A/S REĢIONĀLĀ INVESTĪCIJU BANKA

ANNUAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2008

INVESTĪCIJU BANKA

A/S REĢIONĀLĀ INVESTĪCIJU BANKA

CONTENTS

AS Reģionālā Investīciju banka

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REPORT OF THE MANAGEMENT

Year 2008 was successful for AS „Reģionālā investīciju banka" (hereinafter – the Bank). The number of clients, employees and volumes of the Bank's transactions significantly increased. Comparing with the previous year, there is a significant growth in all key performance indicators – the Bank's assets have increased by 40.6%, loans and balances due to customers by 34.6% and 70.5% respectively. Important changes took place in the last - fourth quarter of the year, during which due to global economic crisis the Bank suffered a loss, significantly affecting financial indicators over the year, nevertheless despite the loss suffered in the fourth quarter, the Bank finished the year with a profit of LVL 973,856 thousand.

Performance of the Bank during the reporting year

On 30 January 2008 there was a change in the share capital of the Bank – the shareholder Haralds Āboliņš sold 4.878% of his shares to SIA „HRG ieguldījumi". Therefore, SIA „HRG ieguldījumi" became the second largest shareholder of the Bank. AB „Pivdenny" increased the share capital of the Bank by LVL 2 million. At present AB „Pivdenny" owns 91.18% of the shares of the Bank.
For the first time this year the Bank realised two advertising campaigns in order to attract new customers and increase deposits portfolio of the Bank, thus stimulating the increase in the number of clients.

Comparing to the year 2007, the Bank has increased the number of clients by 32%, which resulted in the increase in the volumes of the Bank's transactions.

In comparison with the previous year, the volume of incoming and outgoing transactions has increased significantly, of which EUR outgoing transactions has increased by 42%. Also, comparing with the previous year, the number of issued payment cards have doubled. The most popular were credit cards, constituting 80% of the total amount of issued cards.

During the first half of the year, financial instruments depository and brokerage services were provided to the clients. During the second half of the year, the Securities department ensured the possibility of a distant use of financial instruments - via the Internet Banking. By developing the quality and speed of the payments settlement for securities registered in Latvia, at the end of the year the Bank became a member of the Latvian Central Depository.

In 2008 23 new employees were hired and 8 new organisational units were created - the Corporate clients support department, Transactions accounting department, Information system support and development department, Credit risk analysis department, Clients support department, Clients legal documents control and analyses department, Accounting and training department and Strategic planning department. Most of the units were created with the aim to improve internal controls processes.

Employees of the Bank put much effort in improving several information systems and software of the Bank, which have become faster, user-friendly and secure.

Also during the year active work was performed over establishing and opening processes of the Bulgarian branch in Varna. At the moment the branch is legally registered and plans to provide services to its first customer in 2009.

By improving the quality of transfer service, a new correspondent account for USD and EUR currencies was opened in the German bank „Bayerische Hypo - und Vereisnbank AG".

Future perspectives

During the year 2009 the Bank plans to improve clients support both at the Bank's premises as well as using distant account management resources. It is also planned to improve and develop co-operation with correspondent banks.

In the beginning of the year the Bank opened modern and comfortable client service room and made Internet banking more user-friendly.

One of the future plans is to start providing services to clients in the Bulgarian branch in Varna.

Haralds Āboliņš
Chairman of the Board, President

Jurijs Rodins
Chairman of the Council

Riga, 23 March 2009

THE SUPERVISORY COUNCIL AND THE BOARD OF DIRECTORS OF THE BANK

As at 31 December 2008 and as at the date of signing the accounts:

		Date of appointment
The Council		
Jurijs Rodins	Chairman of the Council	Re-elected – 22.06.2007
Marks Bekkers	Deputy Chairman of the Council	Re-elected – 22.06.2007
Dmitrijs Bekkers	Member of the Council	Re-elected – 22.06.2007
Vadims Morohovskis	Member of the Council	Elected – 22.06.2007
Arkādijs Fjodorovs	Member of the Council	Re-elected – 22.06.2007
Alla Vanecjancs	Member of the Council	Re-elected – 22.06.2007
The Board		
Haralds Āboliņš	Chairman of the Board and President	Re-elected – 17.04.2007
Oleksandr Kuperman	Member of the Board	Re-elected – 17.04.2007
Daiga Muravska	Member of the Board	Re-elected – 17.04.2007

STATEMENT OF RESPONSIBILITY OF THE MANAGEMENT

The Supervisory Council and the Board of Directors (hereinafter - the Management) of the Bank are responsible for the preparation of the financial statements of the Bank.

The financial statements on pages 7 to 54 are prepared in accordance with the source documents and present fairly the financial position of the Bank as at 31 December 2008 and the results of its operations and cash flows for the reporting year 2008.

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

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

Haralds Āboliņš
Chairman of the Board, President

Jurijs Rodins
Chairman of the Council

Riga, 23 March 2009

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of AS Reģionālā Investīciju Banka

Report on the Financial Statements

We have audited the accompanying financial statements on pages 7 to 54 of AS Reģionālā Investīciju Banka which comprise the balance sheet as of 31 December 2008 and the income statement, statement of changes in equity and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory notes.

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

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

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

Report on Other Legal and Regulatory Requirements
We have read the Management Report set out on pages 3 and did not identify material inconsistencies between the financial information contained in the Management Report and that contained in the financial statements for 2008.

PricewaterhouseCoopers SIA
Certified audit company licence No. 5

Juris Lapshe
Member of the Board

Ilandra Lejiņa
Certified auditor in charge
Certificate No. 168

Riga, Latvia
23 March 2009

INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2008

	Notes	2008 LVL	2007 LVL
Interest income	5	7,948,993	5,658,131
Interest expense	5	(2,875,436)	(1,983,814)
Net interest income		**5,073,557**	**3,674,317**
Provisions for loan impairment	11	(594,906)	(282,542)
Net interest income after provision for loan impairment		**4,478,651**	**3,391,775**
Fee and commission income	6	2,011,020	1,469,480
Fee and commission expense	6	(1,040,882)	(1,246,871)
Net fee and commission income	6	**970,138**	**222,609**
Profit on securities trading, net		18,017	(3,813)
Loss from revaluation of securities at fair value through profit and loss account, net		(1,131,460)	(210,706)
Profit on derivative financial instruments revaluation, net		163,935	(33,300)
Profit on operation with foreign exchange, net		482,788	364,223
Loss from revaluation of foreign exchange, net		(122,699)	(35,667)
Other operating income		47,868	25,384
Administrative expense	7	(3,329,117)	(2,336,612)
Amortisation and depreciation charge	13, 14	(161,165)	(100,538)
Other operating expense		(61,421)	(64,148)
Profit before income tax		**1,355,535**	**1,219,207**
Income tax expense	8	(382,559)	(206,204)
Deferred income tax	8	880	(6,279)
Net profit for the year		**973,856**	**1,006,724**

The financial statements on pages 7 to 54 have been approved by the Supervisory Council and the Board of Directors of the Bank and signed on their behalf by:

Haralds Āboliņš
Chairman of the Board, President

Jurijs Rodins
Chairman of the Council

Riga, 23 March 2009

The accompanying notes on pages 11 to 54 are an integral part of these financial statements.

BALANCE SHEET AS AT 31 DECEMBER 2008

	Notes	31.12.2008 LVL	31.12.2007 LVL
Assets			
Cash and balances with the Bank of Latvia	9	5,897,042	6,875,778
Balances due from banks	10	34,005,094	16,802,948
Loans and advances to customers	11	65,252,570	48,452,533
Financial assets at fair value through profit or loss	12	4,201,311	5,779,204
Derivative financial instruments	21	273,279	82,970
Intangible assets	13	414,809	263,758
Property and equipment	14	593,469	279,305
Other assets		561,186	437,371
Deferred expenses		64,946	91,040
Corporate income tax	32	172	45,317
Total assets		**111,263,878**	**79,110,224**
Liabilities			
Debt securities in issue	15	-	2,850,438
Balances due to banks	17	7,895,233	12,487,226
Due to customers	16	88,140,326	51,691,532
Derivative financial instruments	21	142,643	116,270
Other financial liabilities	18	211,821	160,326
Deferred income and accrued expenses	19	398,973	302,526
Deferred income tax liability	20	7,899	8,779
Total liabilities		**96,796,895**	**67,617,097**
Equity			
Share capital	22	10,200,000	8,200,000
Retained earnings		3,293,127	2,286,403
Profit for the year		973,856	1,006,724
Total equity		**14,466,983**	**11,493,127**
Total liabilities and equity		**111,263,878**	**79,110,224**
Commitments and contingent liabilities			
Contingent liabilities	23	111,429	570,559
Financial commitments	23	11,690,481	11,598,598
Funds under trust management	23	120,155	1,674,335

The financial statements on pages 7 to 54 have been approved by the Supervisory Council and the Board of Directors of the Bank and signed on their behalf by:

Haralds Āboliņš
Chairman of the Board, President

Jurijs Rodins
Chairman of the Council

Riga, 23 March 2008

The accompanying notes on pages 11 to 54 are an integral part of these financial statements.

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE YEAR ENDED 31 DECEMBER 2008

	Paid-in share capital LVL	Retained earnings LVL	Total LVL
Balance as at 31 December 2006	**5,500,000**	**2,286,403**	**7,786,403**
Net profit for the year	**-**	1,006,724	1,006,724
Increase of share capital*	2,700,000	-	2,700,000
Balance as at 31 December 2007	**8,200,000**	**3,293,127**	**11,493,127**
Net profit for the year	-	973,856	973,856
Increase of share capital*	2,000,000	-	2,000,000
Balance as at 31 December 2008	**10,200,000**	**4,266,983**	**14,466,983**

* see Note 22.

The accompanying notes on pages 11 to 54 are an integral part of these financial statements.

CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2008

	Notes	2008 LVL	2007 LVL
Cash flows from operating activities			
Interest received		7,331,894	5,308,740
Interest paid		(2,576,848)	(1,738,320)
Fees and commission received		2,011,020	1,553,053
Fees and commission paid		(1,040,882)	(1,246,871)
Income on securities trading		18,017	(3,813)
Income on foreign exchange		335,282	364,223
Other operating income		47,868	586,986
Personnel expenses paid		(1,854,348)	(1,348,360)
Administrative and other operating expenses paid		(1,536,191)	(1,052,400)
Income tax paid		(337,414)	(192,557)
Cash flows from operating activities before changes in operating assets and liabilities		**2,398,398**	**2,230,681**
Changes in operating assets and liabilities			
Net decrease of securities at fair value through profit and loss account		541,704	2,364,902
Net increase of balances due from banks		(16,006,734)	(1,059,708)
Net increase of loans and advances to customers		(16,951,960)	(11,925,593)
Net increase of other assets		(97,721)	(197,415)
Net increase / (decrease) of balances due to customers		36,150,206	(481,798)
Net decrease in other liabilities		147,942	(336,298)
Net cash and cash equivalents from / (used in) operating activities		**6,181,835**	**(9,405,229)**
Cash flows from investing activities			
Purchase of intangible assets		(215,930)	(243,139)
Purchase of fixed assets		(410,450)	(170,218)
Net cash and cash equivalents used in investing activities		**(626,380)**	**(413,357)**
Cash flows from financing activities			
Debt securities repaid		(2,850,438)	-
Issue of ordinary shares		2,000,000	2,700,000
Net cash and cash equivalents (used in) / from financing activities		**(850,438)**	**2,700,000**
Effect of exchange rates on cash and cash equivalents		**41,237**	**(35,667)**
Net increase / (decrease) in cash and cash equivalents		**4,746,254**	**(7,154,253)**
Cash and cash equivalents at the beginning of the year	24	9,104,992	16,259,245
Cash and cash equivalents at the end of the year	24	**13,851,246**	**9,104,992**

The accompanying notes on pages 11 to 54 are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 INCORPORATION AND PRINCIPAL ACTIVITIES

AS "Reģionālā Investīciju banka" (hereinafter – the Bank) provides financial services to corporate clients and individuals. The Bank established its representative office in Odessa, Ukraine in 2005 and representative office in Dnepropetrovsk, Ukraine in 2007. During the year, the Bank also actively worked on establishment of the branch in Bulgaria. The Bank has no subsidiaries and branches apart from the mentioned above.

The Bank is a joint-stock company incorporated and domiciled in Riga, Republic of Latvia. It was registered within Commercial Register on 28 September 2001.

The legal and basic address of the Bank is:
J. Alunana Street 2,
LV-1010, Riga,
Latvia

These financial statements have been approved for issue by the Supervisory Council and the Board of Directors on __ March 2009.

NOTE 2 OPERATING ENVIRONMENT OF THE BANK

Recent volatility in global and Latvian financial markets

The ongoing global liquidity and banks crisis, which commenced in the middle of 2007 in the United States as liquidity crises, has caused also consequences in Latvian banks market. Those consequences result in higher interbank lending rates under condition that such transactions take place, as well as general instability at local money market. The uncertainties in the global financial markets have also led to bank failures and bank rescues in the United States of America, Western Europe, Russia and elsewhere, including Latvia. Indeed the full extent of the impact of the ongoing financial crisis is proving to be impossible to anticipate or completely guard against.

The Bank has significant exposures in Ukraine, therefore it's activities are affected by the developments in the Ukrainian market. Ukraine continues to display certain characteristics of an emerging market. These characteristics include, but are not limited to, the existence of a currency that is not freely convertible outside of Ukraine, restrictive currency controls, and high inflation of 22.3% for the year ended 31 December 2008 (2007: 16.6%). The financial situation in the Ukrainian market significantly deteriorated during 2008, particularly in the fourth quarter.

