AS Latvijas Krājbanka

Consolidated Annual Report

for the year ended 31 December 2008

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Statement of the Management

In 2008 AS Latvijas Krājbanka (hereinafter referred to as Latvijas Krājbanka or the Bank) continued to implement its strategic aims both in business development and in social responsibility spheres. Following the international financial process developments and updating the bank's policy, in 2008 the Bank implemented strategic aims by continuing extending the network of client service centres, ATMs and the mini banks, by offering new products and services, as well as by continuing supporting significant cultural events in Latvia. As the most significant we can mention the Latvijas Krājbanka support to the XXIV Overall Latvian Song and XIV Dance Celebration in summer 2008.

Financial data

On December 31, 2008 the audited profit of Latvijas Krājbanka Group reached LVL 2,784 thousand after-tax. The total amount of the Group's assets by the end of 2008 comprised LVL 682 million, which had grew by LVL 11 million during the year.
During 2008 the private persons` deposit amount within the Bank increased by LVL 16.3 million, or by 6.2%, which was one of the highest indices in the bank sector of Latvia.

The Bank's non-bank credit portfolio (net) increase for the twelve-month period of 2008 comprised LVL 43.6 million or 14.6%, by the end of period reaching LVL 341.8 million. The Bank adhered to the precautious Lending policy, evaluating branches, return and risk indices of each credit, as well as maintained high capital adequacy level, which by the end of the accounting period comprised 11.37% (compulsory norm 8%).

Despite the rugged competition existing in the Latvian commercial bank sector, Latvijas Krājbanka retains stable market positions in the main bank activity indices. During the twelve months of 2008 the private persons` deposit amount increase within the Bank was the 5th highest in the sector among 21 bank and 6 foreign bank braches. By the end of the year Latvijas Krājbanka ranked the 3rd place in the sector of Latvian commercial banks after the amounts of private persons` deposits, thus showing a high level of clients` loyalty towards the Bank.

Major activities and decisions

On December 31, 2008 the registered and paid-in capital of the Bank comprised LVL 12,149 thousand (2007: LVL 12,149 thousand) consisting of 12,149,246 shares, inter alia 12,146,412 ordinary bearer shares and 2,834 "A" category reference bearer shares. The nominal value of one share is LVL 1 (one).

On March 19, 2008 at the ordinary shareholders` meeting Latvijas Krājbanka decided to pay out in dividends a half or LVL 2.6 million from the audited profit of the financial year 2007, transferring the residual amount of the profit to the business development.
The management of the Bank suggests that the profit for the year 2008 is transferred for the business development of Latvijas Krājbanka, and that the dividends are paid only for preference shares in the amount stated by the Articles of Association, i.e., 0.023% of the audited profit of AS Latvijas Krājbanka for the year 2008.

In January and July 2008 the Bank calculated and paid out interest for the CA series mortgage bonds. The interest revenue per one CA series mortgage bond for the period from 31st July 2007 to 31st January 2008 (excluding) comprised EUR 2.6875 (two euro and 68.75 eurocents).

Implementing its strategy in 2008 Latvijas Krājbanka concluded several important contracts.

During the second quarter of 2008 Latvijas Krājbanka concluded the contract for receiving a syndicated loan. The total amount of the syndicated loan comprises EUR 15 million (LVL 10.54 million). The funds are allocated to the Bank for 364 days. This is the first and, according to the bank's estimate, a very successful Latvijas Krājbanka transaction on the international syndicated lending market.

In September Latvijas Krājbanka acquired 99.79% of AAS Baltikums Dzīvība shares. To promote the company's recognizability and connection to Krājbanka the company's name was changed to the insurance joint stock company LKB LIFE. With the acquisition of the insurance company Latvijas Krājbanka is continuing to develop range of services offered to clients, by ensuring them a possibility to create different types of accumulations throughout life cycle - starting with child's life insurance and children deposit, and up to pension payment.

In August 2008 Latvijas Krājbanka concluded a contract on acquisition of 51% of SIA Center Credit capital shares. SIA Center Credit, in its turn, holds 100% capital shares of the limited liability company *Spozhyv Servis* («Спожів Сервис») registered in the Ukraine. With the indirect acquisition of share participation in the LLC Spozhyv Servis the Bank continues implementing its strategy, which foresees development of crediting services.

The contract with AS Parex banka for the purchase of 100% of AP Anlage & privatbank AG shares was concluded. The AP Anlage & privatbank AG is registered in Switzerland and is focused on individual client service, asset management and investment consultation provision. Akciju sabiedrība Latvijas Krājbanka and AS Parex banka have agreed to prolong the purchase transaction of AP Anlage & privatbank AG shares until April 24, 2009. The decision is based on the situation and general tendencies on the world's financial market.

In 2008 Mārtiņš Bondars, the president of Latvijas Krājbanka, was re-elected in the Council of Association of Latvian Commercial banks, which unites banks registered in Latvia and branches of foreign banks. The purpose of Association is to contribute to strengthening and development of the banking system of Latvia.

In October the extraordinary shareholders` meeting of Latvijas Krājbanka was held, at which new Council of Latvijas Krājbanka was elected for a three-year term. The work in the position of the Council member will continue Raimondas Baranauskas, Aleksandrs Antonovs, Oļegs Suhorukovs, Naglis Stancikas and Maksims Ančipolovskis.

During 2008 the Council of Latvijas Krājbanka has been working and performed control according to the Commercial Law. The Council had 18 Council meetings in 2008, at which the Board's reports on Latvijas Krājbanka activity were revised on a regular basis, and solutions of essential issues were accepted. The Council has also provided recommendations to the Board regarding the development of Latvijas Krājbanka activity within its competence.

The Council has revised the consolidated annual report for the year 2008 submitted by the Board, and considers it has been prepared considering the demands of normative acts. The Council recommends the Krājbanka shareholders to approve the annual report prepared by the Board.

The Council got acquainted with Latvijas Krājbanka report on the corporate management in 2008, which was prepared in accordance with "Corporate management principles and recommendations on implementation thereof" issued by NASDAQ OMX Riga, and considers that the Board is introducing the recommended corporate management principles into operation of Latvijas Krājbanka consistently and adequately, thus improving management quality and raising Latvijas Krājbanka`s attraction in the eyes of existing and potential investors.

The Council advises the Latvijas Krājbanka Board to continue implementation of corporate management principles into operation of Latvijas Krājbanka, by evaluating the commensurability and efficiency of every principle recommended by NASDAQ OMX Riga with operations and specificity of Latvijas Krājbanka.

