Investment management joint stock company
AB.LV ASSET MANAGEMENT
Unified registration number 40003814724

ANNUAL REPORT
FOR THE YEAR ENDED 31 DECEMBER 2008

Riga,
04 March 2009

CONTENTS

Business activity

In accordance with the new business strategy adopted for 2009–2013, AS Aizkraukles banka is offering its customers corporate banking services, services for affluent individuals, asset management and consulting combined in an integrated individual service. The investment services provided by the subsidiary IPAS AB.LV Asset Management (hereinafter also – the Company) is one of priority businesses to ensure a wide range of investment products to customers, as well as not only to strengthen the bank's positions in the Latvian financial sector but also to become a leading independent private bank in Eastern Europe.

Services and products

The year 2008 was the second business year for the open-end investment funds managed by IPAS AB.LV Asset Management. Currently, the Company is operating three investment funds having the US dollar as the base currency: AB.LV Emerging Markets USD Bond Fund, which is making investments in government bonds of emerging countries; AB.LV Global USD ETF Fund, which is dealing with exchange traded funds (ETF); and AB.LV High Yield CIS Bond Fond, which is basically investing in debt securities issued by corporations and financial institutions of the CIS countries.

In August 2007, AB.LV Emerging Markets Bond Fund and AB.LV Global ETF Fund had their subfunds - AB.LV Emerging Markets EUR Bond Fund and AB.LV Global EUR ETF Fund - established, having also the euro as the base currency.

Given the global financial crisis and the prices of financial instruments falling sharply on the global stock markets, at the end of the reporting year AB.LV Emerging Markets Bond Fund, which is pursuing the conservative investment policy, had the annualised return since inception of -13.79% and -18.32% (USD and EUR Funds respectively). As at 31 December 2008, the annualised return since inception of AB.LV Global ETF Fund pursuing the aggressive investment policy was -20.54% and -25.77% (USD and EUR Funds respectively), while AB.LV High Yield CIS Bond Fund pursing the moderate investment policy and intended for medium-term investments (3-5 years) had the annualised return since inception of -32.44%.

In August 2008, the investment funds managed by IPAS AB.LV Asset Management had the minimum investment amount reduced for funds or subfunds to USD/EUR 1 000. In addition, the minimum investment increment requirement was annulled.

To keep the existing and potential investors informed about the situation on the global financial markets, since July 2008 AS Aizkraukles banka has been publishing on its homepage the detailed monthly macroeconomic analysis of the chief analyst. Meanwhile, since November 2008 those customers who have made investments in the funds of IPAS AB.LV Asset Management have been sent monthly fund manager's commentaries and opinion regarding the market situation, performance of the funds, and activities of the fund manager.

In 2008, IPAS AB.LV Asset Management continued forming individual investment portfolios for its customers by making investments under several investment programmes to meet the requirements of all levels of investors. The investment programmes have wide geographic coverage and a broad range of financial instruments, meanwhile keeping to investment policies similar to those of the investment funds.

Financial performance

IPAS AB.LV Asset Management has closed the year 2008 with a profit of LVL 167 167.

As at 31 December 2008, the total funds of customers managed by the Company based on the customers' authorisation amounted to LVL 13 657 992, of which LVL 12 526 527 and LVL 1 131 465 represented the investments made by customers in the investment funds managed by IPAS AB.LV Asset Management and the assets managed under the individual investment programmes respectively.

Risk management

The Company has always been focusing specifically on risk management in order to ensure proper diversification and achieve risk minimisation. The Company has the Investment Committee set up, which determines the investment policy to be pursued by the Company, hedging limits, and financial markets to enter into transactions involving financial instruments. The members of the Investment Committee are the leading financial market specialists of AS Aizkraukles banka and the Company.

The Company analyses the political and economic situation on an ongoing basis, as well as conducts the comparative and technical analysis, the analysis of macroeconomic indicators, and the summary analysis of the recommendations for various financial markets given by the world's leading brokers and analysts.

Development in 2009

In 2009, IPAS AB.LV Asset Management intends to continue managing its open-end investment funds and individual investment programmes and bringing in new customers. Considering the current situation prevailing on the global financial markets, the Company is not planning to expand the range of the products provided.

Employees

The Company's management and heads of the divisions and departments are professionals having more than 10-year experience on global financial markets. The Company has been specifically focusing on the improvement of professional qualifications of its employees by regularly taking part in local and international training projects and conferences.

We are confident that our staff's knowledge, long experience, high-quality customer service, and individual approach – all these factors give all grounds to believe that the Company will be developing successfully also in the future.

The management of IPAS AB.LV Asset Management would like to express their deep gratitude to customers for loyalty and successful cooperation.