Since October 2008 the NBU introduced temporary administration at a number of Ukrainian banks due to their liquidity problems.

As a result of the global financial crisis, the Ukrainian economy experienced reduced level of capital inflow and decrease in demand for exports. Additionally, the country ratings by international rating agencies were downgraded in October 2008. These factors, together with increasing domestic uncertainty, let to volatility in the currency exchange market and resulted in significant downward pressure on the Ukrainian hryvnia relative to major foreign currencies. Since October 2008 the NBU has been entering the market to support the national currency. The official UAH to US Dollar (USD) exchange rate of the National Bank of Ukraine devalued by 58.4% from UAH 4.861 at 30 September 2008 to UAH 7.70 at 31 December 2008.

Management is unable to reliably estimate the effects on the Bank's financial position of any further deterioration in the liquidity of the financial markets and the increased volatility in the currency and equity markets. Nevertheless, the management draws attention that the Bank does not speculate with foreign currency market fluctuations, as well as does not conclude speculative deals at the money market. Management believes it is taking all the necessary measures to support the sustainability and growth of the Bank's business in the current circumstances.

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 2 OPERATING ENVIRONMENT OF THE BANK (continued)

Impact on liquidity:
The volume of wholesale financing has reduced recently till minimum, remaining only securities sale and repurchase and swaps deals. Such circumstances may affect the ability of the Bank to obtain new borrowings and re-finance its existing borrowings at terms and conditions similar to those applied to earlier transactions.

Impact on borrowers:
Borrowers of the Bank may be affected by the lower liquidity situation which could in turn impact their ability to repay the amounts owed. Deteriorating operating conditions for borrowers may also have an impact on management's cash flow forecasts and assessment of the impairment of financial and non-financial assets. To the extent that information is available, management has properly reflected revised estimates of expected future cash flows in its impairment assessments.

Impact on collateral:
The amount of provision for impaired loans is based on management's appraisals of these assets at the balance sheet date after taking into consideration the cash flows that may result from foreclosure less costs for obtaining and selling the collateral. The market in Latvia for many types of collateral, especially real estate, has been severely affected by the local economic slowdown resulting in there being a low level of liquidity for certain types of assets. As a result, the actual realisable value on foreclosure may differ from the value ascribed in estimating allowances for impairment.

NOTE 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A summary of the significant accounting policies, all of which have been applied consistently throughout the years 2007 and 2008, are set out below:

(a) Reporting currency
The tabular amounts in the accompanying financial statements are reported in Latvian lats (LVL), unless otherwise stated.

(b) Basis of preparation
These financial statements are prepared in accordance with International Financial Reporting Standards (hereinafter - IFRS) as adopted in the European Union, on a going concern basis. In preparation of the financial statements on a going concern basis the management considered the Bank's financial position, access to financial resources and analysed the impact of the recent financial crisis on the future operations of the Bank.

The financial statements are prepared under the historical cost convention as modified by the fair valuation of financial assets held at fair value through profit or loss and derivative financial instruments.

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

The accounting policies used in the preparation of the financial statements for the year ended 31 December 2008 are consistent with those used in the annual financial statements for the year ended 31 December 2007, except as referred to in Note 3 (dd) *Adoption of New or Revised Standards and Interpretations*.

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Income and expense recognition

Interest income and expense are recognised in the income statement for all interest bearing instruments on an accrual basis using the effective interest method. Interest income includes coupons earned on trading securities.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

When loans become doubtful of collection, they are written down to their recoverable amounts and interest income is thereafter recognised based on the rate of interest that was used to discount the future cash flows for the purpose of measuring the recoverable amount.

Commissions received or incurred in respect of origination of financial assets or funding are deferred and recognised as an adjustment to the effective interest rate on the asset or liability. Other fees and commissions, including those related to trust activities, are credited and/or charged to the income statement as earned / incurred.

(d) Foreign currency translation

Functional and presentation currency

Items included in the financial statements of the Bank are measured using the currency of the primary economic environment in which the entity operates (‘the functional currency’). The financial statements are presented in ‘Latvian lats’ (‘LVL’), which is the Bank’s functional and presentation currency.

Transactions and balances

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

The principal rates of exchange (LVL to 1 foreign currency unit) set forth by the Bank of Latvia and used in the preparation of the Bank’s balance sheets were as follows:

Reporting date	USD	EUR	RUB	UAH
As at 31 December 2008	0.495	0.702804	0.0171	0.0656
As at 31 December 2007	0.484	0.702804	0.0197	0.0958

(e) Income taxes

Income tax is calculated in accordance with Latvian tax regulations and is based on the taxable income reported for the taxation period.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. The deferred income tax is calculated based on currently enacted tax rates that are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled. The principal temporary differences arise from different rates of accounting and tax amortisation and depreciation on intangible and fixed assets, as well as accruals for employee vacation expenses. Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

(f) Cash and cash equivalents

Cash and cash equivalents comprise cash and demand deposits with the Bank of Latvia and other credit institutions, due to and from other credit institutions with original maturity of 3 months or less.

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Loans and provisions for loan impairment

Loans and advances to customers are accounted for as loans and receivables. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in active markets.

Loans and receivables are recognised initially at fair value plus transaction costs that are directly attributable to the acquisition of financial asset. Loans and receivables are subsequently carried at amortised cost using the effective interest method. All loans and receivables are recognised when cash is advanced to borrowers and derecognised on repayments.

The Bank assesses at each balance sheet date whether there is objective evidence that loans and receivables are impaired. If any such evidence exists, the amount of the loss for loan impairment which has been incurred is measured as the difference between the asset's carrying amount and the recoverable amount, being the present value of expected cash flows (excluding future credit losses that have not been incurred), including amounts recoverable from guarantees and collateral, discounted at the original effective interest rate. The Bank does not perform collective assessment of provisions as it can carry out assessment of each individual loan taken the number of loans issued.

The primary factors that the Bank considers in determining whether a financial asset is impaired are its overdue status and realisability of related collateral, if any.

The following other principal criteria are also used to determine whether there is objective evidence that an impairment loss has occurred:

- any instalment is overdue and the late payment cannot be attributed to a delay caused by the settlement systems;
- the borrower experiences a significant financial difficulty as evidenced by the borrower's financial information that the Bank obtains;
- the borrower considers bankruptcy or a financial reorganisation;
- there is an adverse change in the payment status of the borrower as a result of changes in the national or local economic conditions that impact the borrower; or
- the value of collateral significantly decreases as a result of deteriorating market conditions.

The carrying amount of the asset is reduced through the use of a provision account and the amount of the loss is recognised in the income statement. The assessment of the evidence for impairment and the determination of the amount of provision for impairment or its reversal require the application of Management's judgment and estimates. Management's judgments and estimates consider relevant factors including, but not limited to, the identification of non-performing loans and high risk loans, the Bank's past loan loss experience, known and inherent risks in the portfolio of loans, adverse situations that affects the borrowers' ability to repay, the estimated value of any underlying collateral and current economic conditions as well as other relevant factors affecting loan and advance recoverability and collateral values. These judgments and estimates are reviewed periodically, and historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. The Management of the Bank has made their best estimates of losses, based on objective evidence of impairment and believes those estimates presented in the financial statements are reasonable in light of available information. Nevertheless, it is reasonably possible, based on existing knowledge, that outcomes within the next financial year that are different from assumptions could require a material adjustment to the carrying amount of the asset or liability affected.

When loans and receivables cannot be recovered, they are written off and charged against provision for loan impairment losses. They are not written off until all the necessary legal procedures have been completed and the amount of the loss is finally determined.

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Credit related commitments

The Bank enters into credit related commitments, including undrawn credit lines, letters of credit and financial guarantees. Financial guarantees represent irrevocable assurances to make payments in the event that a customer cannot meet its obligations to third parties and carry the same credit risk as loans. Financial guarantees and commitments to provide a loan are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight line basis over the life of commitment, except for commitments to originate loans if it is probable that the Bank will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after the origination; such loan commitment fees are deferred and included in the carrying value of the loan on initial recognition. At each balance sheet date, the commitments are measured at the higher of (i) the remaining unamortised balance of the amount at initial recognition and (ii) the best estimate of expenditure required to settle the commitment at the balance sheet date.

(i) Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading and those designated at fair value through profit or loss at inception. The Bank does not designate any financial assets as at fair value through profit or loss at inception. Financial assets at fair value through profit or loss comprise debt securities held by the Bank for trading purposes. They are accounted for at fair value with all gains and losses from revaluation and trading reported in the income statement. Interest earned while holding trading securities is reported as interest income.

All regular way purchases and sales of financial assets held for trading are recognised at trade date, which is the date that the Bank commits to purchase or sell the asset.

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Bank has transferred substantially all risks and rewards of ownership.

(j) Sale and repurchase agreements of securities

Sale and repurchase agreements are accounted for as financing transactions. Under sale and repurchase agreements, where the Bank is a transferor, assets transferred remain on the Bank's balance sheets and are subject to the Bank's usual accounting policies, with the purchase price received included as a liability owed to the transferee.

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

(k) Derivative financial instruments

Derivative financial instruments include foreign exchange contracts, currency and interest rate swaps held by the Bank for trading purposes. Derivative financial instruments are recognised on trade date and categorised as financial assets at fair value through profit or loss. They are initially recognised in the balance sheet at fair value and subsequently measured at their fair value with all gains and losses from revaluation reported in the income statement. All derivatives are carried as financial assets when fair value is positive and as financial liabilities when fair value is negative.

(l) Due from other banks

Amounts due from other banks are recorded when the Bank advances money to counterparty banks with no intention of trading the resulting unquoted non-derivative receivable due on fixed or determinable dates. Amounts due from other banks are carried at amortised cost.

(m) Fair values of financial assets and liabilities

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Fair values of financial assets or liabilities, including derivative financial instruments, in active markets are based on quoted market prices. If the market for a financial asset or liability is not active (and for unlisted securities), the Bank establishes fair value by using valuation techniques. These include the use of discounted cash flow analysis, option pricing models and recent comparative transactions as appropriate, and may require the application of management's judgment and estimates.

Where, in the opinion of the Management, the fair values of financial assets and liabilities differ materially from their book values, such fair values are separately disclosed in the notes to the accounts.

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(n) Derecognition of financial assets

The Bank derecognises financial assets when (i) the assets are redeemed or the rights to cash flows from the assets otherwise expired or (ii) the Bank has transferred substantially all the risks and rewards of ownership of the assets or (iii) the Bank has neither transferred nor retained substantially all risks and rewards of ownership but has not retained control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the sale.

(o) Intangible assets

Acquired computer software licences are recognised as intangible assets on the basis of the costs incurred to acquire and bring to use the software. These costs are amortised on the basis of their expected useful lives, not exceeding five years.

(p) Property and Equipment

All property and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Depreciation is calculated using the straight-line method to allocate cost of the fixed assets to their residual values over their estimated useful lives, as follows:

Office equipment	10 years
Computers	3 years
Transport	5 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

Leasehold improvements are capitalised and depreciated over their expected useful lives, or over the remaining lease contract period if shorter, on a straight-line basis.

Property and equipment are periodically reviewed for impairment. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use.

Gains or losses on disposals are determined by comparing carrying amount with proceeds and are charged to the income statement in the period in which they are incurred.

(q) Operating lease – the Bank is a lessee

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any financial incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

(r) Customer accounts

Customer accounts are non-derivative liabilities to individuals, state or corporate customers and are carried at amortised cost.

(s) Borrowings

Borrowings are recognised initially at fair value net of transaction costs incurred. Borrowings are subsequently stated at amortised cost and any difference between net proceeds and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(t) Provisions

Provisions are recognised when the Bank has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. The assessment of provisions requires the application of management's judgment and estimates, as to the probability of an outflow of resources, the probability of recovery of resources from corresponding sources including security or collateral or insurance arrangements where appropriate, and the amounts and timings of such outflows and recoveries, if any.

(u) Dividends

Dividends are recorded in equity in the period in which they are declared. Dividends declared after the balance sheet date and before the financial statements are authorised for issue are disclosed in the subsequent events note. The statutory accounting reports of the Bank are the basis for profit distribution and other appropriations. Latvian legislation identifies the basis of distribution as retained earnings.

(v) Employee benefits

The Bank pays State compulsory social security contributions for state pension insurance and to the state funded pension scheme in accordance with Latvian legislation. State funded pension scheme is a defined contribution plan under which the Bank pays fixed contributions determined by the law and it will have no legal or constructive obligations to pay further contributions if the state pension insurance system or state funded pension scheme are not able to settle their liabilities to employees.

Short-term employee benefits, including salaries and state compulsory social security contributions, bonuses and paid vacation benefits, are included in Administrative expenses on an accrual basis.

(w) Off-balance sheet instruments

In the ordinary course of business, the Bank utilises off-balance sheet financial instruments including commitments to extend loans and advances, financial guarantees and commercial letters of credit. Such financial instruments are recorded in the financial statements when they are funded or related fees are incurred or received. The methodology for provisioning against off-balance sheet instruments is given in paragraph (t) of Note 3 above.

(x) Trust operations

Funds managed or held in custody by the Bank on behalf of individuals, trusts and other institutions are not regarded as assets of the Bank and, therefore, are not included in the balance sheet.

Accounting for trust operations is separated from the Bank's own accounting system thus ensuring separate accounting in a separate trust balance sheet for assets of each client, by client and by type of assets under management.