Major news in the Bank's products and services

Latvijas Krājbanka has continued to implement its policy, which aim is to make the bank's services available and as convenient as possible to every resident. By December 31st 2008 Latvijas Krājbanka had 122 client service centres throughout Latvia, 41 of which were mini banks. Latvijas Krājbanka ranks the first place among Latvian commercial banks by the number of client service centres. Since the beginning of 2008 Latvijas Krājbanka has opened new client service centres in Jurmala, Mazsalaca, Liepaja and Riga, as well as the mini banks in Liepaja, Rezekne, Aglona, Karsava, Alsunga, Bene, Livani, Ape, Ranka, Straupe, Priekuli, Kalnciems and Kadaga. By the end of December the number of Latvijas Krājbanka ATMs comprised 194, thus ranking the third place on the market among Latvian commercial banks.

During the first quarter of 2008 International rating agency S*tandard & Poor's* raised the long-term credit rating of AS Latvijas Krājbanka from "B" to "B+". In August the international rating agency F*itch Ratings* also revised the ratings for Latvijas Krājbanka: increasing the Long-term Foreign Currency Rating (IDR) from "B" to "B+" and Individual Rating from "D/E" to "D". In its turn, in October the rating agency „Standard & Poor's revised its outlooks on AB Bankas Snoras (JSC) and AS Latvijas Krājbanka to negative from stable. One month later the credit rating agency M*oody's* I*nvestors Service* changed the outlook on AS Latvijas Krājbanka bank financial strength rating D- and long-term deposit rating Ba2 from stable to negative.

The number of pension plant clients of Latvijas Krājbanka Group's company AS Ieguldījumu pārvaldes sabiedrība LKB Krājfondi (asset management company) (hereinafter referred to as – LKB Krājfondi) at the end of 2008 was more than 71,400, and total 2nd tier state funded pension plan assets managed by the LKB Krājfondi comprised – LVL 23.4 million (+ 110% from the beginning of 2008). LKB Krājfondi ranks the 4th in Latvia in terms of 2nd tier client number. By the end of the year the total asset amount managed by LKB Krājfondi, including investment funds, 3rd tier assets and individual investment portfolios, comprised LVL 24.7 million. The company has concluded the year 2008 with provisory profit in the amount of LVL 134.4 thousand.

Latvijas Krājbanka Group's company LKB Līzings has retained growth tendency, ending the year 2008 with a credit portfolio amounting to LVL 22 million, though considering the current economic situation, the company has revised and corrected its aims and work priorities, emphasizing the work with existing clients and monitoring of their transactions.

Starting with June 30th 2008 AS Latvijas Krājbanka stopped the collaboration with the insurance company *Grazer Wechselseitige Versichering Aktiengesellschaft* (GRAWE) and stopped sale of the GRAWE insurance products. At the same time Latvijas Krājbanka offers its clients alternative possibility for saving accumulation - 3rd pension tiers offered by its subsidiary company AS Pirmais atklātais pensiju fonds. AS Pirmais atklātais pensiju fonds is planning to launch the wide offer of the additional pension accumulation to private individuals under the individual participation contract, and to legal entities under the collective participation contract, when the employer makes payments in favour of its employees.

Latvijas Krājbanka continued to improve the Online banking functionality, in order to make this product more convenient for the bank's clients. Since February the clients of Latvijas Krājbanka can quickly and easily complete the application and choose or change the administrator and investment plan of the state funded pension capital funds in the Online banking, using the appropriate manager of the 2nd tier pension funds and the pension plan.

In the beginning of 2008 the data import and export possibility was added to the Online banking of Latvijas Krājbanka. The data import insures client a possibility to import one or several payment orders in the Online banking at once, which were initially performed by the client in his/her accounting of financial data processing programme.

Starting with November 1st Latvijas Krājbanka service Mobile banking are available for all the clients of Bite Latvija. Until now the Mobile banking was available for the clients of mobile communication operators LMT and TELE2.

Besides the range of products offered by Latvijas Krājbanka was supplemented with novelties – deposit 4more, VISA consumption credit card "Dižkarte", Maestro card "Duets" issued for savings account, MasterCard Mass "Celebration card", credit card "Chocolate card", which is attached to the current account, and with the first new cards of the Aphorism cards series VISA Electron, VISA Business un Master Card Business.

The quality of services offered by Latvijas Krājbanka was admitted by one of the biggest European banks Deutsche Bank, which has positively evaluated processing quality of Latvijas Krājbanka outgoing payments and awarded the bank an annual prize "Deutsche Bank's STP Excellence Award", thus certifying the professionalism of the Latvijas Krājbanka experts and the quality of the bank's technologies.

Public activities

The Bank's development is acknowledged by different sociological polls, in which Latvijas Krājbanka ranks high positions. According to international market research company G*f*K *Custom Research*, Latvian residents consider Latvijas Krājbanka the second most popular bank in Latvia. More than 10% of all Latvian residents consider Latvijas Krājbanka their main bank.

Latvijas Krājbanka continues its strategic contribution to Latvian musical and cultural life. During the first nine months of 2008 the Bank also supported various significant cultural events, including the XXIV Overall Latvian Song and XIV Dance Celebration, and the painting campaign "The world's biggest choir", the general sponsor of which is Krājbanka.

During the first quarter within the Song and Dance Celebration the Bank has issued almost 40 000 ID cards for Song and Dance Festival participants, which also fulfil the functions of a payment card. Latvijas Krājbanka has developed the *Celebration card* (*Svētku karte*), which was specially designed for the XXIV Overall Latvia Song and XIV Dance Celebration. In visual design of the *Celebration card* traditional Latvian and ethnographical motives and the Song and Dance Celebration logotype are used. The special *Celebration card*, issued by Latvijas Krājbanka, is the MasterCard Mass credit card with the widest application possibilities in Latvia and throughout the world.

Within the Celebration Latvijas Krājbanka also supported the implementation of a project – painting campaign - "The world's biggest choir". It was painted by ten students of the Latvian Academy of Arts together with the rector of the Latvian Academy of Arts professor Aleksejs Naumovs and the pro-rector professor Kristaps Zariņš. In October the painting was exhibited in the Latvijas Krājbanka office. Afterwards it was exhibited in the UNESCO headquarters in Paris on the exhibition devoted to the anniversary of the Proclamation of Latvia.