Chairman of the Council	Ernests Bernis
Chairman of the Board	Leonīds Kiļs
Member of the Board, Proctor	Oļegs Fiļs

Riga, 04 March 2009

INVESTMENT MANAGEMENT JOINT STOCK COMPANY
AB.LV ASSET MANAGEMENT
THE COUNCIL AND THE BOARD

The Council of the Company:

Chairman of the Council:
Ernests Bernis

Deputy Chairman of the Council:
Māris Kannenieks

Member of the Council:
Vadims Reinfelds

The Board of the Company:

Chairman of the Board:
Leonīds Kiļs

Deputy Chairman of the Board:
Jevgēnijs Gžibovskis

Member of the Board:
Oļegs Fiļs

Chairman of the Council	Ernests Bernis
Chairman of the Board	Leonīds Kiļs
Member of the Board, Proctor	Oļegs Fiļs

Riga, 04 March 2009

INVESTMENT MANAGEMENT JOINT STOCK COMPANY
AB.LV ASSET MANAGEMENT
STATEMENT OF RESPONSIBILITY OF THE COUNCIL AND THE BOARD

The Council and the Board of the Company (hereinafter – the Management) are responsible for the preparation of the financial statements of the Company. The financial statements are prepared in compliance with the requirements of the Financial Instrument Market Law, Regulations of the Financial and Capital Market Commission, and other laws of the Republic of Latvia applicable to investment brokerage companies.

The financial statements are prepared in accordance with the source documents and present fairly the financial position of the Company as at 31 December 2008, and the results of its operations, changes in equity and cash flows for the year then ended.

The aforementioned financial statements are prepared on a going concern basis, consistently applying International Financial Reporting Standards as adopted in the European Union and accounting policies in conformity with such Standards. Prudent and reasonable judgements and estimates have been made by the Management in the preparation of the financial statements.

The Management of the Company are responsible for the maintenance of proper accounting records, the safeguarding of the Company's assets, and the prevention and detection of fraud and other irregularities in the Company. The Management of the Company are also responsible for operating the Company in compliance with the Financial Instrument Market Law, Regulations of the Financial and Capital Market Commission, and other laws of the Republic of Latvia applicable to investment brokerage companies.

Chairman of the Council	Ernests Bernis
Chairman of the Board	Leonīds Kiļs
Member of the Board, Proctor	Oļegs Fiļs

Riga, 04 March 2009

INVESTMENT MANAGEMENT JOINT STOCK COMPANY
AB.LV ASSET MANAGEMENT
INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2008

	Notes	2008	2007
		LVL	**LVL**
Interest revenue	4	62 831	26 504
Commission and fee revenue	5	689 126	967 475
Commission and fee expense	5	(21 847)	(15 357)
Loss from foreign exchange trading and revaluation		(6 621)	(7 772)
Operating income		**723 489**	**970 850**
Administrative expense	6	(364 403)	(286 295)
Depreciation	10	(10 555)	(9 996)
Other expense	7	(151 443)	(9 518)
Profit before corporate income tax		**197 088**	**665 041**
Corporate income tax	8	(29 921)	(84 037)
NET PROFIT FOR THE YEAR		**167 167**	**581 004**

Chairman of the Council Ernests Bernis

Chairman of the Board Leonīds Kiļs

Member of the Board, Proctor Oļegs Fiļs

Riga, 04 March 2009

INVESTMENT MANAGEMENT JOINT STOCK COMPANY
AB.LV ASSET MANAGEMENT
BALANCE SHEET AND MEMORANDUM ITEMS AS AT 31 DECEMBER 2008

	Notes	31/12/2008	31/12/2007
ASSETS		**LVL**	**LVL**
Balances due from credit institutions	9	779 131	1 164 478
Prepaid expense and accrued income		25 538	72 693
Corporate income tax asset	13	63 947	-
Property, plant and equipment	10	23 013	30 973
Intangible assets	10	4 173	4 587
Other assets		12 711	2 104
TOTAL ASSETS		**908 513**	**1 274 835**
LIABILITIES			
Deferred income and accrued expense	11	22 318	31 775
Corporate income tax liability	8	-	82 832
Deferred corporate income tax	8	564	1 205
Other liabilities		210	-
TOTAL LIABILITIES		**23 092**	**115 812**
EQUITY			
Paid-in share capital	12	700 000	700 000
Retained earnings/ (accumulated deficit)		18 254	(121 981)
Profit for the year		167 167	581 004
TOTAL EQUITY		**885 421**	**1 159 023**
TOTAL EQUITY AND LIABILITIES		**908 513**	**1 274 835**
Memorandum items			
Funds under trust management	14	**13 657 992**	**45 960 982**

Chairman of the Council	Ernests Bernis
Chairman of the Board	Leonīds Kiļs
Member of the Board, Proctor	Oļegs Fiļs

Riga, 04 March 2009

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

	Paid-in share capital	Retained earnings/ (accumulated deficit)	Total equity
	LVL	**LVL**	**LVL**
As at 01/01/2007	**700 000**	**(121 981)**	**578 019**
Profit for the reporting year	-	581 004	581 004
As at 31/12/2007	**700 000**	**459 023**	**1 159 023**
Dividends paid	-	(440 769)	(440 769)
Profit for the reporting year	-	167 167	167 167
As at 31/12/2008	**700 000**	**185 421**	**885 421**

CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2008

	2008	2007
Cash flow from operating activities	**LVL**	**LVL**
Profit before corporate income tax	197 088	665 041
Amortisation and depreciation	10 555	9 996
Unrealised loss from foreign currency positions	6 621	7 772
Net cash flow from operating activities before changes in assets and liabilities	**214 264**	**682 809**
Decrease/ (increase) in prepaid expense and accrued income	47 155	(66 886)
(Increase) in other assets	(10 607)	(2 104)
(Decrease)/ increase in deferred income and accrued expense	(9 457)	24 589
Increase in other liabilities	210	-
Net cash flow from operating activities before corporate income tax	**241 565**	**638 408**
Corporate income tax paid	(177 341)	-
Net cash flow from operating activities	**64 224**	**638 408**
Cash flow from investing activities		
Repayment\ (placement) of term deposits	600 000	(300 000)
(Purchase) of property, plant and equipment and intangible assets	(2 181)	(7 090)
Net cash flow from investing activities	**597 819**	**(307 090)**
Cash flow from financing activities		
Dividends paid	(440 769)	-
Net cash flow from financing activities	**(440 769)**	**-**
Net cash flow	**221 274**	**331 318**
Cash and cash equivalents at the beginning of the year	**564 478**	**240 932**
(Loss) from revaluation of foreign currency positions	(6 621)	(7 772)
Cash and cash equivalents at the end of the year*	**779 131**	**564 478**

* See the components of cash and cash equivalents in Note 9 *Balances due from credit institutions*.

NOTE 1 GENERAL INFORMATION

The investment management joint stock company AB.LV Asset Management (hereinafter – the Company) was registered with the Republic of Latvia Enterprise Register on 30 March 2006.

The investment management joint stock company AB.LV Asset Management is holding the licence to render asset management services issued by the Financial and Capital Market Commission on 4 August 2006.

The business activity of the investment management joint stock company AB.LV Asset Management is related to management of individual portfolios of financial instruments by making investments under various investment programmes, as well as management of open-end investment funds, and consulting about investing in financial instruments. As at 31 December 2008, IPAS AB.LV Asset Management managed the following open-end investment funds: AB.LV Emerging Markets Bond Fund with its subfunds AB.LV Emerging Markets USD Bond Fund and AB.LV Emerging Markets EUR Bond Fund, as well as AB.LV Global ETF Fund with its subfunds AB.LV Global USD ETF Fund and AB.LV Global EUR ETF Fund, and AB.LV High Yield CIS Bond Fund.

The following abbreviations are used in the notes to these financial statements: International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), International Financial Reporting Interpretations Committee (IFRIC), Financial and Capital Market Commission (FCMC), European Union (EU).

The financial statements cover the period 1 January 2008 through 31 December 2008.

The financial statements of the Company for the year ended 31 December 2008 were approved by the Board and the Council of the Company on 04 March 2009. The Company's shareholders have the power to amend the financial statements after issue.

NOTE 2 INFORMATION ON PRINCIPAL ACCOUNTING POLICIES

A summary of the principal accounting policies, all of which have been applied consistently throughout the years ended 31 December 2008 and 2007, is set out below.

a) Statement of Compliance

These financial statements of the Company are based on the accounting records prepared in accordance with the legislative requirements. These records are maintained under the historical cost convention, modified for revaluation as disclosed below, made in accordance with the IFRS requirements as adopted in the EU.

During 2008, the Company consistently applied accounting policies in line with those disclosed in the prior-year financial statements, except for the changes listed below in *Amended IFRS and IFRIC that came into effect in the reporting period*.

Amended IFRS and IFRIC that came into effect in the reporting period

The following IFRS appendices and IFRIC as adopted in the EU are amended and enter into force starting from 1 January 2008:

IAS 39 *Financial Instruments: Recognition and Measurement* and IFRS 7 *Financial Instruments: Disclosures* adopted on 13 October 2008 by the International Accounting Standards Board and the EU.

The Company has applied the following IFRIC which were amended or enter into force in the reporting year but which do not have a material impact on the financial statements:

IFRIC 11 *IFRS 2 Group and Treasury Share Transactions*

IFRIC 12 *Service Concession Agreements*

IFRIC 14 *IAS 19 The Limit on Defined Benefit Asset, Minimum Funding Requirements and their Interaction*

IFRIC 16 *Hedges of a Net Investment in a Foreign Operation*

IFRS and IFRIC that have been issued but are not yet effective

The Standards and Interpretations which have been issued as at the date of these financial statements but will be effective for annual periods beginning on or after 1 January 2009 and which have not been applied by the Company retrospectively:

IFRS 8 *Operating Segments* (effective once adopted by the EU, but not earlier than for annual periods beginning on or after 1 January 2009). The Standard sets out requirements for disclosure of information about an entity's operating segments in breakdown by components that management uses to make decisions about operating matters.