(y) Debt securities in issue

Debt securities in issue include bonds issued by the Bank. Debt securities are stated at amortised cost. If the Bank purchases its own debt securities in issue, they are removed from the balance sheet and the difference between the carrying amount of the liability and the consideration paid is included in gains arising from retirement of debt.

(z) Offsetting of Financial Assets and Liabilities

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

(aa) Comparatives

Cash flow statement for the year ended 31 December 2008 has been prepared using direct cash flow method and cash flow statement for the year ended 31 December 2007 has been reclassified accordingly.

In 2008 income from loan origination was reclassified from commission income to interest income to reflect interest income on loans in accordance with effective interest method. The result of reclassification was decrease of commission income and increase of interest income by Ls 119 thousand and Ls 82 thousand in 2008 and 2007 respectively.

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(bb) Segment reporting

A segment is distinguishable component of the Bank that is engaged either in providing products or services (business segment) or in providing products or services within particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. Segments with a majority of revenues earned from sales to external customers and whose revenue, result or assets are ten percent or more of all the segments are reported separately. Geographical segments of the Bank have been reported separately within these financial statements based on the ultimate domicile of the counterparty, e.g. based on economic risk rather than legal risk of the counterparty.

(cc) Critical accounting estimates

Loan impairment

The Bank reviews its loan portfolio to assess impairment on a regular basis. In determining whether an impairment loss should be recorded in the income statement, the Bank's Management makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio.

This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

The Bank applies stress – tests in order to evaluate the impact of changes in one or a number of variables, which are used for determination of provisions for loan impairment losses, on the financial result. If overdue loans in loan portfolio increase by 1%, provisions for loan impairment losses would increase by LVL 11 thousand.

Securities valued at fair value.

The Bank used quoted market prices to value securities carried at fair value as at year end for those securities which in the management's judgement are traded at liquid markets. The management had evaluated the liquidity of the securities market and has concluded that there is a significant reduction of activities in market, however, consider the market to be active with respect to type of securities held by the Bank therefore quoted market prices available on Stock Exchange of the security issuer countries were used to determine the fair values of the securities as at year end.

Initial recognition of related party transactions

In the normal course of business the Bank enters into transactions with its related parties. IAS 39 requires initial recognition of financial instruments based on their fair values. Management's judgement is applied in determining if transactions are priced at market or non-market interest rates, where there is no active market for such transactions. The basis for judgement is pricing for similar types of transactions with unrelated parties and effective interest rate analysis.

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(dd) Adoption of new or revised standards and interpretations

Certain new IFRSs became effective for the Bank from 1 January 2008. Listed below are those new or amended standards or interpretations which are relevant to the Bank's operations and the nature of their impact on the Bank's accounting policies.

IAS 39, 'Financial instruments: Recognition and measurement' and IFRS 7, 'Financial instruments: Disclosures' on the 'Reclassification of financial assets' (Effective for annual periods beginning or after 1 July 2008) - This amendment allows the reclassification of certain financial assets previously classified as 'held-for-trading' or 'available-for-sale' to another category under limited circumstances. Various disclosures are required where a reclassification has been made. Derivatives and assets designated as 'at fair value through profit or loss' under the fair value option are not eligible for this reclassification. Given the urgency of the issue, due process was suspended and there was no comment period. Amendment confirms that any reclassifications made on or after 1 November 2008 should take effect only from the date of the reclassification and may not be backdated. The amendment does not have an impact on the Bank's financial statements as no reclassification was made by the Bank in the reporting year.

IFRIC 11, 'IFRS 2 (effective for annual periods beginning on or after 1 March 2007) – Group and treasury share transactions'. This interpretation provides guidance on whether share-based transactions involving treasury shares or involving group entities (for example, options over a parent's shares) should be accounted for as equity-settled or cash-settled share-based payment transactions in the stand-alone accounts of the parent and group companies. This interpretation does not have a significant impact on the Bank's financial statements.

IFRIC 12, Service Concession Agreements (effective for annual periods beginning on or after 1 January 2008). – This interpretation applies to contractual arrangements whereby a private sector operator participates in the development, financing, operation and maintenance of infrastructure for public sector services, for example, under private finance initiative contracts (PFI) contracts. Under these arrangements, assets are assessed as either intangible assets or finance receivables. The interpretation is not yet endorsed in EU. This interpretation does not have an impact on the Bank's financial statements.

IFRIC 14, 'IAS 19 (effective for annual periods beginning on or after 1 January 2008; for entities applying IFRS as adopted in the EU effective for annual periods beginning after 31 December 2008) – The limit on a defined benefit asset, minimum funding requirements and their interaction', provides guidance on assessing the limit in IAS 19 on the amount of the surplus that can be recognised as an asset. It also explains how the pension asset or liability may be affected by a statutory or contractual minimum funding requirement. This interpretation does not have any impact on the Bank's financial statements.

Certain new standards and interpretations have been published that become effective for the accounting periods beginning on or after 1 January 2009 or later periods and which are relevant to the Bank but not early adopted by the Bank.

IAS 1, 'Presentation of financial statements' (revised September 2007; effective for annual periods beginning on or after 1 January 2009) - The main change in IAS 1 is the replacement of the income statement by a statement of comprehensive income which will also include all non-owner changes in equity, such as the revaluation of available-for-sale financial assets. Alternatively, entities will be allowed to present two statements: a separate income statement and a statement of comprehensive income. The revised IAS 1 also introduces a requirement to present a statement of financial position at the beginning of the earliest comparative period whenever the entity restates comparatives due to reclassifications, changes in accounting policies, or corrections of errors. The Bank expects the revised IAS 1 to impact the presentation of its financial statements but to have no impact on the recognition or measurement of specified transactions and balances.

IFRS 8, 'Operating segments' (effective for annual periods beginning on or after 1 January 2009). IFRS 8 replaces IAS 14, Segment reporting. The Standard applies to entities whose debt or equity instruments are traded in a public market or that file, or are in the process of filing, their financial statements with a regulatory organisation for the purpose of issuing any class of instruments in a public market. IFRS 8 requires an entity to report financial and descriptive information about its operating segments, with segment information presented on a similar basis to the used for internal reporting purposes. The Bank currently evaluates the impact of the standard on the Bank's activities.

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(dd) Adoption of new or revised standards and interpretations (continued)

IAS 27, 'Consolidated and separate financial statements' (revised January 2008; effective for annual periods beginning on or after 1 July 2009). The revised standard requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value and a gain or loss is recognised in profit or loss. The revised standard is not yet endorsed in EU. The Bank will apply IAS 27 (Revised) prospectively to transactions with non-controlling interests from the date it will become effective in EU. The Bank is currently assessing the impact of the amended standard on its financial statements.

*Improvements to International Financial Reporting Standards (issued in May 2008)***.** In 2007, the International Accounting Standards Board decided to initiate an annual improvements project as a method of making necessary, but non-urgent, amendments to IFRS. The amendments issued in May 2008 consist of a mixture of substantive changes, clarifications, and changes in terminology in various standards. The substantive changes relate to the following areas: classification as held for sale under IFRS 5 in case of a loss of control over a subsidiary; possibility of presentation of financial instruments held for trading as non-current under IAS 1; accounting for sale of IAS 16 assets which were previously held for rental and classification of the related cash flows under IAS 7 as cash flows from operating activities; clarification of definition of curtailment under IAS 19; accounting for below market interest rate government loans in accordance with IAS 20; making the definition of borrowing costs in IAS 23 consistent with the effective interest rate method; clarification of accounting for subsidiaries held for sale under IAS 27 and IFRS 5; reduction in the disclosure requirements relating to associates and joint ventures under IAS 28 and IAS 31; enhancement of disclosures required by IAS 36; clarification of accounting for advertising costs under IAS 38; amending the definition of the fair value through profit or loss category to be consistent with hedge accounting under IAS 39; introduction of accounting for investment properties under construction in accordance with IAS 40; and reduction in restrictions over manner of determining fair value of biological assets under IAS 41. Further amendments made to IAS 8, 10, 18, 20, 29, 34, 40, 41 and to IFRS 7 represent terminology or editorial changes only, which the IASB believes have no or minimal effect on accounting. The Bank does not expect the amendments to have any material effect on the financial statements.

Certain new standards and interpretations have been published that become effective for the accounting periods beginning on or after 1 January 2009 or later periods and which are not relevant to the Bank.

IFRS 3, 'Business combinations' (revised January 2008; effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009). The revised IFRS 3 will allow entities to choose to measure non-controlling interests using the existing IFRS 3 method (proportionate share of the acquiree's identifiable net assets) or at fair value. The revised IFRS 3 is more detailed in providing guidance on the application of the purchase method to business combinations. The requirement to measure at fair value every asset and liability at each step in a step acquisition for the purposes of calculating a portion of goodwill has been removed. Instead, in a business combination achieved in stages, the acquirer will have to remeasure its previously held equity interest in the acquiree at its acquisition-date fair value and recognise the resulting gain or loss, if any, in profit or loss. Acquisition-related costs will be accounted for separately from the business combination and therefore recognised as expenses rather than included in goodwill. An acquirer will have to recognise at the acquisition date a liability for any contingent purchase consideration. Changes in the value of that liability after the acquisition date will be recognised in accordance with other applicable IFRSs, as appropriate, rather than by adjusting goodwill. The revised IFRS 3 brings into its scope business combinations involving only mutual entities and business combinations achieved by contract alone. The revised standard is not yet endorsed in EU. The amendment will not have any impact on the Bank's financial statements.

IAS 23, 'Borrowing costs' (revised March 2007; effective for annual periods beginning on or after 1 January 2009) - The main change to IAS 23 is the removal of the option of immediately recognising as an expense borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale. An entity is, therefore, required to capitalise such borrowing costs as part of the cost of the asset. The revised standard applies prospectively to borrowing costs relating to qualifying assets for which the commencement date for capitalisation is on or after 1 January 2009. The standard will not have any impact on the Bank's financial statements.

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(dd) Adoption of new or revised standards and interpretations (continued)

IFRS 2, 'Share-based payment' (issued in January 2008, effective for annual periods beginning on or after 1 January 2009). The amended standard deals with vesting conditions and cancellations. It clarifies that only service conditions and performance conditions are vesting conditions. Other features of a share-based payment are not vesting conditions. The amendment specifies that all cancellations, whether by the entity or by other parties, should receive the same accounting treatment. The amendment will not have any impact on the Bank's financial statements.

IAS 32, 'Financial instruments: Presentation', and IAS 1 (Amendment), 'Presentation of financial statements' – 'Puttable financial instruments and obligations arising on liquidation' (effective from 1 January 2009). The amended standards requires classification as equity of some financial instruments that meet the definition of financial liabilities. The amendment will not have any impact on the Bank's financial statements.

IFRS 1 'First time adoption of IFRS' and IAS 27 'Consolidated and separate financial statements' (Amendment) (issued in May 2008; effective for annual periods beginning on or after 1 January 2009). The amendment allows first-time adopters of IFRS to measure investments in subsidiaries, jointly controlled entities or associates at fair value or at previous GAAP carrying value as deemed cost in the separate financial statements. The amendment also requires distributions from pre-acquisition net assets of investees to be recognised in profit or loss rather than as a recovery of the investment. The amendment will not have any impact on the Bank's financial statements.

IAS 39, Financial Instruments: Recognition and Measurement: Eligible Hedged Items (Amendment)(effective with retrospective application for annual periods beginning on or after 1 July 2009). The amendment clarifies how the principles that determine whether a hedged risk or portion of cash flows is eligible for designation should be applied in particular situations. The amendment is not yet endorsed in EU. The amendment will not have any impact on the Bank's financial statements as the Bank does not apply hedge accounting.

IFRIC 13, 'Customer loyalty programmes' (effective for annual periods on or after 1 July 2008; for entities applying IFRS as adopted in the EU effective for annual periods beginning after 31 December 2008). IFRIC 13 clarifies that where goods or services are sold together with a customer loyalty incentive (for example, loyalty points or free products), the arrangement is a multiple-element arrangement and the consideration receivable from the customer is allocated between the components of the arrangement using fair values. This interpretation does not have an impact on the Bank's financial statements.

IFRIC 15, 'Agreements for construction of real estates' (effective for annual periods beginning on or after 1 January 2009). The interpretation applies to the accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors, and provides guidance for determining whether agreements for the construction of real estate are within the scope of IAS 11 or IAS 18. It also provides criteria for determining when entities should recognise revenue on such transactions. The interpretation is not yet endorsed in EU. IFRIC 15 will not be relevant to the Bank's operations because it does not have any agreements for the construction of real estate.

IFRIC 16, 'Hedges of a net investment in a foreign operation' (effective for annual periods beginning on or after 1 October 2008). IFRIC 16 clarifies the accounting treatment in respect of net investment hedging. This includes the fact that net investment hedging relates to differences in functional currency not presentation currency, and hedging instruments may be held anywhere in the group. The requirements of IAS 21, 'The effects of changes in foreign exchange rates', do apply to the hedged item. The interpretation is not yet endorsed in EU. IFRIC 16 will not have any impact on these financial statements as the Bank does not apply hedge accounting.

IFRIC 17, Distribution of Non-Cash Assets to Owners (effective for annual periods beginning on or after 1 July 2009). The amendment clarifies when and how distribution of non-cash assets as dividends to the owners should be recognised. An entity should measure a liability to distribute non-cash assets as a dividend to its owners at the fair value of the assets to be distributed. A gain or loss on disposal of the distributed non-cash assets will be recognised in profit or loss when the entity settles the dividend payable. IFRIC 17 is not relevant to the Bank's operations because it does not distribute non-cash assets to owners.