Latvijas Krājbanka has also supported the Latvian Music Record Awards ceremony, the release of the new record CD *Skaisti dziedi* of the Recording Company "Upe tuviem un tāliem", as well as the International Piano Festival in Liepaja, by taking part in it's funding and by granting the prize of Latvijas Krājbanka, which was presented to Liepaja Symphony Orchestra and to its chief conductor Imants Resnis at the closing concert of International Piano Festival on March 16th in Liepaja Theatre. At the end of the year Latvijas Krājbanka supported concerts "Ziemas vakarā ejot pie tevis" (Coming to you in winter evening) that were organized in Latvian churches.

In the first quarter of 2008, Latvijas Krājbanka continued to support the educational development, by organising a youth scholarship competition, "Aeroplāns". The aim of the competition is to help capable and eager youth to study in universities of Latvia. Latvijas Krājbanka in collaboration with the Vītols Fund has granted scholarships already to seven university students. This year a special scholarship was established within the Song and Dance Celebration. It was granted to the student of Jāzeps Vītols Latvian Academy of Music, who is mastering conducting.

On behalf of Latvijas Krājbanka management we would like to thank the bank's shareholders and employees for their contribution into implementation of strategic aims of AS Latvijas Krājbanka.

Yours faithfully,

Mārtiņš Bondars
Chairman of the Board / President

Raimondas Baranauskas
Chairman of the Council

Riga,
6. March 2009

COUNCIL AND MANAGEMENT BOARD

As at the date of signing these financial statements, the members of the Supervisory Council of the Bank were as follows:

Supervisory Council

Name, surname	***Position***	***Date of appointment\ reappointment***
Raimondas Baranauskas	Chairman of the Council	28/10/2005 \ 24/10/2008
Aleksandrs Antonovs	Deputy Chairman of the Council	28/10/2005 \ 24/10/2008
Naglis Stancikas	Member of the Council	28/10/2005 \ 24/10/2008
Oļegs Suhorukovs	Member of the Council	28/10/2005 \ 24/10/2008
Maksims Ančipolovskis	Member of the Council	24/10/2008

On 24 October 2008, the extraordinary shareholders` meeting of AS Latvijas Krājbanka resolved to make changes in its Council. The new Council consists of five members: Raimondas Baranauskas, Aleksandrs Antonovs, Oļegs Suhorukovs, Naglis Stancikas and newly-elected Council Member Maksims Ančipolovskis. Dmitrijs Kocjuba, Žoržas Šarafanovičius and Michael Duncan Chartres were not re-elected as Council member of AS Latvijas Krājbanka.

There have been no other changes in the composition of the Supervisory Council from 31 December 2008 until the date of signing these financial statements.

COUNCIL AND MANAGEMENT BOARD

As at the date of signing these financial statements, the members of the Supervisory Council of the Bank were as follows:

Management Board

Name, surname	***Position***	***Date of appointment\ reappointment***
Mārtiņš Bondars	Chairman of the Board / President	03/07/2006
Dzintars Pelcbergs	First Deputy Chairman of the Board / First Vice President	02/01/2006\ 03/01/2009
Svetlana Ovčiņņikova	Member of the Board	19/06/2006
Andrejs Surmačs	Member of the Board	28/10/2005\ 24/10/2008
Ilze Bagatska	Member of the Board	18/07/2007
Ivars Priedītis	Member of the Board	18/07/2007

During the preparation of the financial statements, the Bank's Council re-elected Dzintars Pelcbergs as a member of the Management Board.

In 2008, there were no resignations from the Management Board.

On 24 October 2008, the Bank's Council decided to re-elect Andrejs Surmačs in the position of the AS Latvijas Krājbanka Board member for the next three years term. The new term shall be effective on October 29th 2008.

There have been no other changes in the composition of the Management Board from 31 December 2008 until the date of signing these financial statements.

Appointment and dismissal of the Board members can be made in accordance with Commercial law and statutes of the Bank. The Council has right to appoint and dismiss the Board members. Board members are elected for the 3 year period and the Council elects the chairman and the first deputy chairman of the Board from Board members.

The Board manages the Bank in accordance with laws of Republic of Latvia, statutes and decisions of the shareholders. The Council approval is necessary for certain Board decisions. They refer to approval of policies, budget and the operating plan, operations with real estate, opening of branches and representative offices, acquisition and disposal fully or partly of investment in associates and making decisions that is in the scope of the associate's shareholders, loan policy for employees, appointment and dismissal of the Board members in associates, remuneration of the employees of internal audit department.

The Board does not have rights to make the decisions regarding any issuance or buy back of Bank's shares. This is the scope of the shareholders' meeting.

Raimondas Baranauskas Chairman of the Council	Mārtiņš Bondars Chairman of the Board/ President

STATEMENT OF RESPONSIBILITY

The Management of AS Latviijas Krājbanka (hereinafter – the Bank) is responsible for the preparation of the financial statements of the Bank.

The financial statements set out on pages 10 to 73 are prepared in accordance with the source documents and present fairly the financial position of the Bank as at 31 December 2008 and the results of their operations, changes in shareholders' equity and cash flows for the year ended 31 December 2008.

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

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

Raimondas Baranauskas Chairman of the Council	Mārtiņš Bondars Chairman of the Board / President

Riga,
6 March 2009

LVL '000	Notes	Group 2008	Group 2007	Bank 2008	Bank 2007
Interest revenue	3, 4	42,071	32,521	40,388	32,494
Interest expense	3, 4	(22,652)	(16,772)	(22,260)	(16,794)
Net interest revenue		**19,419**	**15,749**	**18,128**	**15,700**
Commission and fee revenue	5	8,467	7,630	8,258	7,438
Commission and fee expense	5	(1,921)	(1,878)	(1,913)	(1,867)
Net commission and fee revenue		**6,546**	**5,752**	**6,345**	**5,571**
Dividend revenue		-	-	30	8
Net result on sale of securities and foreign exchange trading and revaluation	6	6,398	3,699	6,426	3,699
Other operating revenue	7	1,849	1,154	1,316	1,148
Operating revenue		**34,212**	**26,354**	**32,245**	**26,126**
Personnel expense	8	(11,963)	(9,473)	(11,171)	(9,231)
Depreciation and amortisation expense	21, 22	(2,288)	(1,918)	(2,141)	(1,893)
Other operating expenses	9	(11,466)	(8,076)	(10,720)	(7,926)
Total operating expenses		**(25,717)**	**(19,467)**	**(24,032)**	**(19,050)**
Impairment losses	10	(5,089)	(1,014)	(4,610)	(1,014)
Profit before corporate income tax		**3,406**	**5,873**	**3,603**	**6,062**
Corporate income tax	11	(622)	(919)	(595)	(912)
Profit for the reporting year		**2,784**	**4,954**	**3,008**	**5,150**
Attributable to:					
Shareholders of the Bank		**2,770**	**4,954**	**3,008**	**5,150**
Minority interest		14	-	-	-
Basic earnings per share (Lats per share)	12	**0.228**	**0.508**		
Diluted earnings per share (Lats per share)	12	**0.195**	**0.396**		

The accompanying notes on pages 10 to 73 form an integral part of these financial statements.