IAS 1 *Presentation of Financial Statements* (revised) - *Capital Disclosures* (effective once adopted by the EU, but not earlier than for annual periods beginning on or after 1 January 2009). This amendment requires the company to make disclosures of the objectives, policies and processes of managing capital.

IAS 23 *Borrowing Costs* (revised) (effective once adopted by the EU, but not earlier than for annual periods beginning on or after 1 January 2009). This Standard shall be applied in accounting for borrowing costs. This Standard requires disclosing the policy regarding the accounting for borrowing costs.

IFRIC 13 Customer Loyalty Programmes (effective once adopted by the EU, but not earlier than for annual periods beginning on or after 1 July 2009). The Interpretation deals with the accounting for loyalty credits.

IFRS 3 *Business Combinations* (revised) (effective once adopted by the EU, but not earlier than for annual periods beginning on or after 1 July 2009). IFRS 3R introduces a number of changes in the accounting for business combinations that will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results.

Amendment to IFRS 2 *Share-based Payment* (effective once adopted by the EU, but not earlier than for annual periods beginning on or after 1 January 2009). The amendment clarifies the definition of a vesting condition and prescribes the treatment for an award that is effectively cancelled.

IAS 27 *Consolidated Financial Statements and Accounting for Investments in Subsidiaries* (revised) (effective once adopted by the EU, but not earlier than for annual periods beginning on or after 1 July 2009). This Standard is applied in the preparation and presentation of consolidated financial statements for a group of entities under the control of the investor and in accounting for investments in separate financial statements of the investor's parent.

IAS 32 and IAS 1 *Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation* (revised) (effective once adopted by the EU, but not earlier than for annual periods beginning on or after 1 January 2009).

IFRS 1 and IAS 27 *Accounting for Investments in Subsidiaries, Jointly Controlled Entities or Associates* (revised) (effective once adopted by the EU, but not earlier than for annual periods beginning on or after 1 January 2009).

Improvement to IFRS (2008) (effective once adopted by the EU, but not earlier than for annual periods beginning on or after 1 January 2009).

IFRIC 15 *Agreement for the Construction of Real Estate* (effective once adopted by the EU, but not earlier than for annual periods beginning on or after 1 January 2009).

IFRIC 17 *Distributions of Non-cash Assets to Owners* (effective once adopted by the EU, but not earlier than for annual periods beginning on or after 1 July 2009). The Interpretation provides guidance on the appropriate accounting treatment when an entity distributes assets other than cash as dividends to its shareholders.

The Company expects that the initial application of the pronouncements listed above will have no significant impact on the financial statements.

Significant accounting estimates and assumptions

The preparation of financial statements in accordance with IFRS as adopted by the EU requires the management to make estimates and assumptions that affect the reported amounts of assets, liabilities, income and expense, and disclosure of contingencies. Future events occur which cause the assumptions used in arriving at the estimates to change. Such estimates and assumptions are based on most reliable information available to the management in respect to specific events and actions. The effect of any changes in estimates will be recorded in the financial statements when determinable. The significant areas of estimation and assumptions relate to property, plant and equipment and intangible assets, determining the provisions and the fair value of financial assets and liabilities.

b) Basis of Preparation

The accounting records are maintained under the historical cost convention, modified for revaluation and adjustments as disclosed below, made to ensure that these financial statements prepared in accordance with the requirements of IFRS and the FCMC regulations give a true and fair view of the Company.

Unless otherwise stated, the monetary unit used in the financial statements is lat (LVL), the monetary unit of the Republic of Latvia, which is the functional and presentation currency of the Company.

The principal rates of exchange (LVL for one foreign currency unit) fixed by the Bank of Latvia and used in the preparation of the Company's balance sheet were as follows:

Reporting date	USD	EUR
31 December 2008	0.495	0.702804
31 December 2007	0.484	0.702804

Information given herein in brackets represents comparative figures for the year ended 31 December 2007, unless otherwise stated.

These financial statements are prepared in accordance with IFRS as adopted in the EU and the FCMC Regulations on the Preparation of Annual Reports and Consolidated Annual Reports of Banks, Investment Brokerage Companies, and Investment Management Companies.

c) Comparative information

Comparative figures for the year ended 31 December 2007 have been presented in a manner ensuring their comparability and adjusted to conform to changes in presentation in the current year.

d) Recognition and Derecognition of Financial Assets and Liabilities

A financial asset is any asset classified as cash, a contractual right to receive cash or another financial asset from the counterparty or to exchange financial instruments under conditions that are potentially favourable to the entity, or shares, as well as derivative or non-derivative contracts that will or may be settled in the Company's own equity instruments.

A financial liability is any liability that is a contractual obligation to deliver cash or another financial asset to the counterparty or to exchange financial instruments with the counterparty under conditions that are potentially unfavourable to the entity, as well as derivative or non-derivative contracts that will or may be settled in the Company's own equity instruments.