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(dd) Adoption of new or revised standards and interpretations (continued)

IFRIC 18, Transfers of Assets from Customers (effective for annual periods beginning on or after 1 July 2009). The interpretation clarifies the accounting for transfers of assets from customers, namely, the circumstances in which the definition of an asset is met; the recognition of the asset and the measurement of its cost on initial recognition; the identification of the separately identifiable services (one or more services in exchange for the transferred asset); the recognition of revenue, and the accounting for transfers of cash from customers. IFRIC 18 is not expected to have any impact on the Bank's financial statements.

NOTE 4 FINANCIAL RISK MANAGEMENT

Risk Management

Risk management is one of the Bank's strategic tasks. Risk management strategy has been developed for the Bank's risk management, which covers management of the following risks: credit risk and residual risk, operational risk, market risk, interest rate risk, foreign currency risk, liquidity risk, concentration risk, country risk and other risks.

For the purpose of managing these risks, internal risk management policies and procedures have been developed which are approved by the Bank's Council and/or Board and implemented by the responsible units of the Bank.

The Board of the Bank is responsible for the development and effective functioning of the risk management system and ensuring the identification and management of the Bank's risks, including estimation, evaluation, oversight and preparation of risk reports through implementing the risk identification and management policy set by the Bank's Council and other documents connected with risk management.

The main unit responsible for determination, evaluation and oversight of the risks is the Risk Management Department, which is an independent unit whose functions are separated from the functions of the business units.

The risk management system is being constantly improved in accordance with the Bank's activities and external conditions influencing these activities. The regular oversight of this process is performed by the Internal Audit Department.

(a) Credit risk

Credit risk is the risk of incurring losses in the event that a borrower (debtor) or a business partner is unable to fulfil its obligations to the Bank in accordance with the provisions of the contract. Credit risk is present in the Bank's operations where the Bank makes claims against another person and which are reflected in the Bank's balance sheet and off-balance sheet items.

The Bank's principles for evaluation, oversight and acceptance of credit risk are described and approved in its Loan Policy, Business Partner Risk Policy and Investment Portfolio Policy.

The Bank divides up and oversees its credit risk by setting limits of various types and categories: acceptable risk limits for each borrower, group of related borrowers, geographical regions, business sectors, type and value of collateral, currency, term and ratings granted by international agencies.

Credit risk exposures are monitored on a revolving basis through regular assessments of borrowers' ability to meet interest and principal repayments and limits are adjusted as appropriate. The Bank's exposure to credit risk is managed and minimised by obtaining collaterals and guarantees against credit exposures that are registered in the name of the Bank. The fair values of those are also reviewed on a regular basis.

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 4 FINANCIAL RISK MANAGEMENT (continued)

Risk Management (continued)

(a) Credit risk (continued)

The table below shows credit risk exposures relating to on-balance sheet assets and off-balance sheet items before collateral held or other credit enhancements:

	31.12.2008. LVL	31.12.2007. LVL
Credit risk exposures relating to on-balance sheet assets are as follows:		
Due from credit institutions	34,005,094	16,802,948
Loans to customers	65,252,570	48,452,533
Financial assets at fair value through profit or loss	4,201,311	5,779,204
Other assets	561,186	437,371
Total	**104,020,161**	**71,472,056**
Credit risk exposures relating to off-balance sheet items are as follows:		
Contingent liabilities	111,429	570,559
Financial commitments	11,690,481	11,598,598
Total	**11,801,910**	**12,169,157**

(b) Market risk

The Bank takes on exposure to market risks. Market risks arise from open positions in interest rate and currency, all of which are exposed to general and specific market movements.

The Bank manages market risks by diversification of financial instruments portfolio, limits set for different types of financial instruments and application of sensitivity tests which show the impact of particular risks on the Bank's assets and equity.

(c) Currency risk

The Bank has exposure to the effects of fluctuations in prevailing foreign currency exchange rates as a result of its financial position and cash flows. The Bank seeks to match assets and liabilities denominated in foreign currencies in order to avoid foreign currency exposures. The Board has set limits on the level of exposure by currency, which is monitored on a daily basis. 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. During the year 2008 the Bank was in compliance with those limits (see Note 27).

The Bank's foreign currency risk evaluation is based on the following main principles:
- evaluation is made of changes to the Bank's assets, liabilities and off-balance sheet items as a result of exchange rate fluctuations;
- how the Bank's revenue/costs change with exchange rate fluctuations;
- performance of currency risk stress tests.

The main elements of currency risk management:
- currency risk evaluation;
- setting of limits and restrictions;
- monitoring of adherence to internal limits;
- performance of exchange rate stress tests and analysis of obtained results;
- entering into hedging relationships if necessary.

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 4 FINANCIAL RISK MANAGEMENT (continued)

Risk Management (continued)

(c) Currency risk (continued)

Sensitivity Analysis
The following table shows the sensitivity of profit/loss and equity to currency exchange rate fluctuations at the end of the reporting period, with other conditions constant:

31.12.2008	Effect on equity		Effect on profit/loss		31.12.2007.	Effect on equity		Effect on profit/loss	
	+10%	-10%	+10%	-10%		+10%	-10%	+10%	-10%
USD	-84	84	32	-32	USD	137	-137	29	-29
EUR	-5	5	11	-11	EUR	48	-48	2	-2
LVL	50	-50	1	-1	LVL	102	-102	1	-1
Total	**-39**	**39**	**44**	**-44**	**Total**	**287**	**-287**	**32**	**-32**

The following table shows the average annual sensitivity of profit/loss and equity to currency exchange rate fluctuations during the reporting period, with other conditions constant:

31.12.2008.	Effect on equity		Effect on profit/loss		31.12.2007.	Effect on equity		Effect on profit/loss	
	+10%	-10%	+10%	-10%		+10%	-10%	+10%	-10%
Total	**118**	**-118**	**62**	**-62**	**Total**	**217**	**-217**	**30**	**-30**

(d) Interest rate risk
Interest rate risk is the sensitivity of the financial position of the Bank to a change in market interest rates. In the normal course of business, the Bank encounters interest rate risk as a result of differences within maturities or interest re-fixing dates of respective interest-sensitive assets and liabilities. The risk is controlled by the Bank's Asset and Liability Committee, which sets limits on the level of mismatch of interest rate reprising and evaluates interest rate risk undertaken by the Bank (see Note 29).

In order to evaluate interest rate risk, evaluation is made of the impact of interest rate changes on the Bank's economic value, including evaluation of interest rate risk from the revenue perspective and the economic value perspective. In addition, interest rate risk stress testing is performed.

The main elements of interest rate risk management:
- evaluation of interest rate risk sensitivity;
- setting of internal limits (limit of reduction in economic value and for total duration of securities portfolio);
- monitoring of adherence to internal limits;
- performance of interest rate stress tests and analysis of obtained results;
- entering into hedging relationships if necessary.

The following changes in interest rates are applied to the sensitivity analysis: all items except for deposits are subject to rate changes of +/-100 base points, while deposits are subject to rate changes of +/-50 base points.

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 4 FINANCIAL RISK MANAGEMENT (continued)

Risk Management (continued)

(d) Interest rate risk (continued)

The following table shows the sensitivity of profit/loss and equity to interest rate fluctuations with other conditions constant:

31.12.2008.	Effect on equity		Effect on profit/loss		31.12.2007.	Effect on equity		Effect on profit/loss	
	+100 bps	-100 bps	+100 bps	-100 bps		+100 bps	-100 bps	+100 bps	-100 bps
USD	-192	192	241	-241	USD	-300	300	96	-96
EUR	-70	70	123	-123	EUR	-23	23	56	-56
LVL	-36	36	-9	9	LVL	-90	90	26	-26
Total	**-298**	**298**	**355**	**-355**	**Total**	**-413**	**413**	**178**	**-178**

The following table shows the average annual sensitivity of profit/loss and equity to interest rate fluctuations, with other conditions constant:

31.12.2008.	Effect on equity		Effect on profit/loss		31.12.2007.	Effect on equity		Effect on profit/loss	
	+100 bps	-100 bps	+100 bps	-100 bps		+100 bps	-100 bps	+100 bps	-100 bps
Total	**-341**	**341**	**212**	**-212**	**Total**	**-317**	**317**	**268**	**-268**

(e) Liquidity risk

The Bank is exposed to daily calls on its available cash resources from short-term liquid investments. The relationship between the maturity of assets and liabilities, as well as off-balance sheet items is indicative of liquidity risk and the extent to which it may be necessary to raise funds to meet outstanding obligations.

The Bank does not maintain cash resources to meet all of these needs, as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty. The Board sets limits on the minimum proportion of maturing funds available to meet such calls and on the minimum level of inter-bank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand.

It is unusual for banks to be completely matched, as transacted business is often of uncertain term and of different types (see Note 28). An unmatched position potentially enhances profitability, but also increases the risk of losses.

The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature are important factors in assessing the liquidity of the Bank and its exposure to changes in interest rates and exchange rates.

The matching and controlled mismatching of the maturities of assets and liabilities is fundamental to the daily liquidity management of the Bank.

The Bank uses the following methods for evaluation of liquidity risk:
- preparation of maturity analysis (for all currencies and separately for individual currencies);
- calculation of the liquidity ratio, monitoring of adherence to liquidity ratio regulations;
- stress testing.

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 4 FINANCIAL RISK MANAGEMENT (continued)

(e) Liquidity risk (continued)

The following are the main elements of liquidity risk management:
- being in compliance with liquidity ratio regulations;
- setting of the liquidity net position limit;
- setting of restriction for attracting deposits;
- monitoring of adherence to liquidity limits;
- conducting liquidity stress tests and analysis of results obtained;
- recommendations for resolving liquidity problems.

In accordance with FCMC requirements, the Bank maintains sufficient liquid assets to meet its liabilities in the amount which is not less than 30% of the Bank's current liabilities.

(f) Capital adequacy

Capital adequacy refers to the sufficiency of the Bank's capital resources to cover risks resulting from the Bank's operating activities.

In order to calculate the capital for risks to which minimal capital requirements are set, according to the Financial and Capital Market Commission's (FCMC) regulations on preparation of report on minimal capital requirements, capital requirements are calculated using the following approaches and methods:
-the capital requirements for the credit risk are calculated using the standardised approach,
-"simple method of financial security" is used in order to decrease the credit risk,
-the capital requirements for the foreign exchange risks, capital requirements for the commodities risk, capital requirements for the position risk of debt securities and equities are calculated using the standardised approach,
-the capital requirements for the general risk of debt securities are calculated using maturity method;
-the capital requirements for the operational risk are calculated using the basic index approach.

The Bank also evaluates whether compliance with the minimal capital requirements ensures that the capital of the Bank is sufficient to cover all possible losses associated with all of the above mentioned risks.

Moreover, the Bank has developed internal documentation and regulations according to which it determines the amount of necessary capital for substantial risks to which minimal capital requirements are not set (e.g., interest rates risk, liquidity risk, country risk, and other substantial risks).

Calculated in accordance with the FCMC requirements, the Bank's capital adequacy ratio as at 31 December 2008 was 15.67%, which is above the minimum required by the FCMC. FCMC requires Latvian banks to maintain a capital adequacy ratio of 8% of weighted assets and off-balance sheet items which are calculated in accordance with the rules set by FCMC (see also Note 26).

In 2008 based on the requirements of the Financial and Capital Market Commission, the Bank started to calculate capital adequacy in accordance with BASEL 2. Since capital adequacy calculation in 2007 is not comparative with calculation performed in 2008, no comparatives have been provided.

(g) Operational risk

Operational risk is the possibility of incurring losses as a result of inadequate or unsuccessful developments in the Bank's internal processes, human and systemic actions, or influence of external conditions. Operational risk is defined as the risk of a reduction in the Bank's revenue/ incurring of additional costs (and a resulting reduction of the equity) due to erroneous transactions with customers/business partners, information processing, adoption of ineffective decisions, insufficient human resources or insufficient planning for the influence of external conditions.
Self-evaluation of operational risk is used to evaluate operational risk – a process in the course of which the Bank evaluates the operations it has performed in the context of operational risk types to identify the Bank's strengths and weaknesses in operational risk management.
The Bank has established and maintains an Operational Risk Event and Loss database in which internal data on operational risk events and associated losses are collected, processed and organised.

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 4 FINANCIAL RISK MANAGEMENT (continued)

(g) Operational risk (continued)

The main elements of operational risk management are:
- operational risk monitoring;
- operational risk control and minimisation:
  - development of internal regulatory documents which prevent/reduce the likelihood of operational events;
  - segregation of duties;
  - control over internal limits;
  - adherence to the procedures in the use of IT and other Bank's resources;
  - appropriate training of employees;
  - regular review of supporting documents for transactions and account balances.

(h) Concentration of geographical region risk

Country risk – country partner risk – is the possibility of incurring losses if the Bank's assets are located in a country where, due to changes in its economic and political factors, the Bank may experience problems in recovering its assets within the agreed time and amount. The reasons of default by partners and issuers are primarily currency devaluation, unfavourable legislative changes, creation of new restrictions and barriers as well as other, including *force majeure*, factors.

International rating organisations (including credit ratings and their dynamics), economic indicators of the country and other relevant information is used for risk analysis.

The main elements of risk control:
- setting of internal limits for regions, countries, and by transaction types in individual countries;
- monitoring of adherence to internal limits;
- analysis and monitoring of country risk;
- review of internal limits.

Asset, liability and off-balance sheet country risk applies to the country which is considered to be the primary country where the client conducts its business activities. If a loan is granted to a resident of another country using collateral which is physically located in a country other than the resident country of the legal entity, the state risk is transferred to the country where the loan collateral is actually located.