AS LATVIJAS KRĀJBANKA
BALANCE SHEET
AS AT 31 DECEMBER 2008

LVL '000	Notes	Group 31.12.2008	Group 31.12.2007	Bank 31.12.2008	Bank 31.12.2007
Assets					
Cash and deposits with the central bank	13	58,213	48,151	58,125	48,151
Due from credit institutions and the central bank	14	221,704	275,008	220,500	275,008
Loans and advances to customers	15	338,530	297,681	341,814	298,247
Financial assets at fair value through profit or loss	16	6,253	21,985	6,114	21,985
Financial assets held for trading		297	-	-	-
Available-for-sale financial assets		1	-	-	-
Held-to-maturity investments	18	21,044	4,747	20,836	4,747
Investments in subsidiaries	19	-	-	4,379	640
Intangible assets	21	1,561	1,200	1,260	1,067
Fixed assets	22	22,374	19,461	21,877	19,127
Prepayments and accrued income		576	648	552	626
Other assets	23	10,922	2,462	4,392	2,220
Total assets		**681,475**	**671,343**	**679,849**	**671,818**
Liabilities					
Due to the central bank and credit institutions	24	37,787	26,668	34,695	26,668
Deposits from the customers	25	581,786	586,129	584,795	586,571
Derivative liabilities	17	1,057	456	1,057	456
Debt securities issued	26	3,604	3,593	3,604	3,593
Deferred income and accrued expenses	27	1,524	1,815	1,474	1,767
Corporate income tax liability		517	962	500	955
Deferred tax liability	11	930	848	930	848
Other liabilities	28	3,662	949	2,034	782
Subordinated debt	29	9,028	8,913	9,028	8,913
Total liabilities		**639,895**	**630,333**	**638,117**	**630,553**
Shareholders' equity					
Paid-in share capital	30	12,149	12,149	12,149	12,149
Share premium	30	12,300	12,300	12,300	12,300
Reserve capital and other reserves	30	626	626	626	626
Revaluation reserve	30	5,364	5,352	5,364	5,352
Foreign currency translation reserve		(322)	-	-	-
Retained earnings		10,800	10,583	11,293	10,838
Total issued capital and reserves attributable to equity holders		40,917	41,010	41,732	41,265
Minority interest		663	-	-	-
Total shareholders' equity		**41,580**	**41,010**	**41,732**	**41,265**
Total liabilities and shareholders' equity		**681,475**	**671,343**	**679,849**	**671,818**

The accompanying notes on pages 10 to 73 form an integral part of these financial statements.

		Attributable to equity holders of the parent							
Group LVL '000	**Notes**	**Paid – in share capital**	**Share premium**	**Reserve capital and other reserves**	**Revaluation reserve**	**Foreign currency translation reserve**	**Retained earnings**	**Minority interest**	**Total shareholders' equity and minority interest**
Balance as at 31 December 2006		**9,106**	**1,323**	**626**	**2,839**	**-**	**7,611**	**-**	**21,505**
Change in deferred tax related to revaluation reserve		-	-	-	(136)	-	-	-	(136)
Revaluation charged		-	-	-	2,649	-	-	-	2,649
Total revenue and expense for the year recognised directly in equity		-	-	-	2,513	-	-	-	2,513
Profit for the year		-	-	-	-	-	4,954	-	4,954
Total revenue and expense for the year		-	-	-	2,513	-	4,954	-	7,467
Dividends paid		-	-	-	-	-	(1,982)	-	(1,982)
Issue of shares		3,043	10,977	-	-	-	-	-	14,020
Balance as at 31 December 2007		**12,149**	**12,300**	**626**	**5,352**	**-**	**10,583**	**-**	**41,010**
Change in deferred tax related to revaluation reserve	22	-	-	-	12	-	-	-	12
Currency translation differences		-	-	-	-	(322)	-	(310)	(632)
Total revenue and expense for the year recognised directly in equity		-	-	-	12	(322)	-	(310)	(620)
Profit for the year		-	-	-	-	-	2,770	14	2,784
Total revenue and expense for the year		-	-	-	-	-	2,770	14	2,784
Dividends paid		-	-	-	-	-	(2,553)	-	(2,553)
Minority interest		-	-	-	-	-	-	959	959
Balance as at 31 December 2008	30	**12,149**	**12,300**	**626**	**5,364**	**(322)**	**10,800**	**663**	**41,580**

Bank LVL '000	Notes	Paid – in share capital	Share premium	Reserve capital and other reserves	Revaluation reserve	Retained earnings	Total shareholders' equity and minority interest
Balance as at 31 December 2006		**9,106**	**1,323**	**626**	**2,839**	**7,670**	**21,564**
Change in deferred tax related to revaluation reserve		-	-	-	(136)	-	(136)
Revaluation charged		-	-	-	2,649	-	2,649
Total revenue and expense for the year recognised directly in equity		-	-	-	2,513	-	2,513
Profit for the year		-	-	-	-	5,150	5,150
Total revenue and expense for the year		-	-	-	2,513	5,150	7,663
Dividends paid		-	-	-	-	(1,982)	(1,982)
Issue of shares		3,043	10,977	-	-	-	14,020
Balance as at 31 December 2007		**12,149**	**12,300**	**626**	**5,352**	**10,838**	**41,265**
Change in deferred tax related to revaluation reserve	22	-	-	-	12	-	12
Total revenue and expense for the year recognised directly in equity	22	-	-	-	12	-	12
Profit for the year		-	-	-	-	3,008	3,008
Total revenue and expense for the year		-	-	-	-	3,008	3,008
Dividends paid		-	-	-	-	(2,553)	(2,553)
Balance as at 31 December 2008	30	**12,149**	**12,300**	**626**	**5,364**	**11,293**	**41,732**

The Shareholders` meeting had decided the following distribution of the AS Latvijas Krājbanka audited profit for the year 2007 comprising of LVL 5,149,934:

a) to pay dividends to shareholders for "A" category preference shares in the total amount of LVL 1,190 or LVL 0.42 per one preference share. To determine 7 April 2008 to be the dividend settlement date, and 18 April 2008 – the dividend payment date;

b) to pay dividends to shareholders for ordinary shares in the total amount of LVL 2,573,777 or LVL 0.21 per one ordinary share. To determine 7 April 2008 to be the dividend settlement date, and 18 April 2008 – the dividend payment date;

c) to include the residual part of the AS Latvijas Krājbanka audited profit for the year 2007 to the retained earnings (2,574,967)

The shareholders resolved to transfer the profit for the year 2008 to retained earnings.

