GE Money Bank

JSC "GE Money Bank"
Bank and Consolidated Financial Statements
for the year ended 31 December 2008

CONTENT

MANAGEMENT REPORT ON THE BANK'S AND THE GROUP'S OPERATIONS DURING 2008

Honorable shareholders and customers,

2008 was the year of rapid events and changes in Latvia and in the entire world. On 23 April 2008, the integration of AS "BALTIC TRUST BANK" and AS "GE Money" was concluded, resulting in the formation of a new bank, AS "GE Money Bank" (hereafter, "the Bank"), a subsidiary of the General Electric corporation.

General Electric (GE) is one of the world's largest, most respected and safest companies operating in five business sectors with 130 years of experience in more than 160 countries and more than 300,000 employees. Since 1896, GE has been included in the Dow Jones Industrial index. The company's Y2008 profit was 18 billion US dollars (USD), but in terms of income it was the third best year in the GE history with USD 183 billion in revenues.

GE Money is one of the General Electric businesses wherein the corporation has already been operating for 78 years in more than 50 countries. It is one of the most rapidly growing GE sectors, trusted by 130 million customers due to the work of more than 60,000 employees providing a full range of financial services.

Operating activity of the bank in 2008

For GE Money Bank in Latvia, 2008 was the year of investments and change as the principal objective was the creation of an operational and technological base for the newly established bank. In order to ensure stable long-term development of the bank, the business strategy was revised, significant investments in different projects were made, the organizational structure was reshaped, changes in the board and council took place, the branch network improved, the bank's brand was updated, and various processes and resources were optimized, as well as business efficiency increased.

In addition, the bank actively reacted to the year's economic events, significantly improving the risk management infrastructure in the company that allows regular identification, monitoring and management of the bank's financial risks with the help of different methods including forecasts of macroeconomic scenarios and stress testing of related risks. A very conservative approach was implemented in customer solvency risk assessment and active credit portfolio reserves in the amount of LVL 11.3 million or 5.4% of the credit portfolio was created, thus securing the bank also against the future economic changes.

Based on this conservative business approach and investments in GE Money Bank future growth, the bank concluded the previous year with a loss of LVL 14.188 million. At the end of 2008, Bank's assets comprised LVL 254.3 million, LVL 197.3 million were allocated in loans, the deposit volume was LVL 204.4 million .

Despite numerous challenges, the bank has gained the trust of Latvian consumers. The number of GE Money Bank customers has grown each month – 7,000 commercial customers and 159,000 private customers trust the bank at the moment. Latvian research data acknowledge that GE Money Bank is the fourth most recognized bank, the fifth most admired bank and the most rapidly growing bank in Latvia.

In Latvia, customers value GE Money Bank's rich international experience in various markets globally, its security and reliability, its team of highly professional employees, its wide variety of products and services, and also, the convenience that comes with having one of the largest branch networks in Latvia.

Subsidiary companies

"GE Money Assets Management" and the stock joint company „GE Money Atklātais pensiju fonds" both operate as part of the Bank. Upon establishment of GE Money Bank in Latvia the following products were introduced: the 2nd pillar pension plans "Džezs" and "Blūzs", the 3rd pillar pension plans "Rumba" and "Tvists", investment funds "GE Money Eastern Europe Balanced fund", „GE Money European Bond fund" and „GE Money Eastern Europe Equity fund".

In 2008, the total assets volume grew more than two times and reached LVL 9.1 million. The number of customers doubled to 24,000. The 2nd pillar pension plans comprised 2 percent of the market at the end of the year.

Corporate citizenship

The goal of GE Money Bank in any country, including Latvia, is not just to offer products to the community, but also to get involved in the public sphere by providing support to it.

This year with the aggravating economic situation, GE Money Bank has taken active part and provided support to the development of operations of the nongovernmental organization Money Planning Center in the field of public financial education on personal budget planning (the organization was established in May 2007 by AS GE Money, a company of the GE Money companies group in Latvia, in cooperation with the Riga International School of Economics and Business Administration). With the help of GE Money Bank the financial literacy web page www.vissparnaudu.lv was created. It organizes different projects and activities to help people understand financial matters and budget planning, as well as introduces an innovative solution in personal budget planning, a downloadable program in mobile phones called "Money Controller".

GE Money Bank has allocated financial support to different events for a wide variety of public groups – for example, town festivals in Latvia's regions, GE Money Streetball competition, GE Money Grand Prix sport dance festival and others.

The Bank has willingly shared its international experience by taking part in different seminars, conferences, actively providing comments to mass media and cooperating with state and regulatory institutions.

In Latvia, GE Money Bank provides support to society not only with the bank's financial resources, but also by voluntary involvement of its employees. For example, this year the Bank organized the voluntary project "Responsibility Week" which focuses on the safety of society – the Bank organized the sawing down of dangerous trees in several Latvian towns, tidying up the surrounding area with the help of more than 50 employees and delivering wood to pensioners. Employees of the bank have also made many donations to Latvia's organizations dedicated to helping low-income people.

The Bank considers its employees as it's biggest asset. Therefore, a significant commitment to the employees has been made in the company. They have reshaped the organizational structure for more effective operations, improved processes and procedures, established GE Money Bank Training Centre for employees with a wide variety of training programs and developed the internal communication environment by creating new information channels, traditions, a film about GE Money Bank establishment and other activities.

Financial stability and future growth

The Bank's stability and future growth is reinforced by the strength of its owner General Electric which possesses a very high credit rating and provides funding to the bank. Thus, GE Money Bank is one of the safest banks in Latvia at the moment as it mostly gains funding from a diversified business corporation.

The total funding from GE reached EUR 110.78 million at the end of the year (available within the concluded agreements – EUR300 million) testifying to significant shareholder support to the Bank and assent on the chosen operational strategy. The shareholders resolved to increase the capital of the bank for the purpose of further securing the bank in the current situation – the subordinate capital of EUR 11 million in December 2008 and a LVL 30 million investment in the bank's equity capital in Q1 2009.

Also according to the requirements of the Finance and Capital Market Commission, the capital position of GE Money Bank is very good. The capital adequacy indicator as of the end of the year is 12.34% and upon the capital increase in Q1 2009, the capital adequacy indicator is forecasted within 20% that almost 2.5 times exceeds the standard defined by the Financial and Capital Market Commission. The bank maintains the liquidity indicator above 40% (the standard is 30%) and the bank's liquidity is secured also by the availability of the long-term GE credit line, the volume of which is equal to the volume of the deposit base.

General Electric has significant experience in periods of economic change throughout the world. Therefore, the operational strategy followed by GE Money Bank is strictly monitored to ensure its compliance to the best international practices and the present situation. General Electric sees growth in Latvia as Latvia's GE Money Bank was joined to the GE Money Central and Eastern Europe region this year, which is one of the most strategically important GE Money regions in the world.

Between the balance date and the date of signing this financial report there have been no events that could significantly influence the results of the reporting period.

In conclusion, we would like to express gratitude to the employees of the Bank for work contributed to the bank's growth and to the customers for their trust and loyalty!

Chairman of the Council William Christian Schaub	Chairman of the Board Dmitrij Cimber	Member of the Board Inga Vagele
Member of the Board Windy Oliver	Member of the Board Arkadiusz Wiktor Przybyl	Member of the Board Leonid Ruderman

12 March 2009

INFORMATION ON THE BANK'S MANAGEMENT

Council members as of the date of signing these financial statements

Name	Position	Election date	Resignation date
William Christian Schaub	Chairman of the Council	14.03.2008.	
Aleš Blažek	Deputy Chairman of the Council	14.03.2008.	
Herbert Roth	Member of the Council	14.03.2008.	
Wilfried Mathias Seidel	Member of the Council	14.03.2008.	
Richard Colin Gaskin	Member of the Council	14.03.2008.	
Niels Christian Aall	Chairman of the Council	14.12.2007.	14.03.2008.
Helen Louise Heslop	Deputy Chairman of the Council	14.12.2007.	14.03.2008.
Eva Helena Ekvall	Member of the Council	14.12.2007.	14.03.2008.
Carl Magnus Berggren	Member of the Council	14.12.2007.	14.03.2008.
Allan Karlsen	Member of the Council	14.12.2007.	14.03.2008.
Ebba Agneta Schwieler	Member of the Council	14.12.2007.	14.03.2008.
Jan Bertil Sjoberg	Member of the Council	14.12.2007.	14.03.2008.

Board members as of the date of signing these financial statements

Name	Position	Last election date	Resignation date
Dmitrij Cimber	Member of the Board	10.12.2008.	
	Chairman of the Board	21.01.2009.	
Ieva Racenaja	Chairman of the Board	03.03.2008.	
	Member of the Board	21.01.2009.	01.03.2009.
Inga Vagele	Member of the Board	09.03.2008.	
Windy Oliver	Member of the Board	04.08.2008.	
Leonid Ruderman	Member of the Board	04.08.2008.	
Asim Yuzbasioglu	Member of the Board	17.10.2007.	31.08.2008.
Arkadiusz Wiktor Przybyl	Member of the Board	02.03.2009.	

STATEMENT OF MANAGEMENT RESPONSIBILITY

The management of JSC "GE Money Bank" ("the Bank") is responsible for the preparation of the Bank's and the Bank's subsidiaries ("the Group") financial statements for each financial year, ensuring the fair presentation of the financial position as of the year end, and the profit and loss and cash flows for the year then ended.

While preparing the financial statements included on pages 9 to 67 for the year ended 31 December 2008, management has applied appropriate accounting principles that are based on prudent and reasonable judgments and estimates. In our opinion, all appropriate accounting principles have been consistently applied, including International Financial Reporting Standards as adopted by the European Union and the requirements of the Financial and Capital Market Commission.

The Bank's management is responsible for maintaining proper accounting records and ensuring compliance of these financial statements with the regulations of the Financial and Capital Market Commission on annual reports of credit institutions. Management is responsible for maintaining measures necessary for safeguarding the Group's assets and prevention and detention of fraud and other illegal activities. Management's decisions and approach to the preparation of the financial reports were prudent and reasonable.

On behalf of the Bank's management:

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Member of the Board Windy Oliver	Member of the Board Arkadiusz Wiktor Przybyl	Member of the Board Leonid Ruderman

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CONSOLIDATED AND BANK INCOME STATEMENT

	Notes	2008 Group	2008 Bank	2007 Group	2007 Bank
Interest income	22	17,292	17,292	16,436	16,436
Interest expense	22	(9,303)	(9,314)	(6,327)	(6,332)
Net interest income		**7,989**	**7,978**	**10,109**	**10,104**
Commissions and fee income	23	4,170	4,076	5,073	5,026
Commissions and fee expense	23	(1,011)	(1,009)	(1,043)	(1,041)
Net commission income		**3,159**	**3,067**	**4,030**	**3,985**
Net realized gain on available-for-sale financial assets		4	4	50	50
Net gain/(loss) on held for trading financial assets		(253)	(253)	88	88
Net gain on foreign exchange		1,699	1,701	2,423	2,423
Dividends received		84	84	-	-
Other operating income	24	1,600	1,600	834	834
Net operating income		**14,282**	**14,181**	**17,534**	**17,484**
Administrative expenses	25	**(17,589)**	**(17,506)**	**(13,077)**	**(13,014)**
Other operating expenses	24	(190)	(190)	(228)	(228)
Net impairment allowance expense	26	(11,919)	(11,919)	(693)	(693)
Profit/ (loss) before Income tax		**(15,416)**	**(15,434)**	**3,536**	**3,549**
Income tax	27	1,246	1,246	(614)	(614)
Profit/ (loss) for the period		**(14,170)**	**(14,188)**	**2,922**	**2,935**
Basic and diluted earnings/(losses) per share (LVL)	37	**(45.41)**	**(45.47)**	**9.36**	**9.41**

The accompanying notes on pages 16 to 67 form an integral part of these Consolidated and Bank financial statements.

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CONSOLIDATED AND BANK BALANCE SHEET AND OFF BALANCE SHEET ITEMS

ASSETS	Notes	31.12.2008 Group	31.12.2008 Bank	31.12.2007 Group	31.12.2007 Bank
Cash and due from Bank of Latvia	6	16,764	16,764	25,987	25,987
Loans and receivables due from credit institutions	8	23,076	23,076	55,635	55,635
Held for trading financial assets	7	1,407	1,407	1,974	1,974
Fixed-income securities		-	-	*84*	*84*
Shares and other non-fixed income securities		*1,394*	*1,394*	*1,627*	*1,627*
Derivatives	7, 10	*13*	*13*	*263*	*263*
Loans and receivables due from customers	9	197,299	197,299	176,958	176,958
Available-for-sale financial assets	7	2,959	2,959	4,274	4,274
Fixed-income securities		*2,959*	*2,959*	*4,274*	*4,274*
Held-to-maturity investments	7	1,958	1,958	1,957	1,957
Investments in subsidiaries	11	-	249	-	199
Intangible assets	12	483	483	765	763
Property and equipment	12	8,091	8,091	8,027	8,027
Deferred expense and accrued income		284	272	231	224
Current tax assets		886	886	518	518
Other assets	13	865	862	1,443	1,440
Total assets		**254,072**	**254,306**	**277,769**	**277,956**

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CONSOLIDATED AND BANK BALANCE SHEET AND OFF BALANCE SHEET ITEMS

	Notes	31.12.2008 Group	31.12.2008 Bank	31.12.2007 Group	31.12.2007 Bank
LIABILITIES					
Due to Bank of Latvia	14	4,850	4,850	-	-
Due to credit institutions	14	8,198	8,198	1,007	1,007
Financial liabilities held for trading	10	32	32	337	337
Derivatives		*32*	*32*	*337*	*337*
Financial liabilities at amortized cost		219,291	219,514	239,553	239,712
Deposits	15	*204,159*	*204,382*	*232,218*	*232,377*
Debt securities	16	*5,058*	*5,058*	*5,023*	*5,023*
Subordinated debt	18	*10,074*	*10,074*	*2,312*	*2,312*
Deferred income and accrued expense		1,634	1,625	1,269	1,259
Deferred tax liabilities	19	-	-	692	692
Other liabilities	17	361	361	538	538
Total liabilities		**234,366**	**234,580**	**243,396**	**243,545**
Equity					
Share capital	20	15,601	15,601	15,601	15,601
Share premium		7,272	7,272	7,272	7,272
Reserves		2,815	2,815	2,815	2,815
Property and equipment revaluation reserve		2,099	2,099	1,661	1,661
Available-for-sale financial assets revaluation reserve		(1,461)	(1,461)	(526)	(526)
Retained earnings		(6,620)	(6,600)	7,550	7,588
Total equity		**19,706**	**19,726**	**34,373**	**34,411**
Total liabilities and equity		**254,072**	**254,306**	**277,769**	**277,956**
OFF-BALANCE SHEET ITEMS					
Guarantees	21	3,537	3,537	4,381	4,381
Other commitments	21	6,201	6,201	7,245	7,245

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STATEMENT OF CHANGES IN EQUITY (THE BANK)

	Share capital	Share premium	Available-for-sale revaluation reserve	Property and equipment revaluation reserve	Reserves	Retaining earnings	Total
31 December 2006	**15,601**	**7,272**	**(417)**	**1,661**	**2,815**	**4,653**	**31,585**
Net loss on available-for-sale financial assets	-	-	(109)	-	-	-	**(109)**
Profit for the period	-	-	-	-	-	2,935	**2,935**
31 December 2007	**15,601**	**7,272**	**(526)**	**1,661**	**2,815**	**7,588**	**34,411**
Revaluation of property and equipment	-	-	-	438	-	-	**438**
Net loss on available-for-sale financial assets	-	-	(935)	-	-	-	**(935)**
Loss for the period	-	-	-	-	-	(14,188)	**(14,188)**
31 December 2008	**15,601**	**7,272**	**(1,461)**	**2,099**	**2,815**	**(6,600)**	**19,726**

The accompanying notes on pages 16 to 67 form an integral part of these Consolidated and Bank financial statements.