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 5 INTEREST INCOME AND EXPENSE

	2008 LVL	2007 LVL
Interest income		
Loans and advances to legal entities	5,697,492	2,846,464
Loans and advances to private individuals	418,321	352,604
Balances due from banks	1,428,109	2,018,812
Trading securities	405,071	440,251
Total interest income	**7,948,993**	**5,658,131**
Interest expense		
Due to private individuals	(757,628)	(576,460)
Due to legal entities	(1,420,035)	(942,688)
Balances due to banks	(356,973)	(134,016)
Balances due to Bank of Latvia	(155,713)	(125,014)
Other liabilities	(185,087)	(205,636)
Total interest expense	**(2,875,436)**	**(1,983,814)**
Net interest income	**5,073,557**	**3,674,317**

NOTE 6 FEE AND COMMISSION INCOME AND EXPENSE

	2008 LVL	2007 LVL
Fee and commission income		
Money transfers	1,674,726	1,248,848
Loan related fees	2,150	27,696
Trust activities	11,166	15,764
Accounts servicing	67,891	59,079
Letters of credit	56,886	20,580
Sale of deposit certificates	17,461	13,993
Cession agreements	-	2,507
Commission income	28,709	13,577
Income from general services	67,502	24,087
Commissions - DIGIPAS	13,871	9,020
Interbank commission income	18,266	9,986
Commission for dealing with cards	13,261	7,605
Income from currency exchange	25,820	12,238
Other income	13,311	4,500
Total fee and commission income	**2,011,020**	**1,469,480**
Fee and commission expense		
Money transfers	(419,922)	(509,886)
Other expense	(620,960)	(736,985)
Total fee and commission expense	**(1,040,882)**	**(1,246,871)**
Net fee and commission income	**970,138**	**222,609**

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 7 ADMINISTRATIVE EXPENSE

	2008 LVL	2007 LVL
Remuneration paid to personnel	1,211,959	853,211
Rent expense	358,446	221,060
Office and equipment maintenance	77,520	55,588
Remuneration paid to the members of the Council and the Board	12,603	10,900
Security services	29,078	17,928
Public utilities	277,370	263,450
State compulsory social insurance contributions	243,911	176,723
Pension insurance	75,584	54,741
Communication expense	161,421	132,399
Ukraine representative office maintenance expense	202,671	140,100
Bulgarian representative office maintenance expense	74,287	-
Consulting and professional fees	129,021	91,215
Set-up and maintenance costs of information systems	35,374	37,323
Business trips	60,068	39,918
Introduction of credit cards	4,800	4,822
Transportation	63,952	45,971
Sponsorship	19,806	22,826
Health insurance	30,150	18,375
Advertising and marketing	68,798	12,303
Personnel training in connection with EU structural funds	1,861	4,788
Penalties	317	5,010
Other administrative expense	190,120	127,961
	3,329,117	**2,336,612**

The average number of staff employed by the Bank in 2008 was 94 (2007: 77).

NOTE 8 INCOME TAX EXPENSE

	2008 LVL	2007 LVL
Corporate income tax for the reporting year *	382,559	206,204
(Decrease) / increase or provisions for deferred tax (see Note 20)	(880)	6,279
Total corporate income tax	**381,679**	**212,483**

* Income tax for the year 2008 includes also tax paid abroad in the amount of 124,662 LVL (2007: 104,389 LVL), that is tax withheld at Ukraine on interest paid to the Bank by the Ukrainian residents.

Corporate income tax differs from the theoretically calculated taxation at the 15% rate as stipulated by the law (see below):

Profit before income tax	**1,355,535**	**1,219,207**
Theoretically calculated tax at a tax rate of 15%	203,330	182,881
Loss from revaluation of securities at fair value through profit and loss account, net	169,719	31,606
Other expenses not deductible for tax purposes	22,994	17,398
Tax discount for donations	(14,364)	(19,402)
Corporate income tax expense	**381,679**	**212,483**

Deferred income tax is calculated by using the enacted tax rate – 15%.

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 9 CASH AND BALANCES WITH THE BANK OF LATVIA

	31.12.2008 LVL	31.12.2007 LVL
Cash	724,009	602,708
Balances on demand with the Bank of Latvia	5,173,033	6,273,070
	5,897,042	**6,875,778**

Balances on demand with Bank of Latvia reflect the balance of the Bank's correspondent account, on which interest is paid in the amount of the compulsory reserve requirement.

Demand deposits with the Bank of Latvia include an obligatory reserve maintained in accordance with Bank of Latvia regulations. The regulations specify the minimum level of the average balance to be maintained on the Bank's correspondent account with the Bank of Latvia during each month, whilst allowing funds in the account to be used in an unrestricted manner on individual days. The minimum level of the average balance to be maintained on the Bank's correspondent account with the Bank of Latvia during the period from 24/12/2008 till 23/01/2009 has been set in amount of 4,930,067 LVL.

The Bank was in compliance with the reserve requirement Bank of Latvia during the reporting period.

NOTE 10 BALANCES DUE FROM BANKS

	31.12.2008 LVL	31.12.2007 LVL
Due from Republic of Latvia credit institutions	2,544,086	7,945,917
Due from non-OECD credit institutions	25,504,411	2,251,326
Due from OECD credit institutions	5,956,597	6,605,705
	34,005,094	**16,802,948**

The following table discloses balances due from banks between demand and term deposits:

On demand	12,165,731	11,204,280
Balances with maturity of three months or less	3,683,706	3,512,160
Other balances due from banks	18,155,657	2,086,508
	34,005,094	**16,802,948**

The following table discloses balances due from banks according to their ratings as at 31 December 2008 and 31 December 2007:

	31.12.2008		**31.12.2007**	
Rating	**Due from banks LVL**	**%**	**Due from banks LVL**	**%**
From Aaa to Aa3	6,651,714	19.56%	8,430,021	50.17%
From A1 to A3	175,900	0.52%	1,337,695	7.96%
From Baa1 to Baa3	-	0.0%	3,189,991	18.98%
From Ba1 to Ba3	737,944	2.17%	1,364	0.01%
From B1 to B3	26,376,467	77.57%	2,252,026	13.40%
	33,942,025	**99.82%**	**15,211,097**	**90.53%**
Without rating	63,069	0.18%	1,591,851	9.47%
	34,005,094	**100.0%**	**16,802,948**	**100.0%**

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 11 LOANS AND ADVANCES TO CUSTOMERS

Analysis of loans by client type and by products

	31.12.2008 LVL	31.12.2007 LVL
Loans to legal entities	61,690,150	44,765,723
Loans to private individuals, except for mortgages	2,709,293	2,337,023
Loans to private individuals – private enterprises	65,935	67,443
Mortgages	1,938,726	1,822,542
Less: provisions for loan impairment	(1,151,534)	(540,198)
Total loans and advances to customers	**65,252,570**	**48,452,533**

The following table discloses changes in provisions for loan impairment during 2008:

	Loans to legal entities	Loans to private individuals, except for mortgages	Total
Provisions for loan impairment as at 1 January 2008	**540,198**	**-**	**540,198**
Increase in provisions for loan impairment for the year	611,212	124	611,336
Provisions for loan impairment as at 31 December 2008	**1,151,410**	**124**	**1,151,534**

The following table discloses changes appeared in provisions for loan impairment during 2007:

	Loans to legal entities	Total
Provisions for loan impairment as at 1 January 2007	**288,386**	**288,386**
Increase in provisions for loan impairment for the year	251,812	251,812
Provisions for loan impairment as at 31 December 2007	**540,198**	**540,198**

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 11 LOANS AND ADVANCES TO CUSTOMERS (continued)

The concentration of risks in the credit portfolio based on the economical industries is as follows:

	2008		2007	
	LVL	%	LVL	%
Trade and commercial activities	24,590,848	37.03%	15,933,414	32.52%
Private individuals	4,713,951	7.10%	4,275,261	8.73%
Agriculture and food industry	2,592,300	3.90%	2,713,859	5.54%
Construction and operations with real estate	10,405,876	15.67%	9,215,162	18.81%
Transport and communication	7,630,190	11.49%	6,207,406	12.67%
Industry	69,351	0.10%	88,748	0.18%
Tourism and hotel services, restaurant business	3,346,613	5.04%	1,020,824	2.08%
Other	13,054,975	19.67%	9,538,057	19.47%
Loans and advances to customers (before provisions for impairment)	**66,404,104**	**100%**	**48,992,731**	**100%**

As at 31 December 2008, the total amount of issued loans to 10 largest clients was 23,621,281 LVL (2007: 20,598,485 LVL), which comprises 36% of the total credit portfolio (2007: 42%). As at 31 December 2008, loans and advances to 10 largest clients were secured by deposits in total amount of 1,254,509 LVL (2007: 7,309,388 LVL).

The following table below shows the information about collateral as at 31 December 2008.

	Loans to legal entities	Loans to private individuals, except for mortgages	Loans to private individuals – private enterprises	Mortgages	Total
Unsecured loans	286,447	129,938	-	-	416,385
Loan collateralised by:					
- residential real estate	3,656,977	1,037,218	-	327,424	5,021,619
- other real estate	40,635,591	894,744	-	1,611,302	43,141,637
- tradeable securities	3,236,622	-	65,935	-	3,302,557
- cash deposits	3,158,535	647,393	-	-	3,805,928
- other assets	10,715,978	-	-	-	10,715,978
Total loans and advances to customers	**61,690,150**	**2,709,293**	**65,935**	**1,938,726**	**66,404,104**

The following table below shows the information about collateral as at 31 December 2007.

	Loans to legal entities	Loans to private individuals, except for mortgages	Loans to private individuals – private enterprises	Mortgages	Total
Unsecured loans	215,015	51,562	-		266,577
Loan collateralised by:					
- residential real estate	3,022,028	1,032,633	-	228,800	4,283,461
- other real estate	27,347,112	871,930	-	1,593,742	29,812,784
- tradeable securities	914,468	-	67,443	-	981,911
- cash deposits	8,098,001	421,131	-	-	8,519,132
- other assets	5,120,870	7,996	-	-	5,128,866
Total loans and advances to customers	**44,717,494**	**2,385,252**	**67,443**	**1,822,542**	**48,992,731**

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 11 LOANS AND ADVANCES TO CUSTOMERS (continued)

The following table shows the loans outstanding as at 31 December 2008 by credit quality.

	Loans to legal entities	Loans to private individuals, except for mortgages	Loans to private individuals – private enterprises	Mortgages	Total
Neither past due nor impaired					
- Loans to medium size entities	5,395,627	-	-	-	5,395,627
- Loans to small size entities	51,242,363	-	-	-	51,242,363
- Loans to private individuals	-	2,708,859	65,936	1,938,726	4,713,521
Total neither past due nor impaired	**56,637,990**	**2,708,859**	**65,936**	**1,938,726**	**61,351,511**
Past due but not impaired					
- past due 30 – 90 days	1,254,288	-	-	-	1,254,288
- past due over 360 days	274	-	-	-	274
Total past due, but not impaired	**1,254,562**	**-**	**-**	**-**	**1,254,562**
Individually impaired loans (total amount)					
- not past due	109,966	-	-	-	109,966
- past due up to 30 days	39	434	-	-	473
- past due 91 – 180 days	3,066,644	-	-	-	3,066,644
- past due over 360 days	620,948	-	-	-	620,948
Total individually impaired loans (total amount)	**3,797,597**	**434**	-	-	**3,798,031**
Less: provisions for loan impairment	**(1,151,410)**	**(124)**	-	-	**(1,151,534)**
Total loans and advances to customers	**60,538,739**	**2,709,169**	**65,936**	**1,938,726**	**65,252,570**

Loans past due, but not impaired include all amounts due from borrowers. Amount actually overdue as at 31 December 2008 were 119,689 LVL.

Loans past due and individually impaired include all amounts due from borrowers. Amount actually overdue as at 31 December 2008 was 3,687,592 LVL.

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 11 LOANS AND ADVANCES TO CUSTOMERS (continued)

The following table shows the loans outstanding as at 31 December 2007 by credit quality.

	Loans to legal entities	Loans to private individuals, except for mortgages	Loans to private individuals – private enterprises	Mortgages	Total
Neither past due nor impaired					
- Large new borrowers	469,454	-	-	-	469,454
- Loans to enterprises of medium business	3,561,598	-	-	-	3,561,598
- Loans to enterprises of small business	35,178,702	-	-	-	35,178,702
- Loans to private individuals	-	2,385,252	67,443	1,822,542	4,275,237
Total neither past due nor impaired	**39,209,754**	**2,385,252**	**67,443**	**1,822,542**	**43,484,991**
Past due but not impaired					
- past due up to 30 days	2,815,135	-	-	-	2,815,135
- past due 30 – 90 days	529,378	-	-	-	529,378
- past due 91 – 180 days	1,503,112	-	-	-	1,503,112
- past due 181 – 360 days	480	-	-	-	480
Total past due, but not impaired	**4,848,105**	**-**	**-**	**-**	**4,848,105**
Individually impaired loans (total amount)					
- past due 181 – 360 days	53,957	-	-	-	53,957
- past due over 360 days	605,678	-	-	-	605,678
Total individually impaired loans (total amount)	**659,635**	**-**	**-**	**-**	**659,635**
Less: provisions for loans impairment	**(540,198)**	**-**	**-**	**-**	**(540,198)**
Total loans and advances to customers	**44,177,296**	**2,385,252**	**67,443**	**1,822,542**	**48,452,533**

The primary factors that the Bank considers in determining whether a loan is impaired are its overdue status and realisability of related collateral, if any.