The accompanying notes on pages 10 to 73 form an integral part of these financial statements.

LVL '000	Notes	Group 2008	Group 2007	Bank 2008	Bank 2007
Cash flow from operating activities					
Profit before corporate income tax		3,406	5,873	3,603	6,062
Depreciation and amortisation expense	21, 22	2,230	1,918	2,141	1,893
Increase in impairment losses		3,918	-	2,004	-
(Gain)/loss on revaluation of foreign currency		(2,572)	729	(3,209)	729
(Gain)/loss on revaluation of investments		(11)	120	(26)	120
(Gain)/loss from disposals of fixed and intangible assets	7, 9	63	2	(3)	2
Net cash flow before changes in assets and liabilities, as a result of ordinary operations		**7,034**	**8,642**	**4,510**	**8,806**
Decrease/ (increase) in balances due from the central bank and credit institutions		3,920	(10,972)	760	(10,972)
(Increase) in loans and advances to customers		(40,816)	(106,762)	(45,576)	(107,188)
Decrease/(increase) in financial assets at fair value through profit or loss		16,317	(4,237)	16,471	(4,237)
Increase in financial assets held for trading		13	-	-	-
(Increase)/ decrease in held-to-maturity investments		(16,297)	9,706	(16,089)	9,706
(Increase)/ decrease in prepayments and accrued income		72	(242)	74	(220)
(Increase) in other assets		(7,968)	(908)	(1,775)	(700)
(Increase) in balances due to the central bank and credit institutions		9,296		10,593	-
Increase/ (decrease) in deposits from customers		(4,343)	259,985	(1,776)	260,025
Net decrease/(increase) in derivative instruments		27	(47)	27	(47)
Increase in debt securities issued		11		11	
Increase/(decrease) in deferred income and accrued expenses		(291)	538	(293)	490
Increase/(decrease) in other liabilities		1,006	533	1,252	384
Net cash flow from operating activities		**(32,019)**	**156,236**	**(31,811)**	**156,047**
Income tax paid		(1,365)	(1,081)	(1,348)	(1,081)
Net cash flow from operating activities		(33,384)	155,155	(33,159)	154,966
Cash flow from investing activities					
Purchase of fixed and intangible assets	22, 23	(5,189)	(8,809)	(5,150)	(8,466)
Proceeds from disposal of fixed and intangible assets		68	170	69	170
Investments in subsidiaries, net of cash	20	(2,992)	-	(3,739)	(154)
Net cash flow investing activities		**(8,113)**	**(8,639)**	**(8,820)**	**(8,450)**
Cash flow from financing activities					
Issue of shares		-	3,043	-	3,043
Share premium		-	10,977	-	10,977
Issue of debt securities		-	3,593	-	3,593
Dividends paid		(2,553)	(1,982)	(2,553)	(1,982)
Cash proceeds from issuing shares to minority investors in subsidiary		538	-	-	-
Proceeds from issue of subordinated debt		-	1,238	-	1,238
Net cash flow financing activities		**(2,015)**	**16,869**	**(2,553)**	**16,869**
Net cash flow		**(43,512)**	**163,385**	**(44,532)**	**163,385**
Cash and cash equivalents at the beginning of the year	**33**	**282,564**	**119,908**	**282,564**	**119,908**
Profit/(loss) from revaluation of foreign currency		2,642	(729)	3,324	(729)
Cash and cash equivalents at the end of the year	**33**	**241,694**	**282,564**	**241,356**	**282,564**

Cash flows from interest and dividends:

LVL '000	Group 2008	Group 2007	Bank 2008	Bank 2007
Interest paid	17,944	12,491	16,747	12,513
Interest received	34,960	29,299	34,700	29,272
Dividend received	-	-	30	8

The accompanying notes on pages 10 to 73 form an integral part of these financial statements.

1. INCORPORATION AND PRINCIPAL ACTIVITIES

JSC Latvijas Krājbanka (hereinafter – the Bank) was founded in 1924 as Latvijas Pasta Krājbanka (*Latvian Post Savings Bank*). In June 1940 it was reorganized and included into the structure of the USSR Savings Bank. Until 1991 the main task of the Bank was to attract financial resources and service them within the framework of the Soviet banking system.

On 3 September 1991, the Supreme Council of the Republic of Latvia decided to re-establish AS Latvijas Krājbanka. AS Latvijas Krājbanka took over all rights of the former USSR National Savings Bank and on 15 October 1992 received a license to perform banking operations. The Bank was registered in the Enterprise Register of the Republic of Latvia on 16 October 1992, as a state owned commercial bank. On 29 March 1994, the Bank was re-registered as a state joint-stock company Latvijas Krājbanka. In accordance with the Order of the Cabinet dated 18 January 1996, the state joint stock company Latvijas Krājbanka was included into the list of entities to be privatized. During the first phase of the privatization process in 1997, the Bank was merged with Rīgas Apvienotā Baltijas banka (Union Baltic Bank in Riga). During the subsequent public offering the shares of the Bank were purchased by residents of Latvia using privatization certificates. On 20 September 2005, Snoras, one of the largest commercial banks in Lithuania, purchased an 83.01% shareholding and became the major shareholder of the Bank. The Bank's financial statements are consolidated in the financial statements of the Snoras Group.

As of 31 December 2008, the Bank had customers' service centres in all regions of Latvia:

Region	*Customer service centres*	
Riga	44	(45)
Latgale	25	(21)
Vidzeme, except Riga	22	(17)
Kurzeme	22	(17)
Zemgale	9	(7)
Total	**122**	**(107)**

The comparatives for 2007 are disclosed in brackets.