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STATEMENT OF CHANGES IN EQUITY (THE GROUP)

	Share capital	Share premium	Available-for-sale revaluation reserve	Property and equipment revaluation reserve	Reserves	Retaining earnings	Total
31 December 2006	**15,601**	**7,272**	**(417)**	**1,661**	**2,815**	**4,628**	**31,560**
Net loss on available-for-sale financial assets	-	-	(109)	-	-	-	**(109)**
Profit for the year	-	-	-	-	-	2,922	**2,922**
31 December 2007	**15,601**	**7,272**	**(526)**	**1,661**	**2,815**	**7,550**	**34,373**
Revaluation of property and equipment	-	-	-	438	-	-	**438**
Net loss on available-for-sale financial assets	-	-	(935)	-	-	-	**(935)**
Loss for the year	-	-	-	-	-	(14,170)	**(14,170)**
31 December 2008	**15,601**	**7,272**	**(1,461)**	**2,099**	**2,815**	**(6,620)**	**19,706**

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CONSOLIDATED AND BANK STATEMENT OF CASH FLOWS

	2008	2008	2007	2007
Cash flows from operating activities	**Group**	**Bank**	**Group**	**Bank**
Profit/ (loss) before income tax	(15,416)	(15,434)	3,536	3,549
Depreciation, amortization and write-off of intangible assets and property and equipment	1,413	1,411	1,270	1,270
Loss from sale of property and equipment	22	22	33	32
Increase of impairment allowance	11,919	11,919	693	693
Result from revaluation of foreign currencies	21	23	(171)	(171)
Increase/ (decrease) of cash and cash equivalents before changes in assets and liabilities	**(2,041)**	**(2,059)**	**5,361**	**5,373**
Change in loans and receivables due from credit institutions	509	509	3,170	3,156
Change in loans and receivables due from customers	(32,260)	(32,260)	(64,358)	(64,358)
Change in available-for-sale financial assets	567	567	10,489	10,489
Change in held for trading financial assets	380	380	934	934
Change in deferred expense and accrued income	(53)	(48)	(123)	(118)
Change in other assets	209	209	(264)	(261)
Change in due to credit institutions	1,365	1,365	(11,225)	(11,225)
Change in deposits	(28,059)	(27,995)	57,956	57,996
Change in held for trading financial liabilities	(305)	(305)	308	308
Change in deferred income and accrued expense	365	366	498	494
Change in other liabilities	775	775	(271)	(269)
Income tax paid	(409)	(409)	(1,472)	(1,472)
Net cash used in operating activities	**(58,957)**	**(58,905)**	**1,003**	**1,047**

	2008 Group	2008 Bank	2007 Group	2007 Bank
Cash flows from investing activities				
Purchase of property and equipment, and intangibles	(707)	(707)	(1,676)	(1,676)
Sale of property and equipment	5	5	15	16
Purchase of held-to-maturity investments	-	-	3,976	3,976
Investments in subsidiaries	-	(50)	-	(45)
Net cash from investing activities	**(702)**	**(752)**	**2,315**	**2,271**
Cash flows from financing activities				
Mortgage bonds (repaid)	-	-	(10,015)	(10,015)
Proceeds from issue of subordinated liabilities	7,731	7,731	-	-
Net cash from financing activities	**7,731**	**7,731**	**(10,015)**	**(10,015)**
Net (decrease)/increase of cash and cash equivalents	**(51,928)**	**(51,926)**	**(6,697)**	**(6,697)**
Opening balance of cash and cash equivalents	78,644	78,644	85,170	85,170
Effect of exchange rate fluctuations on cash held	(21)	(23)	171	171
Closing balance of cash and its equivalents	**26,695**	**26,695**	**78,644**	**78,644**

Cash and cash equivalents consist of the following:

	31.12.2008 Group	31.12.2008 Bank	31.12.2007 Group	31.12.2007 Bank
Cash and due from Bank of Latvia	16,764	16,764	25,987	25,987
Due from credit institutions including term deposits due in less than three months	21,113	21,113	53,163	53,163
Due to credit institutions including term deposits due in less than three months	(11,182)	(11,182)	(506)	(506)
Total	**26,695**	**26,695**	**78,644**	**78,644**

The accompanying notes on pages 16 to 67 form an integral part of these Consolidated and Bank financial statements.

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NOTES TO THE CONSOLIDATED AND BANK FINANCIAL STATEMENTS

1. GENERAL INFORMATION

Information on the Group and Bank

JSC "GE Money Bank" (until 23 April 2008 JSC "BALTIC TRUST BANK") (the "Bank") was founded on 10 September 1992. It was registered in the Republic of Latvia as a joint stock company with limited liability. The main operations of the Bank are issuance of loans, performance of payment transfers and operations with foreign currency both on behalf of customers and as trading activities. The Bank's license allows the Bank to maintain accounts and receive term deposits from individuals and legal entities. The Group's and Bank's legal address is 3 13.janvara Street, Riga, Latvia, LV - 1050.

The Bank's ultimate controlling party is General Electric Capital which is listed on New York Stock Exchange.

The Bank and its subsidiaries (together "the Group") are presented together in these consolidated and Bank financial statements.

Legislation regulating the Bank's operations

The Bank's operations are governed by the law of the Republic of Latvia "On Credit Institutions", "Commercial Law", and other laws and regulations issued by the Financial and Capital Market Commission. The above regulations govern capital adequacy, minimum equity, liquidity, foreign exchange positions, risk transaction restrictions with respect to one counterparty, group of related customers and related parties of the Bank, as well as other applicable requirements.

2. BASIS FOR PREPARATION OF THE FINANCIAL STATEMENTS

Statement of compliance

The accompanying financial statements of the Group and Bank have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union, and regulations of the Financial and Capital Market Commission of the Republic of Latvia ('FCMC') in force as at the reporting date.

The financial statements of the Group and Bank were authorized for issue by the Board of Directors on March 12, 2009. The financial statement may be amended by the shareholders.

Basis of measurement

The financial statements are prepared on the historical cost basis except for the following:

- financial instruments stated at fair value through profit or loss are stated at fair value;
- derivatives are stated at fair value;
- available-for-sale assets are stated at fair value;
- buildings which are revalued periodically.

Functional and Presentation Currency

The financial statements are presented in thousands of lats (LVL 000's), unless otherwise stated, being the Bank's functional currency.

3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared using accounting principles consistent with those used in the prior year.

Basis of Consolidation

Subsidiaries are entities controlled by the Group. Control exists where the Group has the power to govern the financial and operating policies of an investee enterprise so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control effectively commences until the date that control effectively ceases.

3. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Transactions eliminated on consolidation

Intra-Group balances and transactions, and any unrealised gains arising from intra-Group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with associates and jointly controlled enterprises are eliminated to the extent of the Bank's interest in the enterprise. Unrealised gains resulting from transactions with associates are eliminated against the investment in the associate. Unrealised losses are eliminated in the same way as unrealised gains except that they are only eliminated to the extent that there is no evidence of impairment.

Fund management

The Bank manages and administers assets held in unit trusts and other investment vehicles on behalf of investors. The financial statements of these entities are not included in these consolidated financial statements except when the Bank controls the entity.

Income and expense recognition

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

Interest income and expenses are recognized in the income statement based on the effective interest rate on the asset/liability. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability to the carrying amount of the financial asset or liability.

Commission fee income and expenses that are not integral to the effective interest rate on a financial asset or liability are recognized on the transaction date.

As the Group and Bank does not apply hedge accounting, changes to the fair value of derivative financial instruments are recognized in the income statement. Changes to the fair value of derivative financial instruments held for trading are recognized under trading results.

The Bank receives dividends from the equity instruments that are recorded to income when the right to receive payment is established.

Proposed dividends are recognized in the financial statements only when approved by shareholders.

Foreign currency transactions

Transactions in foreign currencies are translated into the functional currency of the Group and the Bank at the exchange rate set by Bank of Latvia at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated into the functional currency at the spot exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between the amortized cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortized cost in foreign currency translated at the exchange rate at the end of the period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated into the functional currency at the spot exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments, which are recognized directly in equity.

Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated into LVL using the following exchange rates:

31.12.2008.		**31.12.2007.**	
EUR	0.7028	EUR	0.7028
USD	0.4950	USD	0.4840
RUB	0.0171	RUB	0.0197

Property and equipment and intangible assets

Property and equipment and intangible assets are initially recognized at their acquisition cost including transaction costs.

3. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Property and equipment and intangible assets, continued

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets.

Land plots, buildings and construction owned by the Group and Bank are revalued to their fair value on the grounds of their market value no less than once every 3 years. The valuation of real estate is undertaken by an independent certified expert at least every 3 years. Increase in the value of land plots, buildings and construction is shown in the property and equipment revaluation reserve. A revaluation decrease on an item of land or buildings is recognised in the income statement except to the extent that it reverses a previous revaluation increase recognised directly in equity, in which case it is recognised directly in equity.

The revaluation reserve included in equity in respect of property and equipment revaluations is transferred directly to retained earnings when the asset is retired or disposed of.

Depreciation and amortization is recognized on a straight-line basis, using the following estimated useful lives:

Vehicles	5 years
Furniture	5-10 years
Buildings	5-50 years
Software	1-5 years
Computers, office equipment	4-6 years

Leasehold improvements are capitalized and amortized over the shorter of the term of the lease agreement or the useful life.

Depreciation rates, residual values and useful lives are reviewed at each reporting date.

Financial instruments

Classification

Financial instruments are classified into the following categories:

Financial instruments at fair value through profit or loss are financial assets or liabilities that are acquired or incurred principally for the purpose of selling or repurchasing in the near term, or that are part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking or that are designated to this category at initial recognition.

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

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

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those that:

- the Bank intends to sell immediately or in the near term;
- the Bank upon initial recognition designates as at fair value through profit or loss;
- the Bank upon initial recognition designates as available- for-sale; or
- the Bank may not recover substantially all of its initial investment, other than because of credit deterioration.

3. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Financial instruments, continued

Loans and receivables include regular loans and credit card balances.

Liabilities at amortized cost include deposits and balances with Central Bank, deposits and balances from banks and current accounts and deposits from customers.

Change in accounting policy

In October 2008 the IASB issued Reclassification of Financial Assets (Amendments to *IAS 39 Financial Instruments: Recognition and Measurement* and *IFRS 7 Financial Instruments: Disclosures*). The amendment to IAS 39 have not affected either Group or Bank financial statements as neither the Group nor the Bank chose to reclassify any financial instruments as allowed by the amendments.

Recognition

The Bank initially recognizes loans and receivables, deposits and debt securities issued on the date at which they are originated. All other financial assets and liabilities are recognized in the balance sheet on the trade date when the Bank becomes a party to the contractual provisions of the instrument.

Measurement

A financial asset or liability is initially measured at its fair value and, except for a financial asset or liability at fair value through profit or loss, includes transaction costs that are directly attributable to the acquisition or issue of the financial asset or liability.

Subsequent to initial recognition, financial assets other than loans and receivables, held to maturity investments, equity investments at cost are measured at their fair values, without any deduction for transaction costs that may be incurred on sale or other disposal.

Held-to-maturity investments and loans and receivables are measured at amortized cost using the effective interest method.

Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost; and

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

Fair value measurement principles

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Financial instruments, continued

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

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

Gains and losses on subsequent measurement

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

- a gain or loss on a financial instrument classified as at fair value through profit or loss is recognized in the income statement;

- a gain or loss on an available-for-sale financial asset is recognized directly in equity through the statement of changes in shareholders' equity (except for impairment losses and foreign exchange gains and losses) until the asset is derecognized, at which time the cumulative gain or loss previously recognized in equity is recognized in the income statement. Interest in relation to an available-for-sale financial asset is recognized as earned in the income statement calculated using the effective interest method.

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

Derecognition

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

Repurchase and reverse repurchase agreements

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Financial instruments, continued

Derivative financial instruments

Derivative financial instruments include swap, forward, futures, and options in interest rate, foreign exchange, precious metals and stock markets, and any combinations of these instruments. The Bank classifies all derivative financial instruments as trading.

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

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

Derivatives may be embedded in another contractual arrangement (a "host contract"). The Bank accounts for an embedded derivative separately from the host contract when the host contract is not itself carried at fair value through profit or loss, the terms of the embedded derivative would meet the definition of a derivative if they were contained in a separate contract, and the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract.

Offsetting

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

Credit related commitments

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

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

Financial guarantee liabilities and provisions for other credit related commitment are included within other liabilities.

Investments in subsidiaries

Investments in subsidiaries are stated at the cost by the Bank, less any allowance for permanent diminution in value.

Provisions

Provisions are recognized when the Group and Bank have a present legal or constructive obligation as a result of past events. It is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. These provisions relate to the guarantees issued and other off balance sheet items.

Cash and cash equivalents

Cash and cash equivalents in the statement of cash flows comprises cash, deposits with the Bank of Latvia and other credit institutions with a maturity of less than 3 months when purchased, less balances due to the Bank of Latvia and credit institutions with a maturity of less than 3 months.

Taxation

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

3. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Taxation, continued

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

Deferred tax is provided for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries to the extent that they probably will not reverse in the foreseeable future.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

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

Impairment of financial assets

The Bank and Group assess at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or group of financial assets is impaired and impairment losses are incurred if there is objective evidence of impairment as a result of one or more loss events that occurred after the initial recognition and that event has an impact on the estimated future cash flows that can be reliably estimated.

The Bank and Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant and for all loans with overdue payments or interest regardless of the size of the outstanding principal. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics mainly based on collateral type.