The Company recognises financial assets or liabilities on its balance sheet when, and only when, the Company becomes a party to the contractual provisions of the instrument.
A financial asset is derecognised only when the contractual rights to receive cash flows from the asset have expired, or the Company has transferred the financial asset and all the risks and rewards of the asset to the counterparty.
A financial liability is derecognised only when the obligation under the liability is discharged according to the contract or cancelled or expires.

All purchases and sales of financial assets, except for loans issued to non-bank customers, are recognised and derecognised on the settlement date. Loans to non-bank customers are recognised on the balance sheet when cash is transferred to the customer's current account.

e) Fair Value of Financial Assets and Liabilities

Fair value is the amount for which an asset could be exchanged or a liability settled between a knowledgeable, willing buyer and a knowledgeable, willing seller in an arm's length transaction. The best evidence of fair value of financial assets and liabilities is quoted prices in an active market. If the market for a financial asset or liability is inactive, fair value is established by using a valuation technique, including discounted cash flow analysis, recent transactions that are substantially the same, as well as management estimates and assumptions.

f) Revenue and Expense Recognition

All major revenue and expense items are recognised on an accrual basis.
Interest revenue/ expense is recognised in the income statement for financial assets/ liabilities measured at amortised cost using the effective interest method.
Commission and fee revenue and expense are included in the income statement over the period or at a specific time, except for commission and fee revenue and expense directly attributable to financial assets/ liabilities measured at amortised cost – for these assets/ liabilities the respective commission and fee revenue and expense form an integral part of the effective interest rate.

g) Foreign Currency Translation

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

h) Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

i) Intangible Assets

Intangible assets comprise the purchased software that does not constitute an integral part of hardware, and licences. Amortisation is provided using the straight-line method over the period of acquired rights or over the estimated useful life of the asset.
The Company has applied the annual rate of 20% to amortise its intangible assets.

j) Property, Plant and Equipment

Property, plant and equipment are recorded at cost less accumulated depreciation. Depreciation is provided using the straight-line method over the estimated useful life of the asset.

The Company has applied the following depreciation rates:

Category	Annual rate
Transport vehicles	20%
EDP equipment and software	16-33%
Office equipment	10-33%

Costs of maintenance are charged to the income statement as incurred.

k) Employee Benefits

Short-term employee benefits, including salary, statutory social insurance contributions, bonuses and allowances, are charged to the income statement as administrative expense in the period when the services are provided.

The accrual for employee vacation pay is estimated for the Company's personnel based on the total number of vacation days earned but not taken, multiplied by the average daily remuneration expense pursuant to the Latvian Labour Law, and adding the related statutory social insurance contributions payable by the employer.

l) Corporate Income Tax

Corporate income tax is calculated in accordance with Latvian tax regulations at the rate of 15% (15%) and is based on the taxable income reported for the taxation period.

Deferred taxation arising from temporary differences in the timing of the recognition of items in the tax returns and these financial statements is calculated using the liability method. Deferred taxation relates to the future tax consequences of all events that have been recognised in the Company's financial statements or tax returns. The deferred taxation liability is determined based on the tax rates that are expected to apply when the temporary differences reverse. The principal temporary differences arise from differing rates of accounting and tax depreciation on non-current assets and accrual for employee vacation pay.

m) Impairment of Non-financial Assets

The Company assesses at each reporting date or more frequently if events or changes in circumstances indicate that there is an indication that a non-financial asset may be impaired. If any such indication exists, the Company makes an estimate of the asset's recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount, the asset is written down to its recoverable amount. This written down amount constitutes an impairment loss.

For non-financial assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If any such indication exists, the recoverable amount is estimated.

A previously recognised impairment loss is reversed only if there has been a change in the estimate used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. This increase amount constitutes reversal of impairment losses.

n) Cash and Cash Equivalents

Cash and cash equivalents comprise cash on hand, demand deposits, and balances due from central banks and other credit institutions with a contractual original maturity of three months or less. The cash balance is reduced by the amount of demand deposits from the above institutions. Cash and cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to an insignificant risk of change in value.

o) Funds under Trust Management

Funds managed by the Company on behalf of its customers, funds and other institutions are not regarded as assets of the Company and, therefore, these are not included in the Company's balance sheet. Funds under trust management are disclosed in these financial statements for information purposes only.

p) Retrospective Error Correction

According to the Corporate Income Tax Law, the tax loss of IBAS AB.LV Capital Markets for the year 2007 in the amount of LVL 121 691 were transferred to the Company, but the transfer was not shown in the financial statements of the Company for the year ended 31 December 2007. To ensure the correct comparable information for the year 2007, the respective error has been corrected in the Company's financial statements for the year ended 31 December 2008 by reducing the corporate income tax liability, which has affected the retained earnings.