The financial statements of the Bank for the year ended 31 December 2008 were approved by a resolution of the Bank's Board on 5 March 2009. The Bank's shareholders have the power to amend the financial statements after issue.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A summary of the principal accounting policies consistently applied (unless otherwise stated) throughout the years ended 31 December 2008 and 2007, is set out below:

a) Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and the Latvian Financial and Capital Market Commission's *Regulations on the preparation of annual reports and annual consolidated accounts for banks, investment brokerage firms and investment management companies*.

b) Basis of preparation

The consolidated financial statements have been prepared on a historical cost basis, except for the following assets and liabilities which are measured at fair value: derivative financial instruments, financial assets and financial liabilities at fair value through profit or loss, as well as land and buildings.

The accounting policies adopted in the preparation of these consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 2007, except for the adoption of the following amendments mandatory for annual periods beginning on or after 1 January 2008:

Amendments to IAS 39 and IFRS 7 – *Reclassification of Financial Assets*
Through these amendments the IASB implemented additional options for reclassification of certain financial instruments categorised as held-for-trading or available-for-sale under specified circumstances. The adoption of this interpretation has no impact on the financial position or performance of the Group.

IFRIC 11 IFRS 2 – *Group and Treasury Share Transactions*
The interpretation provides guidance on classification of transactions as equity-settled or as cash-settled and also gives guidance on how to account for share-based payment arrangements that involve two or more entities within the same group in the individual financial statements of each group entity. The adoption of this interpretation has no impact on the financial position or performance of the Group.

IFRIC 14 IAS 19 – *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*.
This interpretation specifies the conditions for recognising a net asset for a defined benefit pension plan. The Group does not have defined benefit plans, therefore, the interpretation does not have any impact on the financial position or performance of the Group.

The Bank and the Group have adopted IFRS 8. Adoption of this standard did not have any effect on the financial performance or the position or the disclosures of the Bank and the Group.

- The principal effect of the change to IFRS 8 *Operating Segments* is that this standard requires disclosure of the information about the Group's operating segments and replaced the requirement to determine primary (business) and secondary (geographical) reporting segments of the Group. The Group determined that there are no operating segments used by the management of the Group, as the management of the Group are not using disaggregated information.
- As the major part of the Group's clients during the reporting year were Latvian residents, no geographical analysis of revenues is disclosed. The majority of the Group's non-current assets other than financial instruments are located in Latvia, so no geographical analysis of non-current assets is disclosed. In 2008, a Ukrainian entity was included in the Group which total assets comprise 0.75% of all the Group's assets which is not recognized as significant segment of the Group.

The accompanying financial statements are reported in thousands of Lats (LVL 000's), unless stated otherwise.

c) Basis of consolidation

These consolidated financial statements comprise also separate financial statements of the Bank as at and for the year ended 31 December 2008 and 2007 in accordance with legal requirements. The Bank has consolidated its subsidiaries as disclosed in Note 20. Subsidiaries are consolidated from the date on which the control is transferred to the Bank. Control is achieved when the Bank has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

In preparing the consolidated financial statements, respective items have been evaluated in accordance with the uniform accounting policies and valuation principles applied by the Bank in conformity with the requirements of the Financial and Capital Market Commission and International Financial Reporting Standards as adopted by the European Union. The subsidiaries' financial statements are included in the Group's consolidated financial statements based on the full consolidation method.

Minority interests represents the portion of profit or loss and net assets that is not held by the Group and are presented separately in the consolidated income statement and within equity in the consolidated balance sheet, separately from parent shareholders' equity.

All items in the Bank's and Group's financial statements have prior year comparatives. Should the difference between information on the Group and that on the Bank be insignificant, such information on the Group is not separately presented.

d) Revenue and expense recognition

Interest revenue and expenses are recognized in the income statement on an accrual basis using the effective interest rate. Interest revenue includes various fixed payments, coupons earned on fixed income investments and trading securities and accrued discount and premium on treasury bills and other discounted investments.

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.

Accrued revenue is included in the income statement, if there is no doubt about its receipt in due time. If accrued revenue is more than 90 days overdue or not past due but the loans or other types of assets are classified under a lower category than *Close-watch loans*, accrued revenue is no longer recognised in the income statement.

Loans or other types of assets are considered interest bearing, and accrued revenue previously included in the income statement is derecognised by establishing 100% specific allowances for accrued revenue.

e) Foreign currency translation

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

The principal foreign exchange rates (LVL to 1 foreign currency unit) published by the Bank of Latvia and used in the preparation of the Bank's balance sheet were as follows:

Reporting date	USD	EUR
As of 31 December 2008	0.495000	0.702804
As of 31 December 2007	0.484000	0.702804

f) Corporate income tax

Corporate income tax at the rate of 15% (2007: 15%) is calculated in accordance with Latvian tax regulations and is based on the taxable profit reported for the taxation period.

Deferred taxes are provided for temporary differences between the tax base of an asset or liability and its carrying amount in the balance sheet. The tax base of an asset or liability is the amount attributed to that asset or liability for tax purposes. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using future tax rates applicable at the balance sheet date. Deferred income tax relating to items recognized directly in equity is recognized in equity and not in income statement.

Deferred tax assets are 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 reduced to the extent that it is no longer probable that the related tax benefit will be realized.

g) Earnings per share

Earnings per share are calculated by dividing the net profit for the year attributable to ordinary shareholders of the Bank by the weighted average number of shares in issue during the year.

For the purpose of calculating diluted earnings per share, the net profit attributable to ordinary shareholders of the Bank and the weighted average number of shares outstanding are adjusted for the effects of all dilutive potential ordinary shares (subordinated debt).

h) Impairment of non- financial assets

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount. The recoverable amount is the greater of the following amounts: the market value which can be recovered from the sale of an asset under normal conditions, net of selling costs (fair value less costs to sell), or the estimated future economic benefits arising from the use of the asset (value in use). The largest components of the Group's assets are periodically tested for impairment and impairments are provisioned through the profit and loss account "Impairment losses".

i) Impairment of financial assets

The Group and the Bank assesses at each balance sheet date whether there is any objective evidence that a financial asset or group of financial assets is impaired. A financial assets or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment result of one or more events that has occurred after the initial recognition of the assets (an incurred "loss event") and the loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

j) *Originated loans and loan impairment*

The Management of the Group have considered both specific and collective (portfolio) risks in determining the allowance for credit losses (impairment). The specific allowance is determined after individually reviewing all loans for potentially uncollectible amounts and is based on the customer's financial position, value of collateral and fulfilment of loan agreement. The collective (portfolio) allowance relates to existing credit losses, as well as to the losses 'incurred, but not yet known' to the Group. This method permits to attribute each group of loans to historical loss experience for groups of assets with similar credit characteristics and observable market data reflecting current circumstances.