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 11 LOANS AND ADVANCES TO CUSTOMERS (continued)

The fair value of collateral in respect of loans past due but not impaired and in respect of loans individually determined to be impaired at 31 December 2008 was as follows:

	Loans to legal entities
Fair value of collateral - loans past due but not impaired	
- other real estate	6,957,760
Fair value of collateral - individually impaired loans	
- other real estate	5,242,512
- other assets	1,653,484
Total	**13,853,756**

The fair value of collateral in respect of loans past due but not impaired and in respect of loans individually determined to be impaired at 31 December 2007 was as follows:

	Loans to legal entities
Fair value of collateral - loans past due but not impaired	
- residential real estate	228,938
- other real estate	5,558,826
- other assets	4,079,481
Fair value of collateral - individually impaired loans	
- other real estate	580,800
- other assets	486,400
Total	**10,934,445**

The Bank applied the portfolio provisioning methodology prescribed by IAS 39, *Financial Instruments: Recognition and Measurement*, and created portfolio provisions for impairment losses that were incurred but have not been specifically identified with any individual loan by the balance sheet date. The Bank's policy is to classify each loan as 'neither past due nor impaired' until specific objective evidence of impairment of the loan is identified.

The balance sheet value of the each category of loans and advances to clients equals to its fair value as at 31 December 2007 and 2008.

NOTE 12 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT AND LOSS

	31.12.2008 LVL	**31.12.2007 LVL**
Latvian government securities	2,031,139	2,283,249
Non-OECD region corporate debt securities	927,682	2,420,836
Latvian corporate debt securities	1,242,490	1,075,119
	4,201,311	**5,779,204**

As at 31 December 2008 financial assets at fair value trough profit or loss included securities pledged as guarantees on sale and repurchase (reverse) agreements with fair value of 833,781 LVL (2007: 1,993,464 LVL).

NOTE 12 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT AND LOSS (continued)

Financial assets at fair value through profit or loss are accounted at fair value that also reflects impairment loss related to credit risk. As the financial assets are accounted at fair value based on the market prices, the Bank does not analyse and follow any impairment indicators.

The following table discloses debt securities by issuers' ratings as at 31 December 2008 and 31 December 2007:

Rating	31.12.2008 Securities LVL	31.12.2008 %	31.12.2007 Securities LVL	31.12.2007 %
From A1 to A3	2,031,139	48.3%	2,282,843	39.5%
From Baa1 to Baa3	-	-	357,209	6.2%
From Ba1 to Ba3	883,322	21.0%	1,364,099	23.6%
From B1 to B3	754,419	18.0%	1,056,737	18.3%
	3,668,880	**87.3%**	**5,060,888**	**87.6%**
Without rating	532,431	12.7%	718,316	12.4%
	4,201,311	**100.0%**	**5,779,204**	**100.0%**

NOTE 13 INTANGIBLE ASSETS

The following changes in the Bank's intangible assets took place during the year ended 31 December 2008 and 31 December 2007:

	2008 Software LVL	2007 Software LVL
Cost		
As at the beginning of the year	**428,706**	**185,566**
Additions	110,001	243,140
Advance payments	105,929	-
As at end of the year	**644,636**	**428,706**
Amortisation		
Accumulated amortisation at the beginning of the year	**164,948**	**127,458**
Charge for the year	64,879	37,490
Accumulated amortisation at the end of the year	**229,827**	**164,948**
Net book value at the beginning of the year	**263,758**	**58,108**
Net book value at the end of the year	**414,809**	**263,758**

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 14 PROPERTY AND EQUIPMENT

The following changes in the Bank's property and equipment took place during the year ended 31 December 2008:

	Transport	Computers	Office equipment	Leasehold improvements	Total
	LVL	LVL	LVL		LVL
Cost					
31.12.2007	**16,750**	**284,758**	**137,154**	**-**	**438,662**
Disposals	**-**	(7,853)	(1,697)	-	(9,550)
Additions	-	27,258	193,503	70,932	291,693
Advance payments	-	29,766	90,688	-	120,454
31.12.2008	**16,750**	**333,929**	**419,648**	**70,932**	**841,259**
Depreciation					
31.12.2007	**1,954**	**113,552**	**43,851**	**-**	**159,357**
On disposals	-	(7,853)	-	-	(7,853)
Charge for 2008	3,350	76,982	15,954	-	96,286
31.12.2008	**5,304**	**182,681**	**59,805**	**-**	**247,790**
Net book value 31.12.2007	**14,796**	**171,206**	**93,303**	**-**	**279,305**
Net book value 31.12.2008	**11,446**	**151,248**	**359,843**	**70,932**	**593,469**

The following changes in the Bank's property and equipment took place during the year ended 31 December 2007:

	Transport	Computers	Office equipment	Total
	LVL	LVL	LVL	LVL
Cost				
31.12.2006	-	**161,682**	**106,763**	**268,445**
Additions	16,750	123,076	29,216	169,042
Advance payments	-	-	1,697	1,697
Disposals	-	-	(522)	(522)
31.12.2007	**16,750**	**284,758**	**137,154**	**438,662**
Depreciation				
31.12.2006	-	66,678	29,631	96,309
Charge for 2007	1,954	46,874	14,220	63,048
31.12.2007	**1,954**	**113,552**	**43,851**	**159,357**
Net book value 31.12.2006	**-**	**95,004**	**77,132**	**172,136**
Net book value 31.12.2007	**14,796**	**171,206**	**93,303**	**279,305**

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 15 DEBT SECURITIES IN ISSUE

	31.12.2008 LVL	31.12.2007 LVL
Debt securities issued	-	2,811,216
Accrued interest payable	-	39,222
	-	**2,850,438**

On 27 October 2006 the Bank issued 40,000 bonds with nominal value 100 EUR. Total issue amounted to 4,000,000 EUR. The bonds were quoted on Riga Stock Exchange. The Bank repaid bonds in accordance with the due term on 27 October 2008.

NOTE 16 DUE TO CUSTOMERS

(a) Analysis of groups by customers

	31.12.2008 LVL	31.12.2007 LVL
Legal entities		
- current/settlement accounts	65,247,039	29,532,678
- term deposits	11,137,400	14,164,231
Private individuals		
- current/settlement accounts	1,437,070	1,146,058
- term deposits	10,318,817	6,848,565
Total customer accounts:	**88,140,326**	**51,691,532**
Sector profile:		
Private companies	70,829,308	41,109,981
Private individuals	11,617,471	7,906,823
Financial institutions	5,389,127	2,428,897
Non-profit institutions	2,160	37,172
Central government	3,672	2,386
Accrued interest payable	298,588	206,273
Total customer accounts:	**88,140,326**	**51,691,532**

(b) Analysis by place of residence

	31.12.2008 LVL	31.12.2007 LVL
Residents	16,473,274	10,999,564
Non-residents	71,368,464	40,485,695
Accrued interest payable	298,588	206,273
Total customer accounts:	**88,140,326**	**51,691,532**

During the year ended 31 December 2008 average interest rate on term deposits due to customers was 7.1 % (2007: 4.8%) and average interest rate on demand deposits was 0% to 4.4% (2007: 0% - 3%). All deposits have fixed interest rates.

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 16 DUE TO CUSTOMERS (continued)

Economic sector concentration within customer accounts is as follows:

	2008		2007	
	LVL	%	LVL	%
Cities and municipalities	3,677	0.01	3,672	0.01
Manufacturing	1,509,285	1.71	906,797	1.75
Building and real estate	2,952,401	3.35	678,611	1.31
Trade and commercial activities	26,238,739	29.77	16,227,655	31.39
Financial and insurance services	22,354,851	25.36	14,723,424	28.48
Transport and communications	14,744,367	16.73	9,546,676	18.47
Agriculture and food industries	144,634	0.16	75,727	0.15
Private individuals	11,755,375	13.34	7,994,623	15.47
Other	8,436,997	9.57	1,534,347	2.97
Total customer accounts	**88,140,326**	**100**	**51,691,532**	**100**

NOTE 17 BALANCES DUE TO BANKS

	31.12.2008	31.12.2007
	LVL	LVL
Loans against security pledge	742,161	1,887,600
Term deposit of bank AB „Pivdenny”	12,440	27,621
Loans against LVL pledge	-	4,065,600
Loans from interbank market	5,757,019	3,539,200
Other interbank transactions	1,238,516	2,945,341
Accrued interest payable	145,097	21,864
	7,895,233	**12,487,226**

NOTE 18 OTHER FINANCIAL LIABILITIES

Liabilities in clearance	134,194	10,820
Settlements on behalf of a closed bank	11,656	11,656
VAT settlements	5,288	748
Other creditors	60,683	137,102
	211,821	**160,326**

NOTE 19 DEFERRED INCOME AND ACCRUED EXPENSES

Deferred income	80,240	-
Accrued annual leave expenses	184,900	129,926
Accrual for guarantee fund and FCMC financing	45,666	30,331
Accrued commission expenses	17,525	61,361
Other accrued expenses	70,642	80,908
	398,973	**302,526**

NOTE 20 DEFERRED INCOME TAX

The gross movement on the deferred income tax account is as follows:

	2008 LVL	2007 LVL
Deferred income tax liability at the beginning of the reporting year	8,779	2,500
Deferred income tax liability (decrease) / increase during the reporting year (see Note 8)	(880)	6,279
Deferred tax liability at the end of the reporting year	**7,899**	**8,779**

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same taxation authority.

Deferred income tax has been calculated from the following temporary differences between assets and liabilities values for financial reporting and tax purposes:

	31.12.2008 LVL	31.12.2007 LVL
Deferred income tax liability:		
Temporary difference on fixed assets depreciation	35,634	28,268
Deferred income tax assets:		
Temporary difference on accruals for unused annual leave	(27,735)	(19,489)
Deferred tax liability	**7,899**	**8,779**

NOTE 21 DERIVATIVE FINANCIAL INSTRUMENTS

The Bank uses the following derivative financial instruments: currency forwards – agreements on currency acquisition in future, currency swaps – agreements on exchange one set of each cash flow for another.

The Bank's credit risk represents the potential cost to replace the forward contracts if counterparties fail to perform their obligation. To control the level of credit risk taken, the Bank assesses counterparties using the same techniques as for its lending activities.

The notional amounts of certain types of financial instruments provide a basis for comparison with instruments recognised on the balance sheet but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and do not indicate the Bank's exposure to credit risks. The derivative instruments become favourable or unfavourable as a result of fluctuations in market interest rates or foreign exchange rates relative to their terms.

The Bank’s notional amounts and fair values of derivative instruments held for trading are set out in the following table:

	31.12.2008			31.12.2007		
	Contract / notional amount	Fair value		Contract / notional amount	Fair value	
		Assets	Liabilities		Assets	Liabilities
Currency swaps	22,193,699	271,352	(52,046)	6,384,800	59,980	-
Currency forwards	6,994,201	1,927	(90,597)	13,418,549	22,990	(116,270)
		273,279	**(142,643)**		**82,970**	**(116,270)**

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 21 DERIVATIVE FINANCIAL INSTRUMENTS (continued)

The table below allocates the Bank's derivative cash flows as at 31 December 2008:

	Up to 1 month	1 to 3 months	Over 3 months	Total
Derivatives settled on a gross basis	**LVL**	**LVL**	**LVL**	**LVL**
Foreign exchange derivatives:				
- inflow	17,625,656	8,568,224	2,838,608	**29,032,488**
- outflow	(17,484,731)	(8,567,024)	(2,838,208)	**(28,889,963)**

The table below allocates the Bank's derivative cash flows as at 31 December 2007:

	Up to 1 month	1 to 3 months	Total
Derivatives settled on a gross basis	**LVL**	**LVL**	**LVL**
Foreign exchange derivatives:			
- inflow	7,021,349	12,710,000	**19,731,349**
- outflow	(7,043,274)	(12,722,400)	**(19,765,674)**

NOTE 22 SHARE CAPITAL

Issued and fully paid share capital as at 31 December 2006 was LVL 5,500,000. The share capital consisted of 5,500,000 ordinary shares with the nominal value of LVL 1 per share of which 3,399,447 were shares with voting rights.

On 31 May 2007 Alla Vanecjanca sold 16% of the Bank's shares to Ukrainian bank AB „Pivdenny". On 11 June 2007 Mark Becker, Jurijs Rodin, Tamara Rodin and Levon Vanecjancs sold 10.7% of the Bank's shares to Ukrainian bank AB „Pivdenny". On 19 September 2007 Dmitrijs Becker sold 9.3% of Bank's shares to Ukrainian bank AB „Pivdenny".

Based on the administrative act issued by the Finance and Capital Market Commission, a restriction was imposed on the voting rights of remaining 2,100,553 shares. This restriction was removed when above mentioned owners of the shares – private individuals transferred their shares to Ukrainian bank AB „Pivdenny".

In November 2007 the Bank issued additional 2,700,000 shares with a nominal value of 1 LVL each. Share capital increase was fully paid in cash and registered with Commercial Register on 14 November 2007.

In March 2008, the Bank made a decision to issue additional 6,000,000 shares with a nominal value of 1 LVL each. On 4 July 2008 the Ukrainian bank AB „Pivdenny" paid for acquisition of 2,000,000 shares and did not use the right to acquire the remaining 4,000,000 shares. On 24 October 2008 an extraordinary shareholders' meeting approved decision No 03/2008 to increase share capital only by 2,000,000 shares, thus share capital of the Bank consisted of 10,200,000 shares. On 24 October 2008 the management of the Bank decided to approve the payment for 2,000,000 shares at actual amount and to determine that the share capital of the Bank constitutes 10,200,000 shares. The increase of the share capital was fully paid by 31 December 2008 and it was registered on 14 January 2009.

