,075
Operational risk	3,340	-
Total risk weighted assets	**84,590**	**60,997**
Total capital expressed as a percentage of risk-weighted assets ("total capital ratio")	**18%**	**12%**
Total tier 1 capital expressed as a percentage of risk-weighted assets ("tier 1 capital ratio")	**18%**	**12%**

As of 31 December 2008, the Bank's capital adequacy ratio was 18% (2007: 12%) which is above the minimum required ratio of 8% set in the Basel Capital Accord and the regulations of the Financial and Capital Market Commission of Latvia.

51. BUSINESS SEGMENT ANALYSIS

Segment information is presented in respect of the Group's business and geographical segments. The primary format, business segments, is based on the Group's management and internal reporting structure.

Segment capital expenditure is the total cost incurred during the period to acquire property and equipment, and intangible assets other than goodwill.

Business segments

The Group comprises the following main business segments:

Banking – includes loans, deposits, payment transfers and cash operations, as well as trade and water transport financing to retail and corporate customers.

Insurance –includes insurance of all kinds of risks, except for life risks, of retail and corporate customers.

Asset Management – includes asset and property management of the Group and customers.

	Insurance LVL '000		Banking LVL '000		Asset Management LVL '000		Eliminations LVL '000		Group LVL '000	
	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
Total revenue from external customers	-	572	11 451	7,402	257	37		-	11,708	8,011
Total revenue from internal customers	-	2	3	2	22	4	(25)	(8)	-	-
Total revenue		**574**	**11 454**	**7,404**	**279**	**41**	**(25)**	**(8)**	**11,708**	**8,011**
Income before tax	(61)	125	4 329	2,421	(594)	(41)	-	-	3,674	2,505
Income tax	-	-	(1 198)	(489)	-	1	-	-	(1,198)	(488)
Net income	**(61)**	**125**	**3 131**	**1,932**	**(594)**	**(40)**	**-**	**-**	**2,476**	**2,017**
Attributable to:										
Equity holders of the Bank	(61)	117	3 131	1,932	(330)	(40)	-	-	2,740	2,009
Minority interest		8	-	-	(264)			-	(264)	8
Net income	**(61)**	**125**	**3 131**	**1,932**	**(594)**	**(40)**	**-**	**-**	**2,476**	**2,017**
Segment assets	-	3 352	109 870	98,071	6,078	5,661	(3,439)	(8,319)	112,509	98,765
Segment liabilities	-	682	90 889	85,145	1,320	20	(313)	(167)	91,896	85,680
Capital expenditure	-	1	1 662	345	-	11	-	-	1,662	357
Depreciation	-	2	123	54	95	2	-	-	218	58
Amortization	-	-	34	37	-	-	-	-	34	37
Impairment charge	-	-	285	108	-	-	-	-	285	108

Group revenues from non-EU clients constitute 51% in 2008 (2007: 47%). Group revenues from EU clients constitute 49% (2007: 53%).

52. FAIR VALUE OF FINANCIAL INSTRUMENTS

The table below displays the Bank's financial assets and liabilities according to their fair value and carrying value.

ASSETS	2008 '000 LVL Fair value	2008 '000 LVL Carrying value	2007 '000 LVL Fair value	2007 '000 LVL Carrying value
Cash and balances with the Bank of Latvia	5,549	5,549	11,816	11,816
Deposits with credit institutions	37,169	37,169	41,545	41,545
Financial instruments at fair value through profit or loss	7,857	7,857	13,121	13,121
Available-for-sale financial assets	10	10	10	10
Loans and receivables	34,213	34,213	24,584	24,584
Financial assets held-to-maturity	14,581	14,581	-	-
LIABILITIES				
Due to credit institutions on demand	7	7	1,501	1,501
Derivatives	135	135	188	188
Financial liabilities carried at amortized cost	89,688	89,688	82,901	82,901
- Current accounts and deposits from customers	*79,204*	*79,204*	*72,291*	*72,291*
- Notes payable	*10,484*	*10,484*	*10,610*	*10,610*

53. AVERAGE EFFECTIVE INTEREST RATES

The table below displays the Bank's interest bearing assets and liabilities as at 31 December 2008 and 2007 and their corresponding average effective interest rates as at these dates. These interest rates represent the estimated profitability of the above assets and liabilities.

The Group's average effective interest rates have not been presented as the difference to the Bank's analysis is insignificant.

	2008		2007	
	Average value LVL '000	**Average effective interest rate**	**Average value LVL '000**	**Average effective interest rate**
Interest bearing assets				
Demand deposits with credit institutions	40,573	1.2%	19,530	3.8%
Financial assets held for trading: *Fixed income securities*	22,070	11.5%	12,920	8.3%
Loans and receivables excluding repo	24,972	11.4%	17,871	11.5%
Loans and receivables (repo)	4,347	3.1%	2,484	4.9%
Held-to-maturity financial investments (term deposits due from credit institutions)	8,541	2.9%	23,830	4.0%
Total interest bearing assets	**100,503**		**76,635**	
Interest bearing liabilities				
Balances due to credit institutions (short-term)	1,062	4.5%	1,865	8.2%
Customers' deposits	63,474	1.0%	51,560	1.6%
Notes payable	10,542	7.5%	9,935	7.1%
Liabilities to credit institutions (long-term loan)	-	-	33	6.6%
Total interest bearing liabilities	**75,078**		**63,393**	

54. SUBSEQUENT EVENTS

On 4 February 2009, the Financial and Capital Market Commission approved the purchase of 49.86% share in AAS „Baltikums" by the Bank. The purchase agreement was signed between the Bank and a related party in December 2008.