When a loan or advance has been classified as non-performing, an allowance for credit losses is established for that specific loan or advance for the amount of the outstanding balance, which is deemed impaired. The level of the allowance is based on the present value of expected future cash flows considering relevant factors including, but not limited to, the Group's past loan loss experience, known and inherent risks in the portfolio of loans and advances, adverse situations that may affect the borrowers' ability to repay, the collateral value and current economic conditions as well as other relevant factors affecting loan and advance collectability and collateral values. Ultimate losses may vary from the current estimates.

The value of the collateral held in connection with loans and advances is based on the estimated realisable value of the asset and is taken into account when determining expected cash flows and accordingly the allowance. The above estimates are reviewed periodically, and, as adjustments become necessary, they are reported in the income statement in the reporting period in which they become known. The Management of the Group have made their best estimates of losses and believe the estimates presented in the financial statements to be reasonable in the light of the available information.

When loans and advances cannot be recovered, they are written off and charged against allowances for credit losses. They are not written off until all the necessary legal procedures have been completed and the ultimate amount of the loss is determined.

k) *Finance lease (Group as a lessor)*

For the purposes of these financial statements, finance lease receivables are classified as *Loans and advances to customers*.

Finance leases, which confer risk and rewards similar to those attached to owned assets, are recognized as assets on commencement of the lease term at amounts equal at the inception of the lease to the net investment in the lease. The finance income is allocated to periods during the lease term to produce a constant periodic return on the net investments outstanding in respect of the finance leases.

l) *Operating lease (Group as a lessor and lessee)*

Operating lease is a lease transaction, which is not a finance lease. The lessor bears substantially all the risks and rewards that are associated with the right of ownership.
Operating lease is the type of lease, where entering in the contract for a certain period based on the client choice, the client is paying lease every month. In the case of operating lease, the ownership of the object after the end of lease period does not transfer to lessee. Operating lease revenue is recognized on a straight-line basis.

Where the Group is the lessee, operating lease expense is recognized on a straight line basis.

m) *Financial instruments*

Classification

Held-to-maturity investments are financial assets with fixed or determinable payments and fixed maturity that the Group has the intent and the ability to hold to maturity.

Financial instruments at fair value through profit or loss: the Group/ the Bank at inception has classified these financial assets or liabilities as designated at fair value through profit or loss and trading investments. The sub-category financial assets designated at fair value through profit or loss, is classified based on the way the management analyses these assets that is compliant with the documented risk management approach accepted by Asset and liability management committee (ALMCo). Assets are classified as designated at fair value through profit or loss when the ALMCo makes the decision about financial assets and liabilities or class of them before transaction is initialised, and when the following criteria are met:

- The designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognising gains or losses on them on a different basis; or
- The assets and liabilities are part of a group of financial assets, financial liabilities or both which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; or
- The financial instrument contains an embedded derivative, unless the embedded derivative does not significantly modify the cash flow or it is clear, with little or no analysis, that it would not be separately recorded.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are carried at amortized cost using the effective interest rate method. Gains and losses are recognized in the consolidated income statement when the loans and receivables are derecognized or impaired, as well as through the amortization process.

Available-for-sale assets are financial assets that are not classified in one of the above mentioned categories.

Financial liabilities are classified into those at fair value through profit or loss and those accounted for at amortized cost as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

Recognition

The Group recognizes a financial asset or a financial liability on its balance sheet when and only when, the Group becomes a party to the contractual provisions of the instrument.

Purchase of securities is accounted for using settlement date.

Measurement

Held-to-maturity investments are initially recognized at fair value plus transaction costs and subsequently measured at amortised cost less impairment. Amortised cost is calculated using the effective interest method. Premiums or discounts, as well as initial transaction costs, are included in the carrying amount of the related financial instrument and amortised based on the effective interest rate of the instrument.

Revaluation of financial assets at fair value through profit or loss, trading investments and available-for-sale assets are based on quoted market price. For financial assets where there is no active market, fair value is determined using valuation techniques. Such techniques may include using recent arm's length market transactions, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis or other valuation models.

Where discounted cash flow techniques are used, estimated future cash flows are based on the Management's best estimates and the discount rate is a market rate at the balance sheet date for an instrument with similar terms and conditions and risk. Where pricing models are used, the information is based on market related measures at the balance sheet date.

Revaluation of financial assets and financial liabilities at fair value through profit or loss and trading investments is directly recognized in the income statement.

Loans and receivables are carried at amortized cost using the effective interest rate method. Gains and losses are recognized in the consolidated income statement when the loans and receivables are derecognized or impaired, as well as through the amortization process.

Financial liabilities accounted for at amortized cost are initially measured at fair value less any transaction costs that are directly attributable to the issue of the respective liability. Subsequently, they are measured at amortized cost using the effective interest method. The components of compound financial instruments such as convertible bonds, that contain both liability and equity elements, are accounted for separately. The equity component, representing the conversion feature of the bond, is measured at the residual amount after deducting from the instrument as a whole the amount separately determined as the fair value of the liability component on the date of issue. The fair value of the liability component on the date of issue is determined as the fair value of a bond with similar terms and conditions but without a conversion feature, when need the fair value of financial liability is adjusted based on estimated Group's or Bank's own credit risk.

Derecognition

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised where:
- the rights to receive cash flows from the asset have expired; or
- the Group and the Bank has transferred its rights to receive cash flows from the asset, or retained the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; and
- the Group and the Bank either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group and the Bank has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's and the Bank's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group and the Bank could be required to repay.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

n) Investments in privatization certificates

Investments in privatization certificates are stated at their market value determined in accordance with instructions of the Bank of Latvia.

Unrealized profits or losses arising as a result of stating privatization certificates at market value are respectively credited or charged to the statement of income as profit or loss from the revaluation of securities.

o) Derivatives

In the normal course of business, the Bank is a party to contracts for forward foreign exchange rate and currency swap instruments. Financial assets and financial liabilities arising from recognizing derivatives at their fair value are recognized in the balance sheet as the assets or liabilities of these agreements. Foreign exchange instruments are valued according to the present value of the difference between the current forward rate at the balance sheet date for the remaining maturity of the contract, based on rates set by the Bank of Latvia, and the contractual rate. The revaluation result is disclosed as profit or loss from currency exchange trading.