Effect of the retrospective error correction on the result reported for 2007	As reported	Effect of the error correction	As corrected
Actual corporate income tax	101 086	(18 254)	82 832
Retained earnings	562 750	18 254	581 004

NOTE 3 RISK MANAGEMENT

Risk management is one of the Company's strategic values. In the ordinary course of business, the Company is exposed to various financial risks, the most significant of which being credit risk, liquidity risk, and market risks arising from changes in interest rates, foreign exchange rates and other factors. The risk management policies are designed and approved by the Board and implemented by the structural units operating in the respective areas.

The risk management system has been constantly improved following the Company's operational and financial market development. The improvement process is controlled by the Internal Audit Department of Aizkraukles banka on a regular basis.

As at 31 December 2008, the financial assets shown in the Company's balance sheet comprised balances due from credit institutions in the amount of LVL 779 131 (2007: LVL 1 164 478), which are stated at amortised cost.

a) Credit risk

Credit risk is exposure to potential losses in case the Company's counterparty or debtor is unable to settle the contractual obligations to the Company. The maximum credit risk exposure of the Company's assets as at 31 December 2008 was LVL 804 669 (2007: LVL 1 237 171).

According to the Company's investment policy, cash is placed in term deposits considering the credit rating of a respective credit institution and the interest rate offered.

As at 31 December 2008, the Company had no past due or impaired financial assets (2007: 0).

b) Liquidity risk

Liquidity is the Company's ability to maintain or ensure sufficient cash and cash equivalents to meet the expected (everyday) or sudden (critical) legally justified claims of its creditors. This means the Company's ability to turn its assets into cash with minimal loss or ensure reasonably priced credit facilities.

ASSETS	On demand	Up to 1 month	1-3 months	3-6 months	6-12 months	1-5 years	Total
Balances due from credit institutions	4 550		774 581				779 131
Prepaid expense and accrued income		21 702			3 836		25 538
Corporate income tax asset					63 947		63 947
Property, plant and equipment						23 013	23 013
Intangible assets						4 173	4 173
Other assets						12 711	12 711
TOTAL ASSETS	**4 550**	**21 702**	**774 581**	**0**	**67 783**	**39 897**	**908 513**
LIABILITIES							
Deferred income and accrued expense		22 318					22 318
Deferred corporate income tax					564		564
Other liabilities	210						210
TOTAL LIABILITIES	**210**	**22 318**	**0**	**0**	**564**	**0**	**23 092**
NET ASSETS	**4 340**	**(616)**	**774 581**	**0**	**67 219**	**39 897**	**885 421**

c) Currency risk

The Company is exposed to the effects of fluctuations of foreign currency exchange rates on its financial position and cash flows. The exposure to currency risk is calculated for each separate currency and includes assets and liabilities denominated in foreign currencies. The Company had no material assets and liabilities denominated in foreign currencies as at the year end.

d) Interest rate risk

The Company is not exposed to significant interest rate risk. The Company generates income from term deposits bearing fixed interest.

e) Operational risk

In the ordinary course of business, the Company encounters also non-financial risks with exposure to sudden loss. The cause of such risks may be, for instance, clerical errors or fraud, break-downs in information systems, insufficient internal control and procedures, etc. The Company makes every effort to maintain the lowest possible risk level, meanwhile striving at not exceeding a reasonable level of expense. Internal control within the structural units is one of the measures taken to prevent the potential loss.

Operational risk is a risk of direct or indirect loss caused by non-complying or incomplete internal processes, human error or systems failure, as well as external factors. Operational risk comprises legal risk but excludes strategic and reputational risk.
Operational risk is inherent in all products, activities, processes, and systems of the Company.

NOTE 4 INTEREST REVENUE

	2008	2007
Interest revenue	**LVL**	**LVL**
On balances due from credit institutions	62 831	26 504
Total interest revenue	**62 831**	**26 504**

NOTE 5 COMMISSION AND FEE REVENUE AND EXPENSE

	2008	2007
Commission and fee revenue	**LVL**	**LVL**
Service fees	689 126	967 475
Total commission and fee revenue	**689 126**	**967 475**
Commission and fee expense		
Other commission and fee expense	21 648	15 317
Bank charges	199	40
Total commission and fee expense	**21 847**	**15 357**

NOTE 6 ADMINISTRATIVE EXPENSE

	2008	2007
	LVL	**LVL**
Remuneration to personnel	120 510	78 413
Remuneration to the Council and the Board	94 422	80 572
Statutory social insurance contributions	27 830	32 809
Rent of premises, repairs and maintenance costs	27 188	21 173
Business trips	26 097	7 529
Equipment maintenance expense and stationery	22 571	13 881
Professional fees	14 729	12 792
Accounting expense	9 435	6 913
Improvement of staff’s qualifications	2 751	5 002
Audit fee	2 523	5 281
Communications expense	1 926	293
Advertising and marketing expense	-	2 193
Other administrative expense	14 421	19 444
Total administrative expense	**364 403**	**286 295**

In 2008, the Company employed an average of 10 persons.