Issued and fully paid share capital as at 31 December 2008 comprises 10,200,000 LVL. The paid share capital consists of 10,200,000 registered shares with the nominal value of 1 LVL per share of which 10,200,000 are shares with voting rights with the total nominal value of 10,200,000 LVL.

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 22 SHARE CAPITAL (continued)

As at 31 December 2007 the Bank's shareholders were as follows:

	31.12.2008		31.12.2007	
	Paid-in share capital	% of total paid-in capital	Paid-in share capital	% of total paid-in capital
	LVL	%	LVL	%
AB „Pivdenny" bank	9,299,670	91.18	7,299,670	89.02
Haralds Āboliņš	110	-	400,110	4.88
HRG Ieguldījumi	800,000	7.84	400,000	4.88
Valdis Spāre	100,000	0.98	100,000	1,22
Daiga Muravska	110	-	110	-
Oleksandr Kuperman	110	-	110	-
	10,200,000	**100.00**	**8,200,000**	**100.00**

As at 31 December 2008 the main ultimate shareholders of the AB „Pivdenny" bank were 2 Ukrainian nationals, Mr Y.O. Rodin and Mr M.I. Bekker, neither of which individually controlled AB „Pivdenny" bank.

NOTE 23 COMMITMENTS AND CONTINGENT LIABILITIES

Contingent liabilities
The following table discloses contingent liabilities:

	31.12.2008	31.12.2007
	LVL	LVL
Guarantee	32,580	32,580
Warranties	78,849	537,979
	111,429	**570,559**

The Bank has issued a guarantee on behalf of a Latvian company in the amount of LVL 32,580. This guarantee is secured by a deposit placed with the bank.
The Bank has issued warranties in the amount of LVL 78,849. These warranties are secured by deposits placed with the Bank or money resources in the security accounts.

Financial commitments
The following table discloses the contractual amounts of the Bank's commitments to extend credit.

	31.12.2008	31.12.2007
	LVL	LVL
Letters of credit	3,766,068	2,144,551
Loans	7,924,413	9,453,766
Other	-	281
	11,690,481	**11,598,598**

From which Bank's commitments relating to crediting were as follows:

	31.12.2008	31.12.2007
	LVL	LVL
Loan commitments	2,313,092	2,692,091
Undrawn credit lines	5,611,321	6,761,675
Total loan commitments	**7,924,413**	**9,453,766**

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 23 COMMITMENTS AND CONTINGENT LIABILITIES (continued)

The total outstanding contractual amount of undrawn credit lines, letters of credit, and guarantees does not necessarily represent future cash requirements, as these financial instruments may expire or terminate without being funded. The loan commitments are denominated in the following currencies:

	31.12.2008 LVL	31.12.2007 LVL
USD	6,648,533	6,716,668
EUR	900,832	2,657,959
Other currencies	375,048	79,139
Total	**7,924,413**	**9,453,766**

Commitment under operating lease agreement
The Bank has entered into an operating lease agreement for its office premises. The lease agreement expires in June 2025. The non-cancellable lease liabilities payable within a year are LVL 381,100.

Where the Bank is the lessee, the future lease payments under concluded operating lease agreements are as follows:

	31.12.2008 LVL	31.12.2007 LVL
Up to 1 year	381,100	335,518
1 to 5 years	2,183,161	2,091,635
Over 5 years	6,259,201	6,731,827
Total	**8,823,462**	**9,158,980**

Funds under trust management

Assets under trust		
Loans	120,155	1,674,335
	120,155	**1,674,335**
Liabilities under trust		
Private individuals	120,155	604,411
Private companies	-	1,069,924
	120,155	**1,674,335**

Assets pledged and restricted
As at 31 December 2008 the Bank had the following assets pledged:

	2008		2007	
	Assets pledged	Related liabilities	Assets pledged	Related liabilities
Financial assets at fair value through profit and loss	833,781	742,940	1 ,993,464	1,888,565
Financial assets at fair value through profit and loss*	314,996	-	-	-
Balances due from banks*	870,772	-	-	-
Total	**2,019,549**	**742,940**	**1 ,993,464**	**1,888,565**

***** Assets pledged as guarantees for execution of derivative financial instruments.

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 24 CASH AND CASH EQUIVALENTS

	31.12.2008 LVL	31.12.2007 LVL
Cash and balances on demand with the Bank of Latvia	5,897,042	6,875,778
Due from banks with original maturity of 3 months or less	15,849,437	14,716,440
Due to banks	(7,895,233)	(12,487,226)
	13,851,246	**9,104,992**

NOTE 25 SEGMENT ANALYSIS

The Bank's primary format for reporting segment information is business segments and the secondary format is geographical segments.

Business segments
The Bank is organised on the basis of three main business segments:

- Retail banking – representing private banking services, private customer current accounts, savings, deposits, investment savings products, custody, credit and debit cards, consumer loans and mortgages.
- Corporate banking – representing direct debit facilities, current accounts, deposits, overdrafts, loan and other credit facilities, foreign currency and derivative products.
- Treasury banking: the following business segment includes interbank credits and deposits, structured financing and derivative financial instruments.

Transactions between the business segments are on normal commercial terms and conditions. Funds are ordinarily reallocated between segments, resulting in funding cost transfers disclosed in operating income. Interest charged for these funds is based on the Bank's cost of capital. There are no other material items of income or expense between the business segments. Segment assets and liabilities comprise operating assets and liabilities, being the majority of the balances sheet, but excluding taxation. Internal charges and transfer pricing adjustments have been reflected in the performance of each business segment.

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 25 SEGMENT ANALYSIS (continued)

Segment information for the main reportable business segments of the Bank for the year ended 31 December 2008 is set out below:

	Retail banking	Corporate banking	Treasury banking	Un-allocated	Eliminations	Total
External revenues	32,784	7,489,405	1,710,212	106,715	620,897	9,960,013
Revenues from other segments	407,535	213,362	-	-	(620,897)	-
Total revenues	**440,319**	**7,702,767**	**1,710,212**	**106,715**	**-**	**9,960,013**
Total revenues comprise:						
- Interest income	414,151	5,598,626	1,710,212	106,715	-	7,829,704
- Fee and commission income	26,168	2,104,141	-	-	-	2,130,309
Total revenues	**440,319**	**7,702,767**	**1,710,212**	**106,715**	**-**	**9,960,013**
Segment results	**90,226**	**5,875,189**	**312,419**	**-**	**-**	**6,277,834**
Profit before taxation	**-**	**-**	**-**	**-**	**-**	**1,355,535**
Corporate income tax	-	-	-	-	-	(381,679)
Profit	**-**	**-**	**-**	**-**	**-**	**973,856**
Total segment assets	**4,610,566**	**57,084,794**	**31,819,096**	**4,201,311**	**-**	**97,715,767**
Current and deferred tax assets	-	-	-	-	-	172
Other unallocated assets	-	-	-	-	-	13,547,939
Total assets	**-**	**-**	**-**	**-**	**-**	**111,263,878**
Total segment liabilities	**11,244,525**	**67,435,559**	**7,306,468**	**10,802,444**	**-**	**96,788,996**
Current and deferred tax liabilities	-	-	-	-	-	7,899
Total liabilities	**-**	**-**	**-**	**-**	**-**	**96,796,895**
Other segment items						
Capital expenditure	41,743	517,347	288,368	160,820	-	1,008,278
Depreciation and amortisation	6,672	82,694	46,093	25,706		161,165
Provisions for loan impairment	124	1,151,410	-	-	-	1,151,534

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 25 SEGMENT ANALYSIS (continued)

Segment information for the main reportable business segments of the Bank for the year ended 31 December 2007 is set out below:

	Retail banking	Corporate banking	Treasury banking	Un-allocated	Eliminations	Total
External revenues	21,340	4,267,719	2,274,114	168,696	395,742	7,127,611
Revenues from other segments	343,050	52,692	-	-	(395,742)	-
Total revenues	**364,390**	**4,320,411**	**2,274,114**	**168,696**	**-**	**7,127,611**
Total revenues comprise:						
- Interest income	346,294	2,785,454	2,274,114	168,696	-	5,574,558
- Fee and commission income	18,096	1,534,957	-	-	-	1,553,053
Total revenues	**364,390**	**4,320,411**	**2,274,114**	**168,696**	**-**	**7,127,611**
Segment results	**130,980**	**2,693,430**	**1,234,470**	**-**	**-**	**4,058,880**
Profit before taxation		**-**	**-**	**-**	**-**	**1,219,207**
Corporate income tax		-		-	-	(212,483)
Profit	**-**	**-**	**-**	**-**	**-**	**1,006,724**
Total segment assets	**4,256,271**	**42,271,761**	**19,737,577**	**5,779,204**	**-**	**72,044,813**
Current and deferred tax assets		**-**	**-**	**-**	**-**	45,317
Other unallocated assets		**-**	**-**	**-**	**-**	7,020,094
Total assets	**4,256,271**	**42,271,761**	**19,737,577**	**5,779,204**	**-**	**79,110,224**
Total segment liabilities	**7,943,995**	**43,520,463**	**9,520,021**	**6,623,839**	**-**	**67,608,318**
Current and deferred tax liabilities		**-**	**-**	**-**	**-**	8,779
Total liabilities	**7,943,995**	**43,520,463**	**9,520,021**	**6,623,839**	**-**	**67,617,097**
Other segment items						
Capital expenditures	29,217	290,159	135,494	88,193	-	543,063
Depreciation and amortisation	5,410	53,717	25,084	16,327	-	100,538
Provisions for loan impairment	-	540,198	-	-	-	540,198

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 25 SEGMENT ANALYSIS (continued)

Geographical segments. The Bank mostly operates in two geographical segments: in Latvia, which is the country of origin, and in Ukraine.

The capital investments are shown based on the actual location of property and equipment.

	Income LVL	Total assets LVL	Capital expenditures LVL
As at 31 December 2008			
Latvia	2,457,409	37,729,552	291,693
Ukraine	6,782,735	61,148,317	-
Other OECD countries	422,759	9,442,679	-
Other assets	297,110	2,669,879	-
Unallocated assets	-	273,451	-
	9,960,013	**111,263,878**	**291,693**
As at 31 December 2007			
Latvia	1,620,995	33,920,353	168,326
Ukraine	4,156,423	34,625,224	-
Other OECD countries	1,161,769	8,774,681	-
Other assets	188,424	1,661,677	-
Unallocated assets	-	128,289	-
	7,127,611	**79,110,224**	**168,326**

External revenues and assets and credit related commitments shown above have generally been allocated based on domicile of the counterparty. Cash on hand, premises and equipment and capital expenditure have been allocated based on the country in which they are physically held.

NOTE 26 CAPITAL ADEQUACY

The Bank's calculation of the capital adequacy ratio according to the Finance and Capital Market Commission Guidelines as at 31 December 2008 has been set in the table below:

Description	**31.12.2008 LVL**
Tier 1	
- paid-in share capital	10,200,000
- audited retained earnings	3,293,127
- intangible assets	(414,809)
Total Tier 1	**13,078,318**
Capital base	**13,078,318**
Total capital requirements for credit and counterparty credit risks	**5,965,663**
- standardised approach (SA)	5,965,663
Total capital requirement for position and foreign exchange risks	**252,981**
Total capital requirements for operational risk	**459,923**
– basic index approach	459,923
Surplus of own funds	**6,399,751**
Capital adequacy ratio (%) *([Capital base]: [Surplus of own funds] x 8%)*	**15.67%**

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 26 CAPITAL ADEQUACY

The Bank's capital adequacy ratio according to the Finance and Capital Market Commission Guidelines as at 31 December 2008 has been set in the table below:

	2008 LVL`000	2007 LVL`000
Shareholders' equity for the calculation of capital adequacy ratio	13,078	10,222
Weighted assets and off balance sheet items	74,571	47,508
Capital adequacy ratio	**15.67%**	**21,64%**

NOTE 27 CURRENCY ANALYSIS

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

	LVL LVL	USD LVL	EUR LVL	Other currencies LVL	Total LVL
Assets					
Cash and deposits with the Bank of Latvia	5,372,189	156,668	367,883	302	5,897,042
Balances due from banks	874,367	26,040,702	6,902,273	187,752	34,005,094
Loans and advances to customers	3,572,302	37,612,580	24,067,688	-	65,252,570
Financial assets at fair value through profit or loss	2,304,418	927,682	1,242,490	-	4,474,590
Intangible assets	403,095	-	11,714	-	414,809
Property and equipment	586,251	-	-	7,218	593,469
Other assets	79,754	160,744	320,484	65,322	626,304
Total assets	**13,192,376**	**64,898,376**	**32,912,532**	**260,594**	**111,263,878**
Liabilities and equity					
Balances due to banks	4,103,702	744,674	3,046,857	-	7,895,233
Due to customers	3,127,836	54,886,260	29,372,944	753,286	88,140,326
Other liabilities	375,076	129,167	89,666	16,885	610,794
Derivative financial instruments	142,643	-	-	-	142,643
Deferred income tax liability	7,899	-	-	-	7,899
Equity	14,466,983	-	-	-	14,466,983
Total liabilities and equity	**22,224,139**	**55,760,101**	**32,509,467**	**770,171**	**111,263,878**
Net long / (short) position on balance sheet	**(9,031,763)**	**9,138,275**	**403,065**	**(509,577)**	**-**
Off-balance sheet claims arising from foreign exchange					
Spot foreign exchange receivable	16,184,690	-	10,893,462	728,000	27,806,152
Forward foreign exchange receivable	7,198,800	9,218,299	11,244,864	-	27,661,963
Net long / (short) position on foreign exchange	*8,985,890*	*(9,218,299)*	*(351,402)*	*728,000*	*144,189*
Net long / (short) position	**(45,873)**	**(80,024)**	**51,663**	**218,423**	**144,189**
As at 31 December 2007					
Total assets	**16,226,983**	**45,078,621**	**17,396,799**	**407,821**	**79,110,224**
Total liabilities and shareholders' equity	**16,913,630**	**45,173,679**	**16,825,588**	**197,327**	**79,110,224**
Net long / (short) position on balance sheet	**(686,647)**	**(95,058)**	**571,211**	**210,494**	**-**

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 28 LIQUIDITY RISK AND ANALYSIS OF ASSETS AND LIABILITIES BY MATURITY PROFILE

The table below allocates the Bank's assets and liabilities to maturity groupings as at 31 December 2008 based on the time remaining from the balance sheet date to the contractual maturity dates.