If there is objective evidence that an impairment loss on loans and receivables carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and estimated present value of future cash flows. The Bank and Group use discounted collateral realization value as an approximation of the present value of future cash flows. For the measurement of collective impairment the Bank and Group assume that all contractual cash flows will be received and recognizes impairment loss based on historical loss experience which is adjusted on the basis of currently available data.

The carrying amount of the asset is reduced through the use of an allowance and the increase/decrease in the amount of the impairment loss is recognized in the statement of profit and loss.

Impairment of non-financial assets

The carrying amounts of the Bank's and Group's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated. For goodwill and intangible assets that have indefinite lives or that are not yet available for use, recoverable amount is estimated at each reporting date.

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

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

3. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Share-based payment transactions

The grant date fair value of options granted to employees is recognized as an employee expense, with a corresponding increase in equity, over the period in which the employees become unconditionally entitled to the options. The amount recognized as an expense is adjusted to reflect the actual number of share options that vest.

Segment reporting

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

Earnings per share

Earnings per share is presented for every period for which an income statement is presented. Earning per share is obtained by dividing net profit for the reporting year by the number of weighted average number of ordinary shares outstanding for the respective period.

Employee benefits

Short term employee benefits, including salaries and social security contributions, bonuses and vacation benefits are included in net operating expenses on an accrual basis. The Bank pays fixed security contributions to the State Social Fund on behalf of its employees during the employment period in accordance with local legal requirements and will have no obligations to pay further contributions relating to employee services in respect to pension of retired employees.

Finance lease

A finance lease is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset to the lessee. Title may or may not eventually be transferred.

When assets are held subject to finance lease, the present value of the minimum lease payments is recognised as a receivable. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income.

For more details on accounting for finance lease as a financial instrument classified as Loans and finance lease and other receivables, refer to the accounting policy on Financial instruments.

Operating lease

An operating lease is a lease other than a finance lease.

New Standards and Interpretations not yet adopted

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

IFRIC 13 Customer Loyalty Programs address the accounting by entities that operate or otherwise participate in customer loyalty programs under which the customer can redeem credits for awards such as free or discounted goods or services. The interpretation is not relevant to the Group or the Bank.

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

3. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

New Standards and Interpretations not yet adopted, continued

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

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

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

IFRS 8 *Operating Segments* introduces the "management approach" to segment reporting. IFRS 8, which becomes mandatory for the Group's and the Bank's 2009 consolidated financial statements, will require a change in the presentation and disclosure of segment information based on the internal reports that are regularly reviewed by the Group's and the Bank's "chief operating decision maker" in order to assess each segment's performance and to allocate resources to them. Currently, the Group and the Bank present segment information in respect of its business and geographical segments. The Group and the Bank are currently in the process of determining the potential effect of this standard on the Group's and the Bank's segment reporting.

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

New Standards and Interpretations not yet adopted, continued

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

IFRIC 15 *Agreements for the Construction of Real Estate* clarifies that revenue arising from agreements for the construction of real estate is recognized by reference to the stage of completion of the contract activity in the following cases:

- the agreement meets the definition of a construction contract in accordance with IAS 11.3;
- the agreement is only for the rendering of services in accordance with IAS 18 (e.g., the entity is not required to supply construction materials); and
- the agreement is for the sale of goods but the revenue recognition criteria of IAS 18.14 are met continuously as construction progresses.

In all other cases, revenue is recognized when all of the revenue recognition criteria of IAS 18.14 are satisfied (e.g., upon completion of construction or upon delivery). IFRIC 15 is not relevant to the Group's or the Bank's operations as neither the Group or the Bank provide real estate construction services or develop real estate for sale.

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

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

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

IFRIC 17 *Distributions of Non-cash Assets to Owners* applies to non-reciprocal distributions of non-cash assets to owners acting in their capacity as owners and is effective prospectively for annual periods beginning on or after 15 July 2009. In accordance with the Interpretation, a liability to pay a dividend shall be recognized when the dividend is appropriately authorized and is no longer at the discretion of the entity and shall be measured at the fair value of the assets to be distributed. The carrying amount of the dividend payable shall be remeasured at each reporting date, with any changes in the carrying amount recognized in equity as adjustments to the amount of the distribution. When the dividend payable is settled the difference, if any, between the carrying amount of the assets distributed and the carrying amount of the dividend payable shall be recognized in profit or loss. As the Interpretation is applicable only from the date of application, it will not impact on the financial statements for periods prior to the date of adoption of the interpretation. Further, since it relates to future dividends that will be at the discretion of the board of directors/shareholders it is not possible to determine the effects of application in advance.

4. RISK MANAGEMENT

Risk management is the cornerstone of the Group's and the Bank's business activity and a key element within its planning process. Through the developed system for the identification, supervision and management of its main financial risks, the Group and the Bank ensure that they have the functional capability to manage the risk in new and existing businesses, and that business plans are consistent with the risk appetite. The Group's and he Bank's risk management system is regularly reviewed taking into account the market conditions and the Group's and the Bank's business strategy in order to set appropriate risk limits and controls.

The Executive Board has the overall responsibility for the establishing and supervision of the Group and Bank's risk management framework. The Group and Bank have established credit committees and a Compliance Review Board, which are responsible for developing and supervising the respective risk management policies and procedures.

The risk appetite is the level of risk the Group and the Bank choose to take to reach its strategic objectives, acknowledging a range of possible outcomes, as business plans are implemented. The Group's and the Bank's risk management framework, combines a top-down view of its capacity to take risk, with a bottom-up view of the business risk profile requested and recommended by each business area. The objectives of the risk appetite framework are to:

- protect the Group's and the Bank's performance;
- improve management control and coordination of risk-taking across businesses; and,
- enable unused risk capacity to be identified and thus profitable opportunities to be highlighted

Risk elements and policy framework

The Group and the Bank identify certain risk factors that they face in the ordinary course of their operations. In order to implement and maintain an appropriate risk management framework, the Group and the Bank have developed and implemented a set of policies.

Credit Risk

Credit risk is the risk of a financial loss to the Group and Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises primarily from the Group's loans and advances to customers and other banks and investment debt securities. All lending transactions of the Bank are connected with an appropriate level of credit risk. The Group and Bank accept and limit the risk by defining reasonable limits and developing an internal control system for their supervision. The responsibility for the credit decision making and management is delegated to the credit risk committees with all the deals over LVL4 million approved by the Group's and the Bank's Executive Board and Supervisory Council. The principal elements of credit risk management of the Group and the Bank include:

- Evaluation of credit worthiness of borrowers (issuers, transaction counterparties);
- Processes for accepting, issuing and controlling repayment of the loans;
- Undertakings for Credit Risk mitigation;
- Limitation of concentration;
- Elements of Portfolio quality monitoring;
- Normative documentation of Credit Risk management and Internal Control system for the activity.

The Bank's Credit Policy defines lending guidelines according to the business strategy and efficient risk management, securing its loan portfolio and protecting the Bank's assets as well as complying with the local regulatory requirements. The policy sets industry limits and loan portfolio limits in comparison to Bank's asset and deposit base. The Bank lends to both – private and legal entireties and accepts assessable and manageable loans with the maximum maturity term for loans repayment of 25 years. The credit policy sets the types of collateral and principles of loan granting procedures. The Bank credits only those clients that are creditworthy, and, when evaluating client's credit ability, pays most attention to credit risk analysis to evaluate the client's financial condition or the ability to fulfill liabilities under the agreement, business potential and credit guarantee as precise as possible. Collateral is used only for additional risk mitigation purposes. The Credit Policy stipulates the basic principles of loans issuing, collateral types and maximum acceptance values for various type of collateral. The Bank accepts several items as potential collateral – mortgage, commercial and financial pledge, guarantee or credit risk insurance. Additionally, the Bank uses regular macroeconomic situation stress tests to evaluate the changes in the macroeconomic situation and its impact on the Bank's activities.

4. RISK MANAGEMENT, CONTINUED

Market risk

The profitability and the long term objectives of the Group and the Bank could be adversely affected by worsening economic conditions in the country. Such factors as interest rates, inflation, the availability of credit, cost of credit, the liquidity of the markets could significantly affect the economic activity and the Group and Bank's customers. Foreign currency risk is considered a separate risk and is managed separately.

The Group and the Bank manage their market risk by first identifying different risk factors (market risk due to change in interest rates risk, market risk connected to the quality, credit risk or performance of underlying asset, like shares, credit-linked notes, mortgage bonds, etc.). The Group and the Bank are not considering market risk of its loans portfolio, because lending is a core business, and the loans are considered not marketable.

The Group and the Bank have a country risk management policy in order to define and identify country risk, its mitigation and control procedures. This policy requires the Group and Bank to establish and regularly monitor the limits on counterparties and lines of business.

Foreign currency risk

Foreign currency (FC) risk is the risk of potential loss, arising from the revaluation of the Group's and the Bank's open currency position (the difference between assets, liabilities and off-balance items) in each of the foreign currencies when there is a movement in foreign currency exchange rates against the funcitional currency.

The Group and the Bank manage this risk by minimization of its open currency position by:

- setting limits on open currency positions in each currency and in total
- maintaining daily control of the open currency positions, closing the positions on the inter-bank market or with GE Treasury.

The Group and the Bank monitor its established foreign currency limits daily, which decreases the risk of losses from the foreign exchange rate fluctuations and in order to comply with the respective regulations.

Operational Risk

Operational Risk is the possibility to experience losses from inadequate or unsuccessful internal processes, performance of people and systems, or under the influence of external circumstances. The Group and the Bank have established operational risk policy and respective procedures. Either potential or confirmed Operational Risks are identified and assessed in order to:

- ensure that the full range of significant operational risks is encompassed within the risk management process of the Group and the Bank;
- develop controls to mitigate these risks regarding their frequency and their impact;
- improve risk transparency and promote common understanding of risks and controls within the organization.

Interest rate risk

The principal risk to which non-trading portfolios are exposed is the risk of loss from fluctuations in the future cash flows or fair values of financial instruments because of a change in market interest rates. The goal of the interest rate risk policy is to define the Group's and the Bank's interest risk identification, limitation and control practices. In order to minimize interest rate risks according to its assets and liabilities structure, the Group and the Bank grant long-term loans and attract long-term financing using floating interest rates (three or six month RIGIBOR or LIBOR). Interest rates of loans, included in mortgage bonds cover register, are based upon 6 months RIGIBOR or 6 months LIBOR. To reduce the Interest rates risk, the Group and the Bank performs the following activities:

- manages funding (liabilities) which matches to loans portfolio interest rates re-pricing structure;
- manages the pricing for lending business that the matching funding can be maintained;
- places surplus liquidity in a manner, which reduces the total Group and Bank's interest rates re-pricing difference between assets and liabilities for each time period.

4. RISK MANAGEMENT, CONTINUED

Liquidity risk

Liquidity risk is the risk that the Bank and the Group will not be able to satisfy timely legally enforceable claims without substantial losses, as well as the risk of not being able to overcome unplanned changes in resources of the Group and the Bank and/or market conditions, due to insufficient volume of liquid assets at its disposal.

During the year, the Group's and the Bank's assets were managed to meet its current liabilities in accordance with its liquidity management policy. The Group and the Bank maintained a constant amount of liquid assets with the maturity up to 30 days to ensure a compliance with the objective of maintaining such liquid assets at a level of 30% of the Group's and the Bank's current liabilities. The policy defines assets and liabilities maturity structure management guidelines, internal liquidity limits and the Group's and the Bank's response to liquidity tress situations. The Group's and the Bank's major funding sources during the year have been customer deposits and financial institution deposits, issued bonds and funding sources from the General Electric group.

Risk, which arises from concentration of the risk deals (Concentration risk)

Concentration risk denotes the risk arising from the uneven distribution of credit exposures over counterparties, geography, or industry in the portfolio. Concentration risk is assessed through the following several Risk management areas – Credit, Market, Liquidity, Operational risks.

The Bank manages its lending operations in such a way that the Group and the Bank maintain a well balanced and diversified risk exposure, from which it follows that the loan portfolio has a highly diversified spread of risk.

Residual risk

Residual risk arises when the Group and the Bank fail to realize the value of a credit risk mitigation technique such as guarantees or collateral. The Group and the Bank have chosen to refrain from financing objects through an operating lease. For the other products with collateral, the loan agreement contains rights for the Group and the Bank to regress any residual amount to the borrower. For mortgage loans, the Group and the Bank cooperate with various evaluation companies for loan contract repurchase. Due to this, the Residual risk is considered as immaterial for the Group and the Bank.

Trading portfolio management policy

The Policy is aimed at defining financial trading activities the Group and the Bank are involved in, the extent of such involvement and how the Group and the Bank limit trading risks. For purposes of ensuring compliance with the trading portfolio management policy, the assets in the portfolio are valued on a daily basis.

Investment policy

The goal of the policy is to define investment practices, to ensure investment quality and to safeguard the Group's and the Bank's assets, while managing risks. The policy regulates the Group and the Bank's investments in property and equipment and in other company's equity.

The policy of interest conflict situation management

The policy determines the basic principles for management, the timely identification and the prevention of conflict of interest situations that could arise between the Group and the Bank or its subsidiary company, including its employees and persons that directly or implicitly control the Group and the Bank, as well as between its customers.

Client policy

The policy describes cooperation practices between the Group or the Bank and a client: identification requirements and the customer segments the Group and Bank is working with.

The Anti Money Laundering policy

The policy describes the main principles of measures of the Bank for prevention of laundering of proceeds derived from crime.

The policy defines the Bank's processes of monitoring clients' transactions, due diligence activities, requirements for identification of beneficial owner, identifying and reporting on unusual and suspicious transactions.

4. RISK MANAGEMENT, CONTINUED

CAPITAL MANAGEMENT

The Financial and Capital Market Commission sets and monitors capital requirements for the Bank, the lead operating entity of the Group, and for the Group as a whole.

The Bank defines as capital those items defined by statutory regulation as capital. Under the current capital requirements set by Financial and Capital Market Commission banks have to maintain a ratio of capital to risk weighted assets ("statutory capital ratio") above the prescribed minimum level. As at 31 December 2008, this minimum level is 8%. The Bank was in compliance with the statutory capital ratio during the years ended 31 December 2007 and 31 December 2008.

In order to promote a more sophisticated capital assessment and risk management framework, the Group and the Bank have implemented Basel II capital adequacy requirements consisting of a minimum required capital assessment and an internal capital adequacy assessment process. This enables the Group and the Bank to have a closer alignment of internal economic capital and regulatory capital measures and processes, thus helping the Group and the Bank to manage its capital ratios more effectively over time.

The Group and the Bank is using a standardized approach to determine the minimum required capital for credit risk and the basic indicator approach for operational risk. In January 2008, the Group and the Bank launched the Internal Capital Adequacy Assessment Policy, describing a process of overall capital adequacy management in relation to the Group's and the Bank's risk profile and a strategy for maintaining the Group's and the Bank's capital level high enough at any time to cover all fundamental risks that the Group and the Bank can face. The internal capital adequacy assessment process includes such essential elements of capital management as establishing a list of essential risks and evaluation of their potential impact on the Group's and the Bank's financial situation through stress testing.