The number and categories of the Company's employees are as follows:

	31/12/2008	31/12/2007
Management	2	2
Heads of divisions and departments	4	4
Other personnel	5	4
Total	**11**	**10**

NOTE 7 OTHER EXPENSE

	2008	2007
	LVL	**LVL**
Payment to the FCMC	14 056	9 518
Other expense related to attraction of new customers	137 387	-
Total other expense	**151 443**	**9 518**

NOTE 8 CORPORATE INCOME TAX

	2008	2007
	LVL	**LVL**
Profit before corporate income tax	197 088	665 041
Theoretical corporate income tax	**29 563**	**99 756**
Permanent differences	999	1 330
Intra-group loss transfer	-	(18 254)
Actual corporate income tax for the reporting year	**30 562**	**82 832**
Deferred corporate income tax (asset)/ liability	(641)	1 205
Total corporate income tax expense	**29 921**	**84 037**

Deferred corporate income tax calculation:

	31/12/2008	31/12/2007
	Amounts subject to temporary differences	Amounts subject to temporary differences
	LVL	**LVL**
Accumulated excess of tax depreciation over accounting depreciation	12 552	14 150
Other accrued liabilities	(8 794)	(6 120)
Basis for calculation of deferred income tax	**3 758**	**8 030**
Net deferred corporate income tax	564	1 205

NOTE 8 CORPORATE INCOME TAX (cont'd)

	2008	2007
	LVL	**LVL**
Deferred corporate income tax at the beginning of the year	1 205	-
(Decrease)/ increased charged to income statement	(641)	1 205
Deferred corporate income tax at the end of the year	**564**	**1 205**

NOTE 9 BALANCES DUE FROM CREDIT INSTITUTIONS

	31/12/2008	31/12/2007
	LVL	**LVL**
Cash at bank	4 550	564 478
Term deposits	774 581	-
Total cash and cash equivalents	**779 131**	**564 478**
6-month deposit maturing in March 2008	-	150 000
12-month deposit	-	450 000
Total balances due from credit institutions	**-**	**1 164 478**

NOTE 10 INTANGIBLE ASSETS AND PROPERTY, PLANT AND EQUIPMENT

	31/12/2008	31/12/2007
	LVL	**LVL**
Intangible assets	4 173	4 587
Total intangible assets	**4 173**	**4 587**
Transport vehicles	18 076	25 074
Office equipment		
EDP equipment	1 645	2 294
Other property, plant and equipment	3 292	3 605
Total property, plant and equipment	**23 013**	**30 973**

NOTE 10 INTANGIBLE ASSETS AND PROPERTY, PLANT AND EQUIPMENT (cont'd)

The movements in the Company's intangible assets and property, plant and equipment in 2007 are as follows:

	Intangible assets	Property, plant and equipment	TOTAL
	LVL	**LVL**	**LVL**
As at 1 January 2007	**1 357**	**40 833**	**42 190**
Additions	4 425	2 665	7 090
As at 31 December 2007	**5 782**	**43 498**	**49 280**
As at 1 January 2007	**(113)**	**(3 611)**	**(3 724)**
Depreciation/ amortisation charge	(1 082)	(8 914)	(9 996)
As at 31 December 2007	**(1 195)**	**(12 525)**	**(13 720)**
As at 1 January 2007	**1 244**	**37 222**	**38 466**
As at 31 December 2007	**4 587**	**30 973**	**35 560**

The movements in the Company's intangible assets and property, plant and equipment in 2008 are as follows:

	Intangible assets	Property, plant and equipment	TOTAL
	LVL	**LVL**	**LVL**
As at 1 January 2008	**5 782**	**43 498**	**49 280**
Additions	768	1413	2 181
As at 31 December 2008	**6 550**	**44 911**	**51 461**
As at 1 January 2008	**(1 195)**	**(12 525)**	**(13 720)**
Depreciation/ amortisation charge	(1 182)	(9 373)	(10 555)
As at 31 December 2008	**(2 377)**	**(21 898)**	**(24 275)**
As at 1 January 2008	**4 587**	**30 973**	**35 560**
As at 31 December 2008	**4 173**	**23 013**	**27 186**

NOTE 11 DEFERRED INCOME AND ACCRUED EXPENSE

	31/12/2008	31/12/2007
	LVL	**LVL**
Accrual for employee vacation pay	8 794	6 120
Provisions for bonuses	-	15 063
Other accrued expense	13 524	10 592
Total deferred income and accrued expense	**22 318**	**31 775**

NOTE 12 PAID-IN SHARE CAPITAL

As at 31 December 2008 and 2007, the share capital of the investment management joint stock company AB.LV Asset Management amounted to LVL 700 000. The share capital of the Company consists of only ordinary shares. The par value of each share is LVL 1.

As at 31 December 2008 and 2007, the Company had 1 (one) shareholder - AS Aizkraukles banka.