	Overdue	Within 1 month	1 – 3 months	3 – 6 months	6 –12 months	1–5 years	Over 5 years and undated	Total
	LVL	LVL	LVL	LVL	LVL	LVL	LVL	LVL
Assets								
Cash and balances with the Bank of Latvia	-	5,897,042	-	-	-	-	-	**5,897,042**
Balances due from banks	-	18,487,896	2,475,000	13,042,198	-	-	-	**34,005,094**
Loans and advances to customers	2,670,834	7,827,044	3,651,373	11,520,024	18,745,688	18,662,696	2,174,911	**65,252,570**
Financial assets at fair value through profit or loss	-	4,201,311	-	-	-	-	-	**4,201,311**
Intangible assets	-	-	-	-	-	414,809	-	**414,809**
Property and equipment	-	-	-	-	-	-	593,469	**593,469**
Derivative financial instruments	-	145,368	88,192	-	39,719	-	-	**273,279**
Deferred expenses	-	-	-	-	64,946	-	-	**64,946**
Income tax	-	-	172	-	-	-	-	**172**
Other assets		561,186	-	-	-	-	-	**561,186**
Total assets	**2,670,834**	**37,119,847**	**6,214,737**	**24,562,222**	**18,850,353**	**19,077,505**	**2,768,380**	**111,263,878**
Liabilities and equity								
Balances due to banks	-	7,895,233	-	-	-	-	-	**7,895,233**
Due to customers	-	52,594,599	9,487,092	18,061,804	6,164,843	1,831,988	-	**88,140,326**
Derivative financial instruments	-	15,936	87,363	-	39,344	-	-	**142,643**
Deferred income and accrued expenses	-	-	-	-	398,973	-	-	**398,973**
Other liabilities	-	211,821	-	-	-	-	-	**211,821**
Deferred income tax liability	-	-	-	-	7,899	-	-	**7,899**
Equity	**-**	**-**	**-**	**-**	**-**	**-**	**14,466,983**	**14,466,983**
Total liabilities and equity	**-**	**60,717,589**	**9,574,455**	**18,061,804**	**6,611,059**	**1,831,988**	**14,466,983**	**111,263,878**
Net liquidity	*2,670,834*	*(23,597,742)*	*(3,359,718)*	*6,500,418*	*12,239,294*	*17,245,517*	*(11,698,603)*	-
As at 31 December 2007								
Total assets	**512,020**	**30,149,450**	**8,057,097**	**5,686,754**	**15,714,774**	**18,145,621**	**844,508**	**79,110,224**
Total liabilities and equity	**-**	**48,029,828**	**5,514,853**	**4,152,592**	**8,751,907**	**1,167,917**	**11,493,127**	**79,110,224**
Net liquidity	*512,020*	*(17,880,378)*	*2,542,244*	*1,534,162*	*6,962,867*	*16,977,704*	*(10,648,619)*	-

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 28 LIQUIDITY RISK AND ANALYSIS OF ASSETS AND LIABILITIES BY MATURITY PROFILE (continued)

The table below allocates the Bank's financial liabilities on undiscounted cash flow bases as at 31 December 2008:

	Overdue	Within 1 month	1 – 3 months	3 – 6 months	6 –12 months	1–5 years	Over 5 years and undated	Total
	LVL	LVL	LVL	LVL	LVL	LVL	LVL	LVL
Balances due to banks	-	7,903,833	-	-	-	-	-	7,903,833
Due to customers	-	52,511,124	9,514,527	18,188,229	6,393,590	2,020,388	-	88,627,858
Other liabilities	-	227,758	87,362	-	438,317	-	-	753,437
Total liabilities	**-**	**60,642,715**	**9,601,889**	**18,188,229**	**6,831,907**	**2,020,388**	**-**	**97,285,128**

The table below allocates the Bank's financial liabilities on undiscounted cash flow bases as at 31 December 2007:

	Overdue	Within 1 month	1 – 3 months	3 – 6 months	6 –12 months	1–5 years	Over 5 years and undated	Total
	LVL	LVL	LVL	LVL	LVL	LVL	LVL	LVL
Balances due to banks	-	10,781,059	1,700,431	-	-	-	-	**12,481,490**
Due to customers	-	36,943,501	3,853,144	4,276,542	5,947,561	1,414,520	1,790	**52,437,058**
Debt securities in issue	-	-	-	105,196	2,916,412	-	-	**3,021,608**
Other liabilities	-	276,596	-	-	302,526	-	-	**579,122**
Total liabilities	**-**	**48,001,156**	**5,553,575**	**4,381,738**	**9,166,499**	**1,414,520**	**1,790**	**68,519,278**

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 29 RE-PRICING MATURITY OF ASSETS AND LIABILITIES

The table below allocates the Bank's assets and liabilities to maturity groupings as at 31 December 2008 based on the time remaining from the balance sheet date to the earlier of maturity and contractual re-pricing dates.

	Within 1 month	1–3 months	3–6 months	6–12 months	1–5 years	Over 5 years	Positions which are not sensitive to the interest rate risk	Total
		LVL	LVL	LVL	LVL	LVL	LVL	LVL
Assets								
Cash and balances with the Bank of Latvia	-	-	-	-	-	-	5,897,042	**5,897,042**
Balances due from banks	870,000	-	24,750	-	-	-	33,110,344	**34,005,094**
Loans and advances to customers	10,370,401	11,438,309	14,305,980	17,804,249	10,934,393	629	398,609	**65,252,570**
Financial assets at fair value through profit or loss	-	356,324	622,654	-	3,161,711	60,622	-	**4,201,311**
Intangible assets	-	-	-	-	-	-	414,809	**414,809**
Property and equipment	-	-	-	-	-	-	593,469	**593,469**
Other assets	145,368	88,192	-	39,719	-	-	626,304	**899,583**
Total assets	**11,385,769**	**11,882,825**	**14,953,384**	**17,843,968**	**14,096,104**	**61,251**	**41,040,577**	**111,263,878**
Liabilities								
Balances due to banks	742,170	-	4,000,000	-	-	-	3,153,063	**7,895,233**
Due to customers	5,064,931	6,974,743	5,028,151	6,061,217	1,821,767	-	63,189,517	**88,140,326**
Other liabilities	15,936	87,363	-	39,344	-	-	610,794	**753,437**
Deferred income tax liability	-	-	-	-	-	-	7,899	**7,899**
Total liabilities	**5,823,037**	**7,062,106**	**9,028,151**	**6,100,561**	**1,821,767**	**-**	**66,961,273**	**96,796,895**
Equity	**-**	**-**	**-**	**-**	**-**	**-**	14,466,983	**14,466,983**
Total liabilities and equity	**5,823,037**	**7,062,106**	**9,028,151**	**6,100,561**	**1,821,767**	**-**	**81,428,256**	**111,263,878**
On balance sheet interest sensitivity analysis	*5,562,732*	*4,820,719*	*5,925,233*	*11,743,407*	*12,274,337*	*61,251*	*(40,387,679)*	*-*
As at 31 December 2007								
Total assets	**6,588,991**	**9,348,136**	**8,818,150**	**15,772,998**	**17,965,052**	**62,440**	**20,554,457**	**79,110,224**
Total liabilities and equity	**17,356,256**	**4,474,141**	**4,113,554**	**8,396,673**	**1,161,832**	**-**	**43,607,768**	**79,110,224**
On balance sheet interest sensitivity analysis	*(10,767,265)*	*4,873,995*	*4,704,596*	*7,376,325*	*16,803,220*	*62,440*	*(23,053,311)*	*-*

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 30 RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions.

Related parties are defined as shareholders, members of the Council and the Board, key management personnel, their close relatives and companies in which they have a controlling interest as well as associated companies.

The balances in respect of operations with related parties are as follows as at 31 December 2008:

	Other related parties
Undrawn credit lines	**15,094**

Total amounts of loan commitments issued to and repaid by related parties during 2008 are as follows:

	Shareholders with significant control	**Enterprises under the control of beneficiaries**	**Other related parties**
Issued to related parties	1,777,475,716	105,421	6,374
Repaid by related parties	1,757,856,427	792,000	392

Operations with the related parties were as follows as at December 2008:

	Shareholders with significant control	**Other shareholders**	**Enterprises under the control of beneficiaries**	**Other related parties**
Total loans and advances (interest rate on agreement: 6 - 18%)	20,943,083	-	917,276	24,477
Investment securities for trading purposes	229,908	-	-	-
Correspondent account	4,551,164	-	-	-
Due to customers (interest rate: 5.25 – 8.6%)	-	108	-	29,320
Vostro account	12,440	-	-	
Interbank deposits	1,811,945	-	-	

Income and expense from operations with related parties during 2008 were as follows:

	Shareholders with significant control	**Other shareholders**	**Enterprises under the control of beneficiaries**	**Other related parties**
Interest income	868,381	50	136,591	1,448
Interest expenses	91,329	2,430	7	37,881
Fee and commission income	-	1,136	168	927
Fee and commission expense	16,275	-	-	-
Administrative and other operating expenses	5,832	-	-	-

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 30 RELATED PARTY TRANSACTIONS (continued)

The balances in respect of operations with related parties are as follows as at 31 December 2007:

	Other related parties
Undrawn credit lines	**21,176**

Total amounts of loan commitments issued to and repaid by related parties during 2007 are as follows:

	Shareholders with significant control	**Enterprises under the control of beneficiaries**	**Other related parties**
Issued to related parties	2,337,713,681	899,100	15,160
Repaid by related parties	2,335,865,541	268	1,121

Operations with the related parties were as follows as at December 2007:

	Shareholders with significant control	**Other shareholders**	**Enterprises under the control of beneficiaries**	**Other related parties**
Total loans and advances (interest rate on agreement: 6 - 24%)	1,016,400	3,236	1,700,058	16,490
Investment securities for trading purposes	606,472	-	-	-
Correspondent account	1,214,952	-	-	-
Due to customers (interest rate: 0 – 3.5%)	-	209,063	-	27,244
Vostro account	27,621	-	-	-

Income and expense from operations with related parties during 2007 were as follows:

	Beneficiaries	**Other shareholders**	**Enterprises under the control of beneficiaries**	**Other related parties**
Interest income	834,471	-	97,215	364
Interest expenses	1,663	115	-	1,235
Fee and commission income	-	405	1,798	1,071
Fee and commission expense	18,520	-	-	-

As at 31 December 2008 trusts balances included agreements in the amount of LVL 107,625, which were concluded with the related parties (31.12.2007: LVL 110,770).

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 30 RELATED PARTY TRANSACTIONS (continued)

Remuneration to key management is disclosed below:

	2008 LVL	2007 LVL
Short-term benefits:		
- Salaries	234,959	202,167
- Short-term bonuses	20,513	48,242
Pension benefits:		
- Expenses to the State Pension Insurance	36,979	30,200
Total	**292,451**	**280,609**

Short-term bonuses are payable in full within 12 months after the period end, during which the respective services were rendered.

NOTE 31 FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

In respect of financial assets and liabilities held in the balance sheet at carrying values other than fair value, in the opinion of Management the fair value of those financial assets and liabilities differ from their carrying values, as follows:

	2008		2007	
	Book value LVL	**Fair value LVL**	**Book value LVL**	**Fair value LVL**
Assets				
Loans to customers	**65,252,570**	**70,631,825**	**48,452,533**	**52,765,773**
Liabilities				
Debt securities in issue	**-**	**-**	**2,850,438**	**2,817,000**

Interest rates used to determine fair value are equal with the interest rates set in the loan agreements where variable part of the interest rate is calculated based on the interbank market (EURIBOR, LIBOR, etc.) rates implicit at the year end.

NOTE 32 TAXES

	Balance 31.12.2007 LVL	Calculated in 2008 LVL	Paid in 2008 LVL	Balance 31.12.2008 LVL
Corporate income tax*	(45,317)	257,897*	(212,752)	(172)
State compulsory social insurance contributions	-	433,424	(433,424)	-
Personal income tax	-	323,145	(323,145)	-
Value added tax	748	38,719	(34,179)	5,288
(Overpaid)	**(45,317)**			**(45,317)**
Liabilities	**748**			**5,288**

* CIT calculated is reduced by the amount of tax paid abroad – 124,662 LVL.

The tax authorities have the right to inspect the tax computations for the last three taxation years. State revenue service carried out corporate income tax and value added tax review in 2008 for the year 2005 and 2006. No critical findings were identified. The Company's management is not aware of any circumstances which may give rise to a potential material liability in this respect.

NOTE 33 SUBSEQUENT EVENTS

There are no subsequent events since the last date of the reporting year, which would have a significant effect on the financial position of the Company as at 31 December 2008.