Sensitivity analysis

Foreign currency sensitivity analysis

A 10 percent weakening of the Lat against the following currencies would have increased (decreased) profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant. There is no additional effect on the equity other than through the profit or loss.

Effect in thousands of LVL

	Group	Bank
31.12.2008		
USD	(4)	(4)
EUR	23	23
RUB	4	4
GBP	4	4
31.12.2007		
USD	(8)	(8)
EUR	(9)	(9)
RUB	6	6
GBP	1	1

Interest rate sensitivity analysis

A change of 100 basis points in interest rates at the reporting date would have increased (decreased) equity and profit or loss during the next one year period by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for 2007.

	100 bps increase		100 bps decrease	
	Net income	**Equity**	**Net income**	**Equity**
31.12.2008				
Bank	(124)	(286)	124	286
Group	(122)	(284)	122	284
31.12.2007				
Bank	38	(244)	(38)	244
Group	66	(216)	(66)	216

5. USE OF ESTIMATES AND JUDGMENTS

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

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

Key sources of uncertainty:

Allowance for credit losses

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

Collectively assessed impairment allowances cover credit losses inherent in portfolios of loans and advances and held-to-maturity investment securities with similar credit risk characteristics when there is objective evidence to suggest that they contain impaired loans and advances and held-to-maturity investment securities, but the individual impaired items cannot yet be identified. In assessing the need for collective loss allowances, management considers factors such as credit quality, portfolio size, concentrations and economic factors. In order to estimate the required allowance, assumptions are made to define the way inherent losses are modelled and to determine the required input parameters, based on historical experience and current economic conditions. The accuracy of the allowances depends on the estimates of future cash flows for specific counterparty allowances and the model assumptions and parameters used in determining collective allowances.

Valuation of financial instruments

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

Impairment of financial instruments

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

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

Valuation of land and buildings

Land and buildings are stated at fair value with all changes in fair value recorded in equity. When measuring the fair value of land and buildings, the management relies on external valuations and assesses the reliability of such valuation in light of the current market situation.

5. USE OF ESTIMATES AND JUDGMENTS, CONTINUED

Current market situation

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

6. CASH AND DUE FROM BANK OF LATVIA

	31.12.2008	31.12.2008	31.12.2007	31.12.2007
	Group	Bank	Group	Bank
Cash	7,904	7,904	8,868	8,868
Correspondent account in the Bank of Latvia	8,860	8,860	17,119	17,119
Total	**16,764**	**16,764**	**25,987**	**25,987**

According to the rules of the Bank of Latvia (BoL) the Bank holds mandatory reserves with BoL, which at the end of 2008 were required to be at least the sum of:
- 3% of deposits with initial term above 2 years
- 3% of deposits with withdrawal notice term above 2 years
- 3% of irrevocable debt securities with maturity above 2 years
- 0% of liabilities in repo deals
- 5% of other deposits, issued debt securities, amounts due to MFIs, excluding BoL and banks subject to mandatory reserve requirements.

In accordance with Bank of Latvia regulations in 2007, the Bank maintained a compulsory reserve in the amount of 8% of the average monthly balance of the following total on deposit with the Bank of Latvia:
- Demand and term deposits
- Due to other banks (non - residents)
- Bonds and other debt securities issued by the Bank

The compulsory reserve is compared to the Bank's average monthly cash and correspondent account balance in Lats. The Bank's average cash and correspondent balance should exceed the compulsory reserve requirement.

As of 31 December 2008 and 2007 the compulsory reserve of the Bank was LVL9,850 thousand and LVL17,878 thousand, respectively. The Bank has complied with compulsory reserve requirements during the years ended 31 December 2008 and 31 December 2007.

7. INVESTMENTS IN FINANCIAL ASSETS

	31.12.2008	31.12.2008	31.12.2007	31.12.2007
	Group	Bank	Group	Bank
Held for trading financial assets	1,407	1,407	1,974	1,974
Available-for-sale financial assets	2,959	2,959	4,274	4,274
Held-to-maturity financial assets	1,958	1,958	1,957	1,957
	6,324	**6,324**	**8,205**	**8,205**

7. INVESTMENTS IN FINANCIAL ASSETS, CONTINUED

Financial instruments by listing:

	31.12.2008 Group	31.12.2008 Bank	31.12.2007 Group	31.12.2007 Bank
Held for trading financial assets				
Quoted securities	-	-	144	144
Non-quoted securities	1,394	1,394	1,567	1,567
Non-quoted derivatives (Note 10)	13	13	263	263
Total	**1,407**	**1,407**	**1,974**	**1,974**
Available-for-sale financial assets				
Quoted securities	2,959	2,959	4,274	4,274
Total	**2,959**	**2,959**	**4,274**	**4,274**
Held-to-maturity investments				
Quoted securities	1,958	1,958	1,957	1,957
Total	**1,958**	**1,958**	**1,957**	**1,957**
Total	**6,324**	**6,324**	**8,205**	**8,205**

Financial instruments by type:

	31.12.2008 Group	31.12.2008 Bank	31.12.2007 Group	31.12.2007 Bank
Fixed income government securities	4,917	4,917	6,231	6,231
Corporate fixed-income securities	-	-	84	84
Total bonds and other fixed-income securities	**4,917**	**4,917**	**6,315**	**6,315**
Shares and other non-fixed income securities	**1,394**	**1,394**	**1,627**	**1,627**
Derivatives	**13**	**13**	**263**	**263**
Total	**6,324**	**6,324**	**8,205**	**8,205**

In 2008, average effective interest rate for bonds was 4.44%. In 2007, it was 5.17%.

Bonds and other fixed-income securities by country are as follows:

	31.12.2008 Group	31.12.2008 Bank	31.12.2007 Group	31.12.2007 Bank
Latvia	4,917	4,917	6,231	6,231
Other countries	-	-	84	84
Total	**4,917**	**4,917**	**6,315**	**6,315**

7. INVESTMENTS IN FINANCIAL ASSETS, CONTINUED

Shares and other non-fixed income securities by country are as follows:

	31.12.2008 Group	31.12.2008 Bank	31.12.2007 Group	31.12.2007 Bank
Latvia	1,333	1,333	1,567	1,567
OECD countries	61	61	60	60
Total	**1,394**	**1,394**	**1,627**	**1,627**

8. LOANS AND RECEIVABLES DUE FROM CREDIT INSTITUTIONS

Loans and receivables due from credit institution is comprised as follows:

	31.12.2008 Group	31.12.2008 Bank	31.12.2007 Group	31.12.2007 Bank
Demand deposits				
Credit institutions of OECD countries	20,905	20,905	13,669	13,669
Latvian credit institutions	1,949	1,949	11,295	11,295
Credit institutions non-OECD countries	222	222	637	637
Total	**23,076**	**23,076**	**25,601**	**25,601**
Term deposits				
Latvian credit institutions	-	-	30,034	30,034
Total	**-**	**-**	**30,034**	**30,034**
Total demand and term deposits	**23,076**	**23,076**	**55,635**	**55,635**

Average effective interest rate received on deposits due from credit institutions for the Group and the Bank was 3.23% in 2008, and 4.32% in 2007.

As of 31 December 2008 within loans and receivables from banks LVL1,962 thousand are pledged as collateral against client issued guarantees and letters of credit (2007 – LVL2,472 thousand).

9. LOANS AND RECEIVABLES DUE FROM CUSTOMERS

Loans by groups are comprised as follows:

	31.12.2008 Group	31.12.2008 Bank	31.12.2007 Group	31.12.2007 Bank
Government	646	646	753	753
Corporate	150,120	150,120	105,537	105,437
Individuals	50,174	50,174	63,288	63,288
State controlled companies and municipalities	7,675	7,675	9,035	9,035
Gross loans	**208,615**	**208,615**	**178,613**	**178,613**
Allowances for loan losses (Note 26)	*(11,316)*	*(11,316)*	*(1,655)*	*(1,655)*
Total	**197,299**	**197,299**	**176,958**	**176,958**

In 2008, the Bank's average interest rate for loans granted was 7.79% (2007 - 8.06%).

9. LOANS AND RECEIVABLES DUE FROM CUSTOMERS, CONTINUED

Loans issued by type:

	31.12.2008 Group	31.12.2008 Bank	31.12.2007 Group	31.12.2007 Bank
Mortgage loans	44,565	44,565	59,043	59,043
Commercial loans	23,223	23,223	47,097	47,097
Industrial loans	125,289	125,289	42,034	42,034
Finance lease	10,595	10,595	12,998	12,998
Consumer loans	3,213	3,213	3,837	3,837
Credit cards	760	760	563	563
Other	970	970	13,041	13,041
Gross loans	**208,615**	**208,615**	**178,613**	**178,613**
Allowances for loan losses (Note 26)	*(11,316)*	*(11,316)*	*(1,655)*	*(1,655)*
Total	**197,299**	**197,299**	**176,958**	**176,958**

Loans by industry are comprised as follows:

	31.12.2008 Group	31.12.2008 Bank	31.12.2007 Group	31.12.2007 Bank
Industry				
Manufacturing industry	23,207	23,207	24,797	24,797
Trade	13,612	13,612	9,947	9,947
Real estate, renting and other business activities	15,265	15,265	17,530	17,530
Agriculture and forestry	13,868	13,868	13,407	13,407
Transport, storage and communications	9,467	9,467	9,327	9,327
Other community, social and personal service activities	4,874	4,874	5,224	5,224
Construction	8,929	8,929	11,200	11,200
Electricity, gas and water supply	5,229	5,229	9,043	9,043
Hotels and restaurants	4,723	4,723	4,192	4,192
Fishing	1,727	1,727	1,644	1,644
Financial services	55,312	55,312	6,203	6,203
Mining and quarrying	1,377	1,377	1,270	1,270
Other	851	851	1,541	1,541
Total	**158,441**	**158,441**	**115,325**	**115,325**
Loans to individuals	50,174	50,174	63,288	63,288
Gross loans	**208,615**	**208,615**	**178,613**	**178,613**
Allowances for loan losses (Note 26)	*(11,316)*	*(11,316)*	*(1,655)*	*(1,655)*
Total	**197,299**	**197,299**	**176,958**	**176,958**

9. LOANS AND RECEIVABLES DUE FROM CUSTOMERS, CONTINUED

Group's and Bank's loans issued by country of customers:

Country	Gross loans		Allowance		Net loans	
	31.12.2008	31.12.2007	31.12.2008	31.12.2007	31.12.2008	31.12.2007
Latvia	207,976	177,030	(11,316)	(1,648)	196,660	175,382
OECD countries	555	811	-	(1)	555	810
Other countries	84	772	-	(6)	84	766
Total	**208,615**	**178,613**	**(11,316)**	**(1,655)**	**197,299**	**176,958**

Loans by classification and grouped:

	31.12.2008 Group	31.12.2008 Bank	31.12.2007 Group	31.12.2007 Bank
Loans assessed on individual basis	**167,737**	**167,737**	**11,982**	**11,982**
Standard	142,009	142,009	9,758	9,758
Watch-list	18,677	18,677	1,170	1,170
Substandard	5,246	5,246	12	12
Doubtful	1,329	1,329	162	162
Bad	476	476	880	880
Allowances	(8,247)	(8,247)	(1,414)	(1,414)
Net loans assessed on individual basis	**159,490**	**159,490**	**10,568**	**10,568**
Gross loans assessed collectively	**40,878**	**40,878**	**166,631**	**166,631**
Allowances	(3,069)	(3,069)	(241)	(241)
Net loans assessed collectively	**37,809**	**37,809**	**166,390**	**166,390**
Net loans, Total	**197,299**	**197,299**	**176,958**	**176,958**

Loan classification is based on Financial and Capital Market Commission's guidelines.

The table below shows separate loan groups by their carrying amount. The Bank and the Group hold collateral against loans and advances to customers in the form of mortgage interests over property, other registered securities over assets, and guarantees. The fair value of collateral held and other credit enhancement instruments is not readily available. Loan quality by separate groups:

9. LOANS AND RECEIVABLES DUE FROM CUSTOMERS, CONTINUED

	31.12.2008 Group	31.12.2008 Bank	31.12.2007 Group	31.12.2007 Bank
Loans to corporate customers with collateral				
Loans with no impairment allowance:	122,827	122,827	99,437	99,437
Loans without delinquency	*109,358*	*109,358*	*96,605*	*96,605*
Loans with delinquency	*13,469*	*13,469*	*2,832*	*2,832*
Loans with an impairment allowance	21,385	21,385	3,122	3,122
Loans without delinquency	*8,840*	*8,840*	*1,595*	*1,595*
Loans with delinquency	*12,545*	*12,545*	*1,527*	*1,527*
Impairment allowance	(5,698)	(5,698)	(800)	(800)
Net loans to legal persons with collateral	**138,514**	**138,514**	**101,759**	**101,759**
Financial lease				
Loans with no impairment allowance:	8,271	8,271	12,815	12,815
Loans without delinquency	*6,042*	*6,042*	*12,102*	*12,102*
Loans with delinquency	*2,229*	*2,229*	*713*	*713*
Loans with an impairment allowance	2,323	2,323	175	175
Loans without delinquency	*67*	*67*	*18*	*18*
Loans with delinquency	*2,256*	*2,256*	*157*	*157*
Impairment allowance	(1,029)	(1,029)	(112)	(112)
Total financial lease	**9,565**	**9,565**	**12,878**	**12,878**
Mortgage loans				
Loans with no impairment allowance:	32,004	32,004	45,663	45,663
Loans without delinquency	*24,677*	*24,677*	*41,299*	*41,299*
Loans with delinquency	*7,327*	*7,327*	*4,364*	*4,364*
Loans with an impairment allowance	12,561	12,561	3,137	3,137
Loans without delinquency	*176*	*176*	*654*	*654*
Loans with delinquency	*12,385*	*12,385*	*2,483*	*2,483*
Impairment allowance	(3,990)	(3,990)	(292)	(292)
Total mortgage loans	**40,575**	**40,575**	**48,508**	**48,508**
Loans to individuals with other collateral				
Loans with no impairment allowance:	1,256	1,256	8,752	8,752
Loans without delinquency	*851*	*851*	*8,560*	*8,560*
Loans with delinquency	*405*	*405*	*192*	*192*
Loans with an impairment allowance	245	245	59	59
Loans without delinquency	*2*	*2*	*5*	*5*
Loans with delinquency	*243*	*243*	*54*	*54*
Impairment allowance	(114)	(114)	(23)	(23)
Total loans to private persons with other collateral	**1,387**	**1,387**	**8,788**	**8,788**