NOTE 13 TAXATION

The movements in the Company's tax accounts are as follows:

	Personal income tax	Statutory social insurance contributions	Value added tax	Corporate income tax
	LVL	**LVL**	**LVL**	**LVL**
(Payable)/ receivable as at 01/01/2007	-	-	-	-
Calculated	(32 830)	(41 883)	1 776	(82 832)
Paid	32 830	41 883	-	-
(Payable)/ receivable as at 31/12/2007	**-**	**-**	**1 776**	**(82 832)**
Calculated	(48 600)	(61 491)	649	(30 562)
Prior year adjustments	-	14 314	(713)	-
Paid	48 810	55 167	-	177 341
(Payable)/ receivable as at 31/12/2008	**210**	**7 990**	**1 712**	**63 947**

NOTE 14 MEMORANDUM ITEMS

Funds managed on behalf of customers (including the investment funds managed by the Company) by customer profile:

	31/12/2008	31/12/2007
	LVL	**LVL**
Corporate securities under trust management	780 287	2 175 796
Securities of private individuals under trust management	351 178	985 300
Investment funds managed by AB.LV Asset Management	12 526 527	42 799 886
Total funds under trust management	**13 657 992**	**45 960 982**

NOTE 15 CAPITAL ADEQUACY

The objective of the Company's capital management is to ensure that the Company complies with externally imposed capital requirements (i.e. FCMC regulations and IFRS) and that the Company maintains healthy capital ratios in order to support its business and maximise the shareholders' value.
The goals and procedures of the Company's capital management are consistent with those of the previous years.

Capital adequacy refers to the sufficiency of the Company's capital resources to cover credit risk and market risks arising from the Company's assets and off-balance sheet exposures.

The capital adequacy ratio of the Company is calculated in accordance with the relevant FCMC requirements.

	31/12/2008	31/12/2007
Tier 1	**LVL**	**LVL**
Paid-in share capital	700 000	700 000
Intangible assets	(4 173)	(4 587)
Retained earnings/ (accumulated deficit)	18 254	(121 981)
Audited profit for the year	167 167	581 004
Total Tier 1	**881 248**	**1 154 436**
Total equity	**881 248**	**1 154 436**
Capital charge for credit risk on banking book	19 504	21 046
Total capital charge 8%	**19 504**	**21 046**
Capital adequacy ratio (%)	**361.46**	**438.82**
Minimum capital adequacy ratio (%)	8.00	12.50

NOTE 16 FAIR VALUE OF FINANCIAL INSTRUMENTS

According to the estimates of the Company, the fair value of the Company's assets and liabilities does not differ materially from their carrying amount.

NOTE 17 EVENTS AFTER BALANCE SHEET DATE

As of the last day of the reporting year until the date of signing these financial statements there have been no events requiring adjustment of or disclosure in the financial statements or notes thereto.

NOTE 18 RELATED PARTY DISCLOSURES

Related parties are defined as shareholders who have the ability to exercise significant influence over the Company. Transactions with related parties are made according to the generally accepted principles of the Company's operations and current market rates.

Interest revenue from transactions with related parties

	2008	2007
	LVL	**LVL**
Interest revenue	**62 831**	**26 504**

Balances due from related parties

	31/12/2008	31/12/2007
	LVL	**LVL**
Balances due from credit institutions	**779 131**	**1 164 478**

Expense from transactions with related parties

	2008	2007
	LVL	**LVL**
Rent of premises, repairs and maintenance costs	27 109	21 173
IT maintenance expense	22 464	13 655
Accounting expense	9 435	6 913
Personnel management expense	3 247	2 065
Bank charges	199	40
Total	**62 454**	**43 846**

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INDEPENDENT AUDITORS' REPORT

To the shareholders of IPAS "AB.LV Asset Management"

Report on the Financial Statements

We have audited 2008 financial statements of IPAS "AB.LV Asset Management" (the "Company"), which are set out on pages 7 through 25 of the accompanying 2008 Annual Report and which comprise the balance sheet as at 31 December 2008, the statements of income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of IPAS "AB.LV Asset Management" as of 31 December 2008, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

IPAS "AB.LV Asset Management" is a wholly owned subsidiary of AS Aizkraukles Banka and its operations are related with the operations of the Bank. Without qualifying our opinion, we draw attention to the following matter that was discussed in the auditors' report of the Group, which emphasises the preparation of the financial statements on the going concern assumption basis in the light of the current market financial and economic uncertainties in Latvia.

Report on Compliance of the Management Report

Furthermore, we have read the Management Report for the year ended 31 December 2008 (included on pages 3 through 4 of the accompanying 2008 Annual Report) and have not noted any material inconsistencies between the financial information included in it and the financial statements for the year ended 31 December 2008.

SIA Ernst & Young Baltic
Licence No. 17

Diāna Krišjāne
Chairperson of the Board
Latvian Sworn Auditor
Certificate No. 124

Riga, 04 March 2009