9. LOANS AND RECEIVABLES DUE FROM CUSTOMERS, CONTINUED

	31.12.2008 Group	31.12.2008 Bank	31.12.2007 Group	31.12.2007 Bank
Card, overdraft and consumer loans without collateral				
Loans with no impairment allowance:	6,751	6,751	5,021	5,021
Loans without delinquency	*6,534*	*6,534*	*4,662*	*4,662*
Loans with delinquency	*217*	*217*	*359*	*359*
Loans with an impairment allowance	992	992	432	432
Loans without delinquency	*529*	*529*	*6*	*6*
Loans with delinquency	*463*	*463*	*426*	*426*
Impairment allowance	(485)	(485)	(428)	(428)
Total card, overdraft and consumer loans without collateral	**7,258**	**7,258**	**5,025**	**5,025**
Total	**197,299**	**197,299**	**176,958**	**176,958**

Loan quality by delinquency periods:

	31.12.2008 Group	31.12.2008 Bank	31.12.2007 Group	31.12.2007 Bank
Loans with no impairment allowance	**171,108**	**171,108**	**171,688**	**171,688**
Loans without delinquency	147,462	147,462	163,228	163,228
Delinquent loans	23,646	23,646	8,460	8,460
Delinquent up to 30 days	*14,396*	*14,396*	*4,012*	*4,012*
Delinquent 30-60 days	*4,446*	*4,446*	*2,373*	*2,373*
Delinquent 60-90 days	*3,629*	*3,629*	*687*	*687*
Delinquent over 90 days	*1,175*	*1,175*	*1,388*	*1,388*
Loans with an impairment allowance	**37,507**	**37,507**	**6,925**	**6,925**
Loans without delinquency	9,615	9,615	2,278	2,278
Delinquent loans	27,892	27,892	4,647	4,647
Delinquent up to 30 days	*878*	*878*	*23*	*23*
Delinquent 30-60 days	*426*	*426*	*699*	*699*
Delinquent 60-90 days	*4,111*	*4,111*	*592*	*592*
Delinquent over 90 days	*22,477*	*22,477*	*3,333*	*3,333*
Loans, total	**208,615**	**208,615**	**178,613**	**178,613**
Impairment allowance	(11,316)	(11,316)	(1,655)	(1,655)
Net loans, total	**197,299**	**197,299**	**176,958**	**176,958**

As at 31 December 2008 the Group and Bank had one borrower, whose loan balance exceeded 10% of loans to customers. The gross value of this loans as at 31 December 2008 LVL 50,037 thousand. This loan has been issued to a related party registered in Latvia.

10. DERIVATIVE ASSETS AND LIABILITIES

Fair value of the Group's and the Bank's foreign currency swaps is as follows:

	31.12.2008 Assets	31.12.2008 Liabilities	31.12.2007 Assets	31.12.2007 Liabilities
Foreign currency swaps				
Notional value	9,109	(9,128)	73,237	(73,311)
Fair value	**13**	**(32)**	**263**	**(337)**

11. INVESTMENTS IN SUBSIDIARIES

Participation in subsidiaries as of 31 December 2008 is as follows:

Name of company	Country of incorporation	Type of activity	Carrying value	Allowance	Net value	Investment, %
IPS "GE Money Asset management"	Latvia	Financial services	150	-	150	100
JSC „GE Money Atklātais pensiju fonds"	Latvia	Financial services	150	(51)	99	100
Total			**300**	**(51)**	**249**	

Participation in subsidiaries as of 31 December 2007 was as follows:

Name of company	Country of incorporation	Type of activity	Carrying value	Allowance	Net value	Investment, %
IPS "GE Money Asset management"*	Latvia	Financial services	150	-	150	100
JSC „GE Money Atklātais pensiju fonds"**	Latvia	Financial services	100	(51)	49	100
Total			**250**	**(51)**	**199**	

* until 23 April 2008 IPS "BTB Asset management"

** until 23 April 2008 Non-profit JSC "Baltic Trust Bank Atklātais pensiju fonds"

12. PROPERTY AND EQUIPMENT AND INTANGIBLE ASSETS

Group's property and equipment and intangible assets

	Land and buildings	Leasehold improve-ments	Vehicles	Office equipment	Software licenses	Total
Historical cost						
As of 31.12.2006	**4,434**	**1,194**	**321**	**4,880**	**2,187**	**13,016**
Purchases	114	12	33	1,312	205	1,676
Disposals	(16)	(8)	(14)	(1,506)	-	(1,544)
As of 31.12.2007	**4,532**	**1,198**	**340**	**4,686**	**2,392**	**13,148**
Purchases	-	74	17	558	58	707
Revaluation	515	-	-	-	-	515
Disposals	(102)	(80)	-	(139)	-	(321)
As of 31.12.2008	**4, 945**	**1,192**	**357**	**5,105**	**2,450**	**14,049**
Accumulated depreciation						
As of 31.12.2006	**67**	**421**	**159**	**2,632**	**1,303**	**4,582**
Charge for the year	68	91	49	738	324	1,270
Depreciation on disposals	-	(8)	(11)	(1,477)	-	(1,496)
As of 31.12.2007	**135**	**504**	**197**	**1,893**	**1,627**	**4,356**
Charge for the year	72	96	51	854	340	1,413
Depreciation on disposals	(102)	(80)	-	(112)	-	(294)
As of 31.12.2008	**105**	**520**	**248**	**2,635**	**1,967**	**5,475**
Net book value						
As of 31.12.2006	**4,367**	**773**	**162**	**2,248**	**884**	**8,434**
As of 31.12.2007	**4,379**	**694**	**143**	**2,793**	**765**	**8,792**
As of 31.12.2008	**4,840**	**672**	**109**	**2,470**	**483**	**8,574**

12. PROPERTY AND EQUIPMENT AND INTANGIBLE ASSETS, CONTINUED

Bank's property and equipment and intangible assets

	Land and buildings	Leasehold improve-ments	Vehicles	Office equipment	Software licenses	Total
Historical cost						
As of 31.12.2006	**4, 434**	**1,194**	**321**	**4,880**	**2,183**	**13,012**
Purchases	114	12	33	1,312	205	1,676
Disposals	(16)	(8)	(14)	(1,506)		(1,544)
As of 31.12.2007	**4,532**	**1,198**	**340**	**4,686**	**2,388**	**13,144**
Purchases	-	74	17	558	58	707
revaluation	515	-	-	-	-	515
Disposals	(102)	(80)	-	(139)	-	(321)
As of 31.12.2008	**4,945**	**1,192**	**357**	**5,105**	**2,446**	**14,045**
Accumulated depreciation						
As of 31.12.2006	**67**	**421**	**159**	**2,632**	**1,301**	**4,580**
Charge for the year	68	91	49	738	324	1,270
Depreciation on disposals	-	(8)	(11)	(1,477)	-	(1,496)
As of 31.12.2007	**135**	**504**	**197**	**1,893**	**1,625**	**4,354**
Charge for the year	72	96	51	854	338	1,411
Depreciation on disposals	(102)	(80)	-	(112)	-	(294)
As of 31.12.2008	**105**	**520**	**248**	**2,635**	**1,963**	**5,471**
Net book value						
As of 31.12.2006	**4,367**	**773**	**162**	**2,248**	**882**	**8,432**
As of 31.12.2007	**4,397**	**694**	**143**	**2,793**	**763**	**8,790**
As of 31.12.2008	**4,840**	**672**	**109**	**2,470**	**483**	**8,574**

	Group		**Bank**	
Depreciation, amortization and loss on disposal of property and equipment and intangible assets	**31.12.2008**	**31.12.2007**	**31.12.2008**	**31.12.2007**
Amortization of intangible assets and depreciation of property and equipment	1,413	1,270	1,411	1,270
Carrying amount of disposed property and equipment	27	33	27	32
Total	**1,440**	**1,303**	**1,438**	**1,302**

Fully depreciated property and equipment and intangible assets have a historical cost as of 31.12.2008 of LVL 1,363 thousand (31.12.2007 of LVL 1,054 thousand).

In the year 2008, the Bank revalued assets under "land and buildings". As a result the Bank has recognized a LVL 515 thousand revaluation adjustment. A property and equipment revaluation was not performed in the year 2007.

13. OTHER ASSETS

Other assets are as follows:

	31.12.2008 Group	31.12.2008 Bank	31.12.2007 Group	31.12.2007 Bank
Money in transit	283	283	1,230	1,230
Accounts receivable	30	30	39	39
Traveler checks	1	1	1	1
Foreign currency exchange (spot) contracts	315	315	7	7
Other assets	236	233	166	163
Total	**865**	**862**	**1,443**	**1,440**

14. DUE TO CREDIT INSTITUTIONS

Due to credit institutions are comprised as follows:

Demand	31.12.2008 Group	31.12.2008 Bank	31.12.2007 Group	31.12.2007 Bank
Bank of Latvia	4,850	4,850	-	-
Latvian credit institutions	3,332	3,332	435	435
World Bank's transit funds	444	444	501	501
Residents of non-OECD countries	-	-	71	71
Total demand deposits	**8,626**	**8,626**	**1,007**	**1,007**
Term deposits from Latvian credit institutions	**4,422**	**4,422**	**-**	**-**
Total	**13,048**	**13,048**	**1,007**	**1,007**

15. DEPOSITS

Due to Clients' residence are comprised as follows:

	31.12.2008 Group	31.12.2008 Bank	31.12.2007 Group	31.12.2007 Bank
Residents of the Republic of Latvia	120,694	120,917	137,309	137,468
Residents of OECD countries	80,987	80,987	79,705	79,705
Residents of non-OECD countries	2,478	2,478	15,204	15,204
Total	**204,159**	**204,382**	**232,218**	**232,377**

15. DEPOSITS, CONTINUED

Demand and term deposits are comprised as follows:

	31.12.2008 Group	31.12.2008 Bank	31.12.2007 Group	31.12.2007 Bank
Demand deposits				
Central governments	144	144	1,538	1,538
Local governments	6,797	6,797	12,320	12,320
Financial services	1,224	1,274	1,670	1,706
State controlled companies	934	934	6,090	6,090
Corporates	20,782	20,782	51,606	51,606
Individuals	25,809	25,809	38,685	38,685
Other	769	769	975	975
Total demand deposits	**56,459**	**56,509**	**112,894**	**112,920**
Term deposits				
State controlled companies	180	180	-	-
Local governments	1,102	1,102	473	473
Financial services	91,151	91,324	71,930	72,063
Corporates	9,253	9,253	8,669	8,669
Individuals	46,011	46,011	38,240	38,240
Other	3	3	12	12
Total term deposits	**147,700**	**147,873**	**119,324**	**119,457**
Total demand and term deposits	**204,159**	**204,382**	**232,218**	**232,377**

In 2008 the average interest rates paid by the Bank for demand and term deposits were as follows: for demand deposits – 0.41% (2007 - 0.51%), for term deposits –6.16% (2007 - 5.55%).

16. DEBT SECURITIES

The coverage register of mortgage bonds at the Bank is maintained in accordance with the legislation of the Republic of Latvia, including regulatory documents covering mortgage transactions.

The Bank manages mortgage claims included in the coverage register of mortgage bonds according to their remaining value separately from other assets.

The mortgage claims included in the coverage register of mortgage bonds according to their remaining value are used to ensure that only those liabilities that result from the issue of mortgage bonds are met.

Mortgage bonds in circulation according to their total face value are fully covered with mortgage loans. The total interest expenses of mortgage bonds are covered with the total interest income from mortgage loans of the same amount.

In 2007 and 2008, the Bank did not issue any mortgage bonds.

In 2008, repayment of the mortgage bonds did not happen . In 2007, the Bank repaid mortgage bonds of LVL3 million , USD3 million and EUR3 million early , and repaid mortgage bonds for LVL3 million at maturity.

Total amount of the debt securities issued by the Bank as at 31 December 2008 consist of mortgage bonds in circulation for total nominal value (excluding accrued interest) of LVL4,999 thousand (2007 - LVL4,966 thousand).

16. DEBT SECURITIES, CONTINUED

(a) Mortgage bonds in circulation (Group and Bank)

ISIN	Issue	Amount	Nominal value	Registered volume	Coupon rate	Maturity date	Amount in circulation	2008 Carrying value	2007 Carrying value
LV0000800225	5YR USD	30,000	100	3,000 USD	3.75%*	01.12.2009	1,485	1,485	1,452
LV0000800373	BTB 5YR EUR C02	50,000	100	5,000 EUR	6.25%**	01.10.2011	3,514	3,514	3,514
Accrued interest								59	57
Total								**5,058**	**5,023**

* floating coupon interest rate (6 month USD LIBOR plus 1.25%), which is changed five business days before 1 June and 1 December.

** floating coupon interest rate (6 month EUR LIBOR plus 0.80%), which is changed five business days before 1 April and 1 October.

(b) Structure of mortgage bonds coverage

Mortgage bonds in circulation are secured by assets included in the Mortgage Bond Cover Register which as of 31 December 2008 amounted to LVL5,644 thousand (2007 - LVL6,243 thousand). Assets included in the Mortgage Bond Cover Register consisted of mortgage loans amounting to LVL5,644 thousand (2007 mortgage loans amounting to LVL6,243 thousand). All transactions with the bonds are administered by the Riga Stock Exchange, and the bonds are filed in the exchange.

As of 31 December 2008, the amount of assets included in the Mortgage Bond Cover Register exceeded the amount of mortgage bonds in circulation by 13% (2007 – 26%) of the amount of weighted assets included in the Mortgage Bond Cover Register (minimum statutory requirement: 10%).

17. OTHER LIABILITIES

Other liabilities are as follows:

	31.12.2008 Group	**31.12.2008 Bank**	**31.12.2007 Group**	**31.12.2007 Bank**
Money in transit	19	19	67	67
Value added tax liabilities	118	118	199	199
Other	224	224	272	272
Total	**361**	**361**	**538**	**538**

18. SUBORDINATED DEBT

	31.12.2008 Group	**31.12.2008 Bank**	**31.12.2007 Group**	**31.12.2007 Bank**
Subordinated bonds	2,301	2,301	2,312	2,312
Subordinated capital	7,773	7,773	-	-
Total	10,074	10,074	2,312	2,312

As of 31 December 2008, the total book value of issued subordinated bonds was LVL2,301 thousand (2007 - LVL2,312 thousand). Subordinated bonds are recognized at their amortized cost and mature on 10 January 2011. Subordinated bonds have a floating coupon interest rate at 6 months LVL RIGIBOR plus 2.00%, which on the 31 December 2008 was 9% (2007 – 10.125%). These bonds are listed on Riga Stock exchange. Through investments in open-ended funds, the Group owns subordinated debt bonds issued by the Bank amounting to LVL120 thousand (2007 – LVL120 thousand).

18. SUBORDINATED DEBT, CONTINUED

In 2008, subordinated capital of EUR 11 million (LVL 7.7 million) was attracted from a General Electric group company. Subordinated capital is repayable in 2015.

19. DEFERRED TAX LIABILITIES

	31.12.2008 Group	31.12.2008 Bank	31.12.2007 Group	31.12.2007 Bank
Deferred tax liabilities:				
temporary difference due to accelerated tax depreciation	623	623	476	476
temporary difference arising from provisions	(128)	(128)	(77)	(77)
temporary difference from land and buildings revaluation	370	370	293	293
deferred tax asset from tax losses	(2,159)	(2,159)	-	-
unrecognized deferred tax asset from tax losses	1,294	1,294		
Net deferred tax liabilities	**-**	**-**	**692**	**692**
Deferred tax liabilities at the beginning of the year	692	692	647	647
Deferred tax charged to revaluation reserve from land and building revaluation	77	77	-	-
Deferred tax charged to profit or loss	(769)	(769)	45	45
Deferred tax liabilities at the end the year	**-**	**-**	**692**	**692**

20. SHARE CAPITAL

Issued share capital is as follows:

	Par value per share (LVL)	31.12.2008	31.12.2007
Ordinary shares	50	15,601	15,601
Total		**15,601**	**15,601**

	31.12.2008	31.12.2007
Number of shares	**312,025**	**312,025**

All shares have been fully paid. As at 31 December 2008 and 2007, the Bank did not own any of its own shares.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Bank as well as entitled to residual capital.

As at 31 December 2008 and 2007 the Bank had 17 and 33 shareholders, respectively.

Board and council members have no shares at 31 December 2008 and 31 December 2007.

20. SHARE CAPITAL, CONTINUED

The immediate controlling party and its share is as follows:

31.12.2008

Name	**Number of shares**	**Total amount**	**Investment in share capital, %**
SIA "FINSTAR BALTIC INVESTMENTS"	311,927	15,596	99.97
Total	311,927	15,596	99.97

31.12.2007

Name	**Number of shares**	**Total amount**	**Investment in share capital, %**
SIA "FINSTAR BALTIC INVESTMENTS"	311,210	15,560	99,74
Total	311,210	15,560	99,74

The ultimate controlling party of the Group and Bank is US corporation General Electric.
Reserve capital of the Bank consists partly of reserves created for statutory reserves (LVL 1,194 thousand) and partly of a reserve for shared based payment transaction recorded in 2006 (LVL 1,621 thousand).

21. OFF-BALANCE SHEET ITEMS

Off-balance sheet items are follows:

	31.12.2008 Group	**31.12.2008 Bank**	**31.12.2007 Group**	**31.12.2007 Bank**
Issued guarantees	3,537	3,537	4,381	4,381
Total issued guarantees	**3,537**	**3,537**	**4,381**	**4,381**
Other commitments				
Unused credit lines	6,201	6,201	7,199	7,199
Letters of credit	-	-	46	46
Total other commitments	**6,201**	**6,201**	**7,245**	**7,245**
Total off-balance sheet items	**9,738**	**9,738**	**11,626**	**11,626**

Commitments to extend credit, from guarantees and letters of credit

Guarantees and standby letters of credit, which represent irrevocable assurances that the Group will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Documentary and commercial letters of credit, which are written undertakings by the Group on behalf of a customer authorizing a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions, are collateralized by the underlying shipments of goods to which they relate and therefore carry less risk than a direct borrowing.

Commitments to extend credit represent unused portions of authorizations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards.

Guarantees, irrevocable letters of credit and undrawn loan commitments are subject to similar credit risk monitoring and credit policies as utilized in the extension of loans. The management of the Group believes the market risk associated with guarantees, irrevocable letters of credit and undrawn loans commitments to be minimal.

22. INTEREST INCOME AND EXPENSE

Interest income is comprised as follows:

	2008 Group	2008 Bank	2007 Group	2007 Bank
Interest income from loans and receivables due from customers	15,311	15,311	12,014	12,014
Interest income from loans and receivables due from credit institutions	1,722	1,722	3,879	3,879
Interest income from financial assets	259	259	543	543
Held to trading financial assets	*2*	*2*	*225*	*225*
Available-for-sale financial assets	*166*	*166*	*149*	*149*
Held-to-maturity investments	*91*	*91*	*169*	*169*
Total	**17,292**	**17,292**	**16,436**	**16,436**

Interest expense is comprised as follows:

	2008 Group	2008 Bank	2007 Group	2007 Bank
Interest expenses on amortized cost instruments	9,069	9,080	6,024	6,029
Interest expenses on deposits	*8,388*	*8,399*	*4,377*	*4,382*
Interest expenses on deposits of credit institutions	*123*	*123*	*713*	*713*
Interest expenses on debt securities	*270*	*270*	*748*	*748*
Interest expenses on subordinated debt	*288*	*288*	*186*	*186*
Deposit guarantee fund	234	234	303	303
Total	**9,303**	**9,314**	**6,327**	**6,332**

In accordance with the regulations of Financial and Capital Market Commission the payments into the deposit guarantee fund are considered as Bank's interest expense.

23. COMMISSIONS AND FEE INCOME AND EXPENSE

Commissions and fee income are comprised as follows:

	2008 Group	2008 Bank	2007 Group	2007 Bank
Commissions from opening and servicing customers' accounts	1,952	1,858	2,965	2,918
Commissions from payment cards	1,096	1,096	967	967
Commissions from loan account servicing	3	3	118	118
Commissions for settlement of utilities payments	561	561	590	590
Commissions from cash withdrawal	422	422	275	275
Commissions from guarantees	54	54	68	68
Other	82	82	90	90
Total	**4,170**	**4,076**	**5,073**	**5,026**

23. COMMISSIONS AND FEE INCOME AND EXPENSE, CONTINUED

Expenses are as follows:

	2008 Group	2008 Bank	2007 Group	2007 Bank
Operations with payment cards	720	720	610	610
Services of correspondent banks	250	250	369	369
Other	41	39	64	62
Total	**1,011**	**1,009**	**1,043**	**1,041**

24. OTHER OPERATING INCOME AND EXPENSES

Other income is comprised as follows:

	2008 Group	2008 Bank	2007 Group	2007 Bank
Encashment services	427	427	388	388
Penalties, contractual penalties and delay charges received	665	665	361	361
Income from rental income	65	65	75	75
Income from provision of loan issuance and call - centre service to GE Money	401	401	-	-
Other	42	42	10	10
Total	**1,600**	**1,600**	**834**	**834**

Other expenses are comprised as follows:

	2008 Group	2008 Bank	2007 Group	2007 Bank
Credit cards production	114	114	74	74
Other	76	76	154	154
Total	**190**	**190**	**228**	**228**

25. ADMINISTRATIVE EXPENSES

Administrative expenses are comprised as follows:

	2008 Group	2008 Bank	2007 Group	2007 Bank
Salaries, bonuses and allowances	7,527	7,474	4,729	4,691
Remuneration to the Supervisory Council and Management Board	112	112	285	285
Total salaries, bonuses and allowances	**7,639**	**7,586**	**5,014**	**4,976**
Social tax	1,636	1,624	1,080	1,071
Depreciation, amortization and loss on sale of intangible assets and property and equipment	1,440	1,438	1,303	1,302
Rental expenses	891	891	716	716
Post, telegraph and other communication expenses related to customer servicing	580	580	579	579
Maintenance and rent of vehicles	461	461	375	375
Advertisement expenses	958	958	131	131
Software maintenance	412	412	258	258
Expenses for utility services	306	306	233	233
Repairs of buildings and equipment	220	220	330	330
Security expenses	203	203	172	172
Office expenses	198	196	162	162
Legal expenses	200	200	118	118
Professional services	61	50	75	64
Business trips expenses	70	70	66	66
Representation expenses	106	106	52	52
Training of personnel	62	62	89	88
Real estate tax and other taxes	35	35	39	39
Insurance expenses	42	42	51	51
Management and consultation fees	1,710	1,710	1,841	1,841
Other	359	356	393	390
Total	**17,589**	**17,506**	**13,077**	**13,014**

26. ALLOWANCE FOR DOUBTFUL LOANS AND OTHER ASSETS

The Group's and Bank's impairment allowance movements in 2008 and 2007 are as follows:

Impairment Allowance

	Group	Bank
Balance as at 31 December 2006	**1,075**	**1,126**
Additional allowance	856	856
Decrease of allowance	(177)	(177)
write-off	*(14)*	*(14)*
decrease in allowance	*(163)*	*(163)*
Exchange rate differences	(25)	(25)
Balance as at 31 December 2007	**1,729**	**1,780**
Additional allowance	12,345	12,345
Decrease of allowance	(2,788)	(2,788)
write-off	*(2,362)*	*(2,362)*
decrease in allowance	*(426)*	*(426)*
Exchange rate differences	30	30
Balance as at 31 December 2008	**11,316**	**11,367**

Allowances for impairment losses were made for the following balance sheet assets:

	2008 Group	2008 Bank	2007 Group	2007 Bank
Loans and receivables due from customers (Note 9)	11,316	11,316	1,655	1,655
Other assets	-	-	74	74
Investments in subsidiaries	-	51	-	51
Total	**11,316**	**11,367**	**1,729**	**1,780**

For all loans, which were written off in 2008 and 2007, previously a specific allowance was made in the amount of 100%.

27. TAX EXPENSES AND TAXES PAID

	2008 Group	2008 Bank	2007 Group	2007 Bank
Deferred tax charge	769	769	(45)	(45)
Current income tax for period	-	-	(514)	(514)
Received transfer of losses within Tax group for 2007	477	477	-	-
Under provided income tax for 2006	-	-	(55)	(55)
Income tax (charge) / benefit	**1,246**	**1,246**	**(614)**	**(614)**

27. TAX EXPENSES AND TAXES PAID, CONTINUED

	2008 Group	2008 Bank	2007 Group	2007 Bank
Profit/ (loss) before tax	(15,416)	(15,434)	3,536	3,549
Expected tax charge, applying current tax rate of 15%	(2,312)	(2,315)	530	532
Tax effect of non-deductible expenses/exempt income	249	252	29	27
Under(over)provided in prior period	(477)	(477)	55	55
Unrecognized deferred tax asset from tax losses carried forward	1,294	1,294	-	-
Income tax charge / (benefit)	**(1,246)**	**(1,246)**	**614**	**614**

The Bank has paid the following taxes:

	2008	2007
Social security payments	1,896	1,466
Personal income tax	1,460	1,584
Income tax	409	1,472
Value added tax	415	245
Real estate tax	35	39
Income tax from non-residents	3	6
Total	**4,218**	**4,812**

During the year current tax asset in amount of LVL 518 thousand were used to settle liabilities for other tax liabilities.

Tax assets were transferred to the Bank from SIA "FINSTAR BANLTIC INVESTMENTS", the immediate controlling party, and SIA "GE Money Latvia Holdings", a related party.

28. MATURITY STRUCTURE OF ASSETS AND LIABILITIES

The Group's maturity structure of assets and liabilities as of 31 December 2008 is as follows:

Item	up to 1 month	1 to 3 months	3 to 12 months	Over 1 year	Overdue	No maturity	Total
ASSETS							
Cash and due from Bank of Latvia	16,764	-	-	-	-	-	16,764
Loans and receivables due from credit institutions	21,113	-	-	-	-	1,963	23,076
Loans and receivables due from customers	5,121	12,643	80,127	94,523	4,885	-	197,299
Held for trading financial assets	1,407	-	-	-	-	-	1,407
Available-for-sale financial assets	2,947	-	12	-	-	-	2,959
Held-to-maturity investments	-	-	68	1,890	-	-	1,958
Intangible assets	-	-	-	-	-	483	483
Property and equipment	-	-	-	-	-	8,091	8,091
Deferred expenses and accrued income	284	-	-	-	-	-	284
Other assets	1,751	-	-	-	-	-	1,751
Total assets	**49,387**	**12,643**	**80,207**	**96,413**	**4,885**	**10,537**	**254,072**

Item	up to 1 month	1 to 3 months	3 to 12 months	Over 1 year	Overdue	No maturity	Total
LIABILITIES, EQUITY AND OFF–BALANCE SHEET ITEMS							
Due to Bank of Latvia	4,850	-	-	-	-	-	4,850
Due to credit institutions	6,332	-	1488	378	-	-	8,198
Financial liabilities held for trading	32	-	-	-	-	-	32
Financial liabilities at amortized cost	84,446	7,601	80,094	47,150	-	-	219,291
Deferred income and accrued expenses	1,631	-	-	-	-	3	1,634
Other liabilities	361	-	-	-	-	-	361
Capital and reserves	-	-	-	-	-	19,706	19,706
Total liabilities and equity	**97,652**	**7,601**	**81,582**	**47,528**	**0**	**19,709**	**254,072**
Off-balance sheet items (liabilities)	2,187	1,050	4,729	1,652	-	120	9,738
Guarantees	175	133	1760	1,349	-	120	3,537
Other commitments	2,012	917	2969	303	-	-	6,201
Total liabilities, equity and off-balance sheet items	**99,839**	**8,651**	**86,311**	**49,180**	**0**	**19,829**	**263,810**
Net position of liquidity	(50,452)	3,992	(6,104)	47,233	4,885	(9,292)	(9,738)

28. MATURITY STRUCTURE OF ASSETS AND LIABILITIES, CONTINUED

The Group's maturity structure of assets and liabilities as of 31 December 2007 is as follows:

Item	up to 1 month	1 to 3 months	3 to 12 months	Over 1 year	Overdue	No maturity	Total
ASSETS							
Cash and due from Bank of Latvia	25,987	-	-	-	-	-	25,987
Loans and receivables due from credit institutions	43,145	10,018	-	-	-	2,472	55,635
Loans and receivables due from customers	3,491	11,730	41,468	119,531	738	-	176,958
Held for trading financial assets	1,890	23	1	60	-	-	1,974
Available-for-sale financial assets	4,260	-	14	-	-	-	4,274
Held-to-maturity investments	-	-	68	1,889	-	-	1,957
Intangible assets	-	-	-	-	-	765	765
Property and equipment	-	-	-	-	-	8,027	8,027
Deferred expenses and accrued income	31	2	-	-	-	198	231
Other assets	1,443	-	518	-	-	-	1,961
Total assets	**80,247**	**21,773**	**42,069**	**121,480**	**738**	**11,462**	**277,769**

Item	up to 1 month	1 to 3 months	3 to 12 months	Over 1 year	Overdue	No maturity	Total
LIABILITIES, EQUITY AND OFF–BALANCE SHEET ITEMS							
Due to credit institutions	506	-	63	438	-	-	1,007
Financial liabilities held for trading	337	-	-	-	-	-	337
Financial liabilities at amortized cost	127,551	7,152	23,065	81,785	-	-	239,553
Deferred income and accrued expenses	1,110	42	117	-	-	-	1,269
Tax liabilities	-	-	-	692	-	-	692
Other liabilities	538	-	-	-	-	-	538
Capital and reserves	-	-	-	-	-	34,373	34,373
Total liabilities and equity	**130,042**	**7,194**	**23,245**	**82,915**	**-**	**34,373**	**277,769**
Off-balance sheet items (liabilities)	1,568	760	7,272	1,971	-	55	11,626
Guarantees	356	50	3,103	817	-	55	4,381
Other commitments	1,212	710	4,169	1,154	-	-	7,245
Total liabilities, equity and off-balance sheet items	**131,610**	**7,954**	**30,517**	**84,886**	**-**	**34,428**	**289,395**
Net position of liquidity	(51,363)	13,819	11,552	36,594	738	(22,966)	(11,626)

28. MATURITY STRUCTURE OF ASSETS AND LIABILITIES, CONTINUED

The Bank's maturity structure of assets and liabilities as of 31 December 2008 is as follows:

Item	up to 1 month	1 to 3 months	3 to 12 months	Over 1 year	Overdue	No maturity	Total
ASSETS							
Cash and due from Bank of Latvia	16,764	-	-	-	-	-	16,764
Loans and receivables due from credit institutions	21,113	-	-	-	-	1,963	23,076
Loans and receivables due from customers	5,121	12,643	80,127	94,523	4,885	-	197,299
Held for trading financial assets	1,407	-	-	-	-	-	1,407
Available-for-sale financial assets	2,959	-	-	-	-	-	2,959
Held-to-maturity investments	-	-	68	1,890	-	-	1,958
Investments in subsidiaries	-	-	-	-	-	249	249
Intangible assets	-	-	-	-	-	483	483
Property and equipment	-	-	-	-	-	8,091	8,091
Deferred expenses and accrued income	272	-	-	-	-	-	272
Other assets	1,748	-	-	-	-	-	1,748
Total assets	**49,384**	**12,643**	**80,195**	**96,413**	**4,885**	**10,786**	**254,306**

Item	up to 1 month	1 to 3 months	3 to 12 months	Over 1 year	Overdue	No maturity	Total
LIABILITIES, EQUITY AND OFF–BALANCE SHEET ITEMS							
Due to Bank of Latvia	4,850	-	-	-	-	-	4,850
Due to credit institutions	6,332	-	1,488	378	-	-	8,198
Financial liabilities held for trading	32	-	-	-	-	-	32
Financial liabilities at amortized cost	84,589	7,621	80,094	47,210	-	-	219,514
Deferred income and accrued expenses	1,625	-	-	-	-	-	1,625
Other liabilities	361	-	-	-	-	-	361
Capital and reserves	-	-	-	-	-	19,726	19,726
Total liabilities and equity	**97,789**	**7,621**	**81,582**	**47,588**	**-**	**19,726**	**254,306**
Off-balance sheet items (liabilities)	2,187	1,050	4,729	1,652	-	120	9,738
Guarantees	175	133	1,760	1,349	-	120	3,537
Other commitments	2,012	917	2,969	303	-	-	6,201
Total liabilities, equity and off-balance sheet items	**99,976**	**8,671**	**86,311**	**49,240**	**-**	**19,846**	**264,044**
Net position of liquidity	(50,592)	3,972	(6,116)	47,173	4,885	(9,060)	(9,738)

28. MATURITY STRUCTURE OF ASSETS AND LIABILITIES, CONTINUED

The Bank's maturity structure of assets and liabilities as of 31 December 2007 is as follows:

Item	up to 1 month	1 to 3 months	3 to 12 months	Over 1 year	Overdue	No maturity	Total
ASSETS							
Cash and due from Bank of Latvia	25,987	-	-	-	-	-	25,987
Loans and receivables due from credit institutions	43,145	10,018	-	-	-	2,472	55,635
Loans and receivables due from customers	3,491	11,730	41,468	119,531	738	-	176,958
Held for trading financial assets	1,950	23	1		-	-	1,974
Available-for-sale financial assets	4,260	-	14	-	-	-	4,274
Held-to-maturity investments	-	-	68	1,889	-	-	1,957
Investments in subsidiaries	-	-	-	-	-	199	199
Intangible assets	-	-	-	-	-	763	763
Property and equipment	-	-	-	-	-	8,027	8,027
Deferred expenses and accrued income	26	-	-	-	-	198	224
Other assets	1,440	-	518	-	-	-	1,958
Total assets	**80,299**	**21,771**	**42,069**	**121,420**	**738**	**11,659**	**277,956**

Item	up to 1 month	1 to 3 months	3 to 12 months	Over 1 year	Overdue	No maturity	Total
LIABILITIES, EQUITY AND OFF–BALANCE SHEET ITEMS							
Due to credit institutions	506	-	33	30	-	438	1,007
Financial liabilities held for trading	337	-	-	-	-	-	337
Financial liabilities at amortized cost	127,710	7,152	23,065	81,785	-	-	239,712
Deferred income and accrued expenses	1,110	32	117	-	-	-	1,259
Tax liabilities	-	-	-	692	-	-	692
Other liabilities	538	-	-	-	-	-	538
Capital and reserves	-	-	-	-	-	34,411	34,411
Total liabilities and equity	**130,201**	**7,184**	**23,215**	**82,507**	**-**	**34,849**	**277,956**
Off-balance sheet items (liabilities)	1,568	760	7,272	1,971	-	55	11,626
Guarantees	356	50	3,103	817	-	55	4,381
Other commitments	1,212	710	4,169	1,154	-	-	7,245
Total liabilities, equity and off-balance sheet items	**131,769**	**7,944**	**30,487**	**84,478**	**-**	**34,904**	**289,582**
Net position of liquidity	(51,470)	13,827	11,582	36,942	738	(23,245)	(11,626)

28. MATURITY STRUCTURE OF ASSETS AND LIABILITIES, CONTINUED

Residual contractual maturities of financial liabilities:

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

Bank

	Carrying amount	Gross nominal (outflow)	<1 month	1-3 months	3-12 months	1-5 years
31.12.2008						
Deposits from banks	13,048	(13,212)	(11,195)	-	(1,571)	(446)
Deposits from customers	204,382	(207,158)	(84,558)	(7,734)	(80,126)	(34,740)
Debt securities issued	5,058	(5,377)	-	-	(1,597)	(3,779)
Subordinated liabilities	10,074	(15,122)	(94)	-	(42)	(14,986)
Total	**232,562**	**(240,869)**	**(95,847)**	**(7,734)**	**(83,336)**	**(53,952)**
31.12.2007						
Deposits from banks	1,007	(1,292)	(506)	-	(93)	(693)
Deposits from customers	232,377	(263,025)	(127,956)	(7,552)	(24,685)	(102,832)
Debt securities issued	5,023	(5,829)	-	-	(288)	(5,541)
Subordinated liabilities	2,312	(2,996)	-	-	(228)	(2,768)
Total	**240,719**	**(273,142)**	**(128,462)**	**(7,552)**	**(25,294)**	**(111,834)**

Group

	Carrying amount	Gross nominal (outflow)	<1 month	1-3 months	3-12 months	1-5 years
31.12.2008						
Deposits from banks	13,048	(13,212)	(11,195)	-	(1,571)	(446)
Deposits from customers	204,159	(206,476)	(84,060)	(7,714)	(80,036)	(34,666)
Debt securities issued	5,058	(5,377)	-	-	(1,597)	(3,779)
Subordinated liabilities	9,954	(14,980)	(94)	-	(42)	(14,844)
Total	**232,219**	**(240,045)**	**(95,349)**	**(7,714)**	**(83,246)**	**(53,736)**
31.12.2007						
Deposits from banks	1,007	(1,292)	(506)	-	(93)	(693)
Deposits from customers	232,218	(262,864)	(127,794)	(7,552)	(24,685)	(102,833)
Debt securities issued	5,023	(5,829)	-	-	(288)	(5,541)
Subordinated liabilities	2,312	(2,996)	-	-	(228)	(2,768)
Total	**240,560**	**(272,981)**	**(128,300)**	**(7,552)**	**(25,294)**	**(111,835)**

29. INTEREST RATE REPRICING

The Group's interest rate repricing as of 31 December 2008 is as follows:

Item	up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	Over 1 year	Non-interest bearing	Total
ASSETS							
Cash and due from Bank of Latvia	8,860	-	-	-	-	7,904	16,764
Loans and receivables due from credit institutions	23,076	-	-	-	-	-	23,076
Loans and receivables due from customers	4,747	70,024	94,789	4,427	2,244	21,068	197,299
Held for trading financial assets	-	-	-	-	-	1,407	1,407
Available-for-sale financial assets	-	-	-	-	2,947	12	2,959
Held-to-maturity investments	-	-	-	-	1,890	68	1,958
Intangible assets	-	-	-	-	-	483	483
Property and equipment	-	-	-	-	-	8,091	8,091
Deferred expenses and accrued income	-	-	-	-	-	284	284
Other assets	-	-	-	-	-	1,751	1,751
Total assets	**36,683**	**70,024**	**94,789**	**4,427**	**7,081**	**41,068**	**254,072**

Item	up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	Over 1 year	Non-interest bearing	Total
LIABILITIES, EQUITY AND OFF–BALANCE SHEET ITEMS							
Due to Bank of Latvia	4,850	-	-	-	-	-	4,850
Due to credit institutions	6,332	-	930	521	378	37	8,198
Financial liabilities held for trading	-	-	-	-	-	32	32
Financial liabilities at amortized cost	83,365	7,343	103,359	16,108	4,506	4,610	219,291
Deferred income and accrued expenses	-	-	-	-	-	1,634	1,634
Other liabilities	-	-	-	-	-	361	361
Capital and reserves	-	-	-	-	-	19,706	19,706
Total liabilities and equity	**94,547**	**7,343**	**104,289**	**16,629**	**4,884**	**26,380**	**254,072**
Off-balance sheet items (liabilities)	2,012	917	3,272	-	-	3,537	9,738
Guarantees	-	-	-	-	-	3,537	3,537
Other future liabilities	2,012	917	3,272	-	-	-	6,201
Total liabilities, equity and off-balance sheet items	**96,559**	**8,260**	**107,561**	**16,629**	**4,884**	**29,917**	**263,810**
Interest rate reprising net position	(59,876)	61,764	(12,772)	(12,202)	2,197	11,151	(9,738)

29. INTEREST RATE REPRICING, CONTINUED

The Group's interest rate repricing as of 31 December 2007 is as follows:

Item	up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	Over 1 year	Non-interest bearing	Total
ASSETS							
Cash and due from Bank of Latvia	17,119	-	-	-	-	8,868	25,987
Loans and receivables due from credit institutions	55,635	-	-	-	-	-	55,635
Loans and receivables due from customers	2,708	94,168	65,618	3,307	8,221	2,936	176,958
Held for trading financial assets	-	-	-	-	1,974	-	1,974
Available-for-sale financial assets	-	-	-	-	4,274	-	4,274
Held-to-maturity investments	-	-	-	-	1,957	-	1,957
Intangible assets	-	-	-	-	-	765	765
Property and equipment	-	-	-	-	-	8,027	8,027
Deferred expenses and accrued income	-	-	-	-	-	231	231
Other assets	-	-	-	-	-	1,961	1,961
Total assets	**75,462**	**94,168**	**65,618**	**3,307**	**16,426**	**22,788**	**277,769**

Item	up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	Over 1 year	Non-interest bearing	Total
LIABILITIES, EQUITY AND OFF–BALANCE SHEET ITEMS							
Due to credit institutions	506	-	501	-	-	-	1,007
Financial liabilities held for trading	337	-	-	-	-	-	337
Financial liabilities at amortized cost	127,551	7,152	91,061	9,963	3,826	-	239,553
Deferred income and accrued expenses	-	-	-	-	-	1,269	1,269
Tax liabilities	-	-	-	-	-	692	692
Other liabilities	-	-	-	-	-	538	538
Capital and reserves	-	-	-	-	-	34,373	34,373
Total liabilities and equity	**128,394**	**7,152**	**91,562**	**9,963**	**3,826**	**36,872**	**277,769**
Off-balance sheet items (liabilities)	1,212	710	5,323	-	-	4,381	11,626
Guarantees	-	-	-	-	-	*4,381*	*4,381*
Other future liabilities	*1,212*	*710*	*5,323*	-	-	-	*7,245*
Total liabilities, equity and off-balance sheet items	**129,606**	**7,862**	**96,885**	**9,963**	**3,826**	**41,253**	**289,395**
Interest rate repricing net position	(54,144)	86,306	(31,267)	(6,656)	12,600	(18,465)	(11,626)

29. INTEREST RATE REPRICING, CONTINUED

The Bank's interest rate repricing as of 31 December 2008 is as follows:

Item	up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	Over 1 year	Non-interest bearing	Total
ASSETS							
Cash and due from Bank of Latvia	8,860	-	-	-	-	7,904	16,764
Loans and receivables due from credit institutions	23,076	-	-	-	-	-	23,076
Loans and receivables due from customers	4,747	70,024	94,789	4,427	2,244	21,068	197,299
Held for trading financial assets	-	-	-	-	-	1,407	1,407
Available-for-sale financial assets	-	-	-	-	2,947	12	2,959
Held-to-maturity investments	-	-	-	-	1,890	68	1,958
Investments in subsidiaries	-	-	-	-	-	249	249
Intangible assets	-	-	-	-	-	483	483
Property and equipment	-	-	-	-	-	8,091	8,091
Deferred expenses and accrued income	-	-	-	-	-	272	272
Other assets	-	-	-	-	-	1,748	1,748
Total assets	**36,683**	**70,024**	**94,789**	**4,427**	**7,081**	**41,302**	**254,306**

Item	up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	Over 1 year	Non-interest bearing	Total
LIABILITIES, EQUITY AND OFF–BALANCE SHEET ITEMS							
Due to Bank of Latvia	4,850	-	-	-	-	-	4,850
Due to credit institutions	6,332	-	930	521	378	37	8,198
Financial liabilities held for trading	-	-	-	-	-	32	32
Financial liabilities at amortized cost	83,508	7,363	103,359	16,108	4,566	4,610	219,514
Deferred income and accrued expenses	-	-	-	-	-	1,625	1,625
Other liabilities	-	-	-	-	-	361	361
Capital and reserves	-	-	-	-	-	19,726	19,726
Total liabilities and equity	**94,690**	**7,363**	**104,289**	**16,629**	**4,944**	**26,391**	**254,306**
Off-balance sheet items (liabilities)	2,012	917	3,272	-	-	3,537	9,738
Guarantees	-	-	-	-	-	3,537	3,537
Other future liabilities	2,012	917	3,272	-	-	-	6,201
Total liabilities, equity and off-balance sheet items	**96,702**	**8,280**	**107,561**	**16,629**	**4,944**	**29,928**	**264,044**
Interest rate repricing net position	(60,019)	61,744	(12,772)	(12,202)	2,137	11,374	(9,738)

29. INTEREST RATE REPRICING, CONTINUED

The Bank's interest rate repricing as of 31 December 2007 is as follows:

Item	up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	Over 1 year	Non-interest bearing	Total
ASSETS							
Cash and due from Bank of Latvia	17,119	-	-	-	-	8,868	25,987
Loans and receivables due from credit institutions	55,635	-	-	-	-	-	55,635
Loans and receivables due from customers	2,708	94,168	65,618	3,307	8,221	2,936	176,958
Held for trading financial assets	-	-	-	-	1,974	-	1,974
Available-for-sale financial assets	-	-	-	-	4,274	-	4,274
Held-to-maturity investments	-	-	-	-	1,957	-	1,957
Investments in subsidiaries	-	-	-	-	-	199	199
Intangible assets	-	-	-	-	-	763	763
Property and equipment	-	-	-	-	-	8,027	8,027
Deferred expenses and accrued income	-	-	-	-	-	224	224
Other assets	-	-	-	-	-	1,958	1,958
Total assets	**75,462**	**94,168**	**65,618**	**3,307**	**16,426**	**22,975**	**277,956**

Item	up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	Over 1 year	Non-interest bearing	Total
LIABILITIES, EQUITY AND OFF–BALANCE SHEET ITEMS							
Due to credit institutions	506	-	501	-	-	-	1,007
Financial liabilities held for trading	337	-	-	-	-	-	337
Financial liabilities at amortized cost	127,710	7,152	91,061	9,963	3,826	-	239,712
Deferred income and accrued expenses	-	-	-	-	-	1,259	1,259
Tax liabilities	-	-	-	-	-	692	692
Other liabilities	-	-	-	-	-	538	538
Capital and reserves	-	-	-	-	-	34,411	34,411
Total liabilities and equity	**128,553**	**7,152**	**91,562**	**9,963**	**3,826**	**36,900**	**277,956**
Off-balance sheet items (liabilities)	1,212	710	5,323	-	-	4,381	11,626
Guarantees	-	-	-	-	-	*4,381*	*4,381*
Other future liabilities	*1,212*	*710*	*5,323*	-	-	-	*7,245*
Total liabilities, equity and off-balance sheet items	**129,765**	**7,862**	**96,885**	**9,963**	**3,826**	**41,281**	**289,582**
Interest rate repricing net position	(54,303)	86,306	(31,267)	(6,656)	12,600	(18,306)	(11,626)

30. FOREIGN CURRENCY RISK

The Group's currency position as at 31 December 2008 by currencies are as follows:

Foreign currency	Assets	Liabilities	Open position	Position equivalent	Position to equity %
	'000	'000	'000	'000, LVL	
In foreign currency					
EUR	180,518	180,191	327	230	0.94
GBP	650	600	50	36	0.15
RUB	3,454	902	2,552	44	0.18
USD	22,944	23,027	(83)	(41)	(0.17)
Other, long				103	0.4
Other, short				11	(0.05)
			Total long position* (+)%	183	0.75
			Total short position* (-)%	(30)	(0.12)
			Total position	**183**	**0.75**

* Excluding EUR. Starting from 2006, the EUR open position is excluded from the total position calculation as the LVL is pegged to EUR.

Shareholders' equity has been calculated according to the regulations of the Financial and Capital Market Commission, see note 33.

The Group's currency position as at 31 December 2007 by currencies are as follows:

Foreign currency	Assets	Liabilities	Open position	Position equivalent	Position to equity %
	'000	'000	'000	'000, LVL	
In foreign currency					
EUR	162,781	162,904	(123)	(86)	(0.26)
GBP	503	498	5	5	0.01
RUB	26,145	23,344	2,801	55	0.17
USD	57,628	57,785	(157)	(76)	(0.23)
Other, long				158	0.5
Other, short				(51)	(0.15)
			Total long position* (+)%	218	0.66
			Total short position* (-)%	(127)	(0.38)
			Total position	**218**	**0.66**

* Excluding EUR. Starting from 2006 EUR open position is excluded from the total position calculation.

Shareholders' equity has been calculated according to the regulations of the Financial and Capital Market Commission, see note 33.

30. FOREIGN CURRENCY RISK, CONTINUED

The Bank's currency position as at 31 December 2008 per currencies are as follows:

Foreign currency	Assets	Liabilities	Open position	Position equivalent	Position to equity %
	'000	'000	'000	'000, LVL	
In foreign currency					
EUR	180,832	180,505	327	230	0.95
GBP	650	600	50	36	0.15
RUB	3,454	902	2,552	44	0.18
USD	22,971	23,055	(84)	(41)	(0.17)
Other, long				103	0.4
Other, short				(12)	(0.05)
		Total long position *(+)%		183	0.76
		Total short position * (-)%		(30)	(0.12)
		Total position		**183**	**0.76**

* Excluding EUR. Starting from 2006 EUR open position is excluded from the total position calculation.

Shareholders' equity has been calculated according to the regulations of the Financial and Capital Market Commission, see note 33.

The Bank's currency position as at 31 December 2007 per currencies are as follows:

Foreign currency	Assets	Liabilities	Open position	Position equivalent	Position to equity %
	'000	'000	'000	'000, LVL	
In foreign currency					
EUR	163,014	163,137	(123)	(87)	(0.26)
GBP	503	498	5	5	0.01
RUB	26,146	23,345	2,801	55	0.17
USD	57,684	57,842	(158)	(76)	(0.23)
Other, long				158	0.5
Other, short				(51)	(0.15)
		Total long position *(+)%		218	0.66
		Total short position * (-)%		(127)	(0.38)
		Total position		**218**	**0.66**

* Excluding EUR. Starting from 2006 EUR open position is excluded from the total position calculation.

Shareholders' equity has been calculated according to the regulations of the Financial and Capital Market Commission, see note 33.

31. RELATED PARTY TRANSACTIONS

Group's transactions with the related parties are as follows:

Related party 31.12.2008	Loans	Total risk transactions (excluding impairment)	Risk transactions to capital (excluding impairment) %
Individuals	14	14	0.05
Corporates	52,042	3,042	11.84
Total	**52,056**	**3,056**	**11.89**

Related party 31.12.2007	Loans	Total risk transactions (excluding impairment)	Risk transactions to capital (excluding impairment) %
Individuals	18	18	0.05
Corporates	3,000	3,000	9.02
Total	**3,018**	**3,018**	**9.07**

Bank's transactions with the related parties are as follows:

Related party 31.12.2008	Loans	Total risk transactions (excluding impairment)	Risk transactions to capital (excluding impairment) %
Individuals	14	14	0.05
Corporates	52,042	3,042	11,94
Total	**52,056**	**3,056**	**11.99**

Related party 31.12.2007	Loans	Total risk transactions (excluding impairment)	Risk transactions to capital (excluding impairment) %
Individuals	18	18	0.05
Corporates	3,000	3,000	9.94
Total	**3,018**	**3,018**	**9.99**

Average interest rate on loans provided to related parties in 2008 was for individuals - 12%, for corporates – 9% (2007: for individuals - 12%; for corporates – 7%;).

31. RELATED PARTY TRANSACTIONS, CONTINUED

Bank's related party deposits are as follows:

	31.12.2008	31.12.2007
	81,420	72,269
Total	**81,420**	**72,269**

In 2008 average interest rate on deposits obtained from related parties: on demand – 0.25%, term deposits – 6.06% (2007: 0.25% and 5.93%, respectively).

See Note 25 for information on management compensation.

Transactions with the related parties:

	2008 Group	2008 Bank	2007 Group	2007 Bank
Interest income	2,521	2,521	107	107
Interest expense	(5,004)	(5,016)	(1,490)	(1,495)
Commissions, fee income and other operation income	401	401	1	1
Administrative expenses	(1,663)	(1,663)	(1,282)	(1,282)

32. TRUST ASSETS AND LIABILITIES

The structure of the Group's managed assets and liabilities is as follows:

Type of assets	Country	31.12.2008	31.12.2007
Pension plans	Latvia	335	187
Investment fund		1,595	2,133
Investment plans of state funded pension scheme funds		7,065	1 381
Client portfolios		125	606
Total		**9,120**	**4,307**

Type of liability	Country	31.12.2008	31.12.2007
Individuals	Latvia	7,676	2,466
Corporates	Latvia	1,444	1,841
Total		**9 120**	**4 307**

During 2008 and at the end of 2007 there were no assets or liabilities under management on the bank balance sheet.

33. CAPITAL ADEQUACY

Group's and Bank equity calculation in accordance with the guidelines of the FCMC as of 31.12.2008

	Group	Bank
Tier 1 capital		
Share capital	15,601	15,601
Share premium	7,272	7,272
Reserves	1,354	1,354
Retained earnings from prior years	7,550	7,588
Current period loss	(14,170)	(14,188)
Deductions from the capital base		
Intangible assets	(483)	(483)
Other deductions	-	(125)
Total tier 1 capital	**17,124**	**17,019**
Tier 2 capital		
Subordinated capital	8,562	8,572
Other deductions	-	(125)
Total tier 2 capital	**8,562**	**8,447**
Total capital	**25,686**	**25,466**
Capital requirement	**16,479**	**16,510**
Total capital adequacy ratio	**12.47%**	**12.34%**

The Bank is subject to minimum capital adequacy requirements calculated in accordance with the Basel Accord. The Bank has complied with all externally imposed capital requirements during the years ended 31 December 2008 and 31 December 2007.

34. NUMBER OF EMPLOYEES

	31.12.2008	31.12.2008	31.12.2007	31.12.2007
	Group	Bank	Group	Bank
Positions				
Senior management	5	5	8	8
Managers of operational units	81	81	53	53
Managers of other units	53	53	41	41
Accountants, operators	576	573	455	455
Lawyers	6	6	7	7
Information system specialists	42	42	37	37
Other employers	2	2	55	51
Total	**765**	**762**	**656**	**652**

35. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

The fair value of the Group's financial assets and liabilities as of 31 December 2008 is:

	Held for trading	Held-to-maturity	Loans and receivables	Available -for-sale	Other amortized cost	Total carrying amount	Fair value
Assets							
Cash and due from Bank of Latvia	-	-	16,764	-	-	**16,764**	**16,764**
Loans and receivables due from credit institutions	-	-	23,076	-	-	**23,076**	**23,076**
Non-pledged trading assets	1,394	-	-	-	-	**1,394**	**1,394**
Derivative assets	13	-	-	-	-	**13**	**13**
Loans and receivables due from customers	-	-	197,299	-	-	**197,299**	**196,498**
Investment securities:							
Measured at fair value	-	-	-	*2,959*	-	***2,959***	***2,959***
Measured at amortized cost	-	*1,958*	-	-	-	***1,958***	***1,542***
Total assets	**1,407**	**1,958**	**237,139**	**2,959**	**-**	**243,463**	**242,246**
Liabilities							
Deposits from banks	-	-	-	-	13,048	**13,048**	**13,048**
Derivative liabilities	32	-	-	-	-	**32**	**32**
Deposits from customers	-	-	-	-	204,159	**204,159**	**204,129**
Debt securities issued measured at amortized cost	-	-	-	-	5.058	**5.058**	**5,057**
Subordinated liabilities	-	-	-	-	10,074	**10,074**	**10,073**
Total liabilities	**32**	**-**	**-**	**-**	**232,339**	**232,371**	**232,339**

35. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES, CONTINUED

The fair value of the Group's financial assets and liabilities as of 31 December 2007 is:

	Held for trading	Held-to-maturity	Loans and receivables	Available -for-sale	Other amortized cost	Total carrying amount	Fair value
Assets							
Cash and due from Bank of Latvia	-	-	25,987	-	-	**25,987**	**25,987**
Loans and receivables due from credit institutions	-	-	55,635	-	-	**55,635**	**55,635**
Non-pledged trading assets	1,711	-	-	-	-	**1,711**	**1,711**
Derivative assets	263	-	-	-	-	**263**	**263**
Loans and receivables due from customers	-	-	176,958	-	-	**176,958**	**176,882**
Investment securities:							
Measured at fair value	-	-	-	*4,274*	-	***4,274***	***4,274***
Measured at amortized cost	-	*1,957*	-	-	-	***1,957***	***1,890***
Total assets	**1,974**	**1,957**	**258,580**	**4,274**	**-**	**266,785**	**266,642**
Liabilities							
Deposits from banks	-	-	-	-	1,007	**1,007**	**1,007**
Derivative liabilities held for risk management	337	-	-	-	-	**337**	**337**
Deposits from customers	-	-	-	-	232,218	**232,218**	**232,191**
Debt securities issued measured at amortized cost	-	-	-	-	5,023	**5,023**	**5,052**
Subordinated liabilities	-	-	-	-	2,312	**2,312**	**2,312**
Total liabilities	**337**	**-**	**-**	**-**	**240,560**	**240,897**	**240,899**

The estimated fair value of loans and advances and deposits represents the discounted amount of estimated future cash flows expected to be received.

Fair value for securities is based on market prices or broker/dealer price quotations.

36. SEGMENT REPORTING

Segments of the Bank can be displayed as follows:

Segments	**Individuals**		**Companies and municipalities**		**Total**	
	31.12.2008	**31.12.2007**	**31.12.2008**	**31.12.2007**	**31.12.2008**	**31.12.2007**
Loans and receivables (gross)	49,895	62,545	158,055	114,413	207,950	176,958
Deposits	73,139	76,925	124,136	155,452	197,275	232,377
Interest income from loans	4,439	4,886	10,872	7,128	15,311	12,014
Interest expenses on deposits	2,613	2,184	5,786	2,198	8,399	4,382

37. EARNINGS PER SHARE

The calculation of basic earnings per share at 31 December 2008 and 31 December 2007 was based on the profit attributable to ordinary shareholders and weighted average number of shares in issue. The Bank and the Group does not have dilutive potential ordinary shares.

	2008 Group	2008 Bank	2007 Group	2007 Bank
Net profit attributable to the shareholders	(14,170)	(14,188)	2,922	2,935
Weighted average number of shares at 31 December	312,025	312,025	312,025	312,025
Earnings/ (losses) per share (LVL per share)	**(45.41)**	**(45.47)**	**9.36**	**9.41**

38. CONTINGENCIES

From time to time in the course of operational activities the Group and Bank is involved in litigation as a defendant. Based on legal advice, the directors do not expect the outcome of any of the outstanding litigations against the Bank or Group alone or combined to have a significant effect on the Group's financial position and no provision has been set aside.

39. SUBSEQUENT EVENTS

On 10 March 2009 increase of share capital of the Bank by LVL 7.5 million was registered in Commercial Register of Republic of Latvia, which together with the increase in share premium increased the Bank's equity by LVL 30 million.

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