SPOT transactions are foreign exchange transactions with the settlement date no later than two days after the transaction (trading) date.

The positive or negative value of SPOT transactions is disclosed in the balance sheet in lats over the period from the trading date till the settlement date (not including). The positive value is included in other assets, while the negative value – in other liabilities.

At the end of the day, the value of each transaction is calculated according to the currency exchange rate established by the Bank of Latvia and the SPOT transactions are revaluated. The revaluation is carried out on a daily basis till the settlement date (not including). The revaluation result is accumulated in the income statement caption *Foreign exchange trading*.

The transaction amounts payable and receivable are disclosed in off-balance sheet captions from the trading date till the settlement date (not including).

Profit or loss from the SPOT transaction is recorded in the caption *Foreign exchange trading* on the settlement date.

p) Intangible assets

Intangible assets are recognized when it is probable that the asset will generate future economic benefits and their cost can be measured reliably. Intangible assets are amortized over the period of their useful life on a straight-line basis. Computer software is treated as an intangible asset only when it is not an integral part of the related hardware. The amortisation rates in range of 12.5% to 20% are applied to intangible assets.

q) Business combinations and goodwill

Upon acquisition, subsidiaries are accounted for under the purchase method of accounting. Any goodwill arising on acquisition is recognised in the consolidated balance sheet, any negative goodwill is immediately charged to the income statement.

Goodwill represents the excess of the acquisition cost over the fair value of the Group's share of the net assets of the acquired subsidiary/ associated undertaking at the date of acquisition. Goodwill is reported in the balance sheet as a component of "Intangible assets". Goodwill is not amortized and is tested for impairment on an annual basis.

r) Fixed assets

Fixed assets are recorded at historical cost or their revalued amount, less accumulated depreciation. If the recoverable amount of a fixed asset is lower than its carrying amount, the fixed asset is written down to its recoverable amount.

Depreciation is provided using the straight-line method over the estimated useful life of the asset. Assets under construction and preparation are not depreciated. The following depreciation rates have been applied:

Type of fixed assets	*Annual Rate*
Buildings	2%-6.667%
EDP equipment	25%
Equipment and fixtures	10%-33.33%
Transport vehicles	20%

Fixed assets maintenance and running repair costs are charged to the income statement as incurred.

Leasehold improvements and capital repair costs are capitalized and depreciated over the shorter of the useful life and the remaining lease contract period on a straight-line basis.

Land and buildings are revaluated periodically.

Depreciation methods, useful lives and residual values are reassessed annually.

s) Sale and repurchase agreements

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

Where the Group is the transferee, the assets are not recognized in the Group's balance sheet, but the purchase price paid to the transferor is included as a receivable from the transferor. Interest revenue or expense arising from outstanding sale and repurchase agreements is recognized in the income statement over the term of the agreement using effective interest rate.

t) Cash and cash equivalents

Cash and cash equivalents comprise cash and deposits with the Bank of Latvia and other credit institutions with original maturity of three months or less. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

u) Provisions

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

v) Other off-balance sheet instruments

In the ordinary course of business the Group is involved with commitments to extend loans and advances, set limits for credit cards accounts, issue overdrafts and financial guarantees, as well as commercial letters of credit. Such financial instruments are recorded in the financial statements as follows:

- Commitment to extend loans ad advances, credit card and overdraft facilities are recognized on drawdown;
- financial guarantees and letters of credit are recognized when the related fee received as consideration is recognized.

w) Assets and liabilities under management

Assets and liabilities managed by the Group on behalf of its customers, trusts and other institutions are not regarded as assets or liabilities of the Group and, therefore, are not included in its balance sheet. The Group assumes no control, no risk and no benefit for assets and liabilities under management.

x) The fair value of financial assets and liabilities

The fair value of financial assets and liabilities represent the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transactions. If the fair value of financial assets and liabilities is different from the balance sheet value, then the fair value of financial assets and liabilities is disclosed in the notes to the financial statements.

y) Significant accounting estimates and assumptions

The preparation of financial statements in accordance with IFRS as adopted in the EU requires the management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue 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 depreciation rates of tangible fixed assets and intangible fixed assets, determining the allowance for credit losses, the fair value of financial assets and liabilities, as well as the value of land and buildings.

z) Adoption of new and revised IFRSs

The Group has not applied the following IFRSs and IFRIC Interpretations that have been issued but are not yet effective:

- Amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards and* IAS 27 *Consolidated and Separate Financial Statements* (effective for financial years beginning on or after 1 January 2009 once adopted by the EU). The amendment to IFRS 1 allows an entity to determine the 'cost' of investments in subsidiaries, jointly controlled entities or associates in its opening IFRS financial statements in accordance with IAS 27 or using a deemed cost. The amendment to IAS 27 requires all dividends from a subsidiary, jointly controlled entity or associate to be recognised in the income statement in the separate financial statements. The new requirements affect only the parent's separate financial statements and do not have an impact on the consolidated financial statements. Besides, a new version of IFRS 1 was issued in November 2008. It retains the substance of the previous version, but within a changed structure and replaces the previous version of IFRS 1 (effective for financial years beginning on or after 1 July 2009 once adopted by the EU).

- Amendment to IFRS 2 *Share-based Payment* (effective for financial years 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. The amendment will have no impact on the financial position or performance of the Group, as the Group does not have share-based payments.

- Amendments to IFRS 3 *Business Combinations* and IAS 27 *Consolidated and Separate Financial Statements* (effective for financial years beginning on or after 1 July 2009 once adopted by the EU). Revised IFRS 3 (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. IAS 27R requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as an equity transaction. Therefore, such transactions will no longer give rise to goodwill, nor will it give rise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. Other consequential amendments were made to IAS 7 Statement of Cash Flows, IAS 12 Income Taxes, IAS 21 The Effects of Changes in Foreign Exchange Rates, IAS 28 Investment in Associates and IAS 31 Interests in Joint Ventures. In accordance with the transitional requirements of these amendments, the Group will adopt them as a prospective change. Accordingly, assets and liabilities arising from business combinations prior to the date of application of the revised standards will not be restated.

- Amendment to IAS 1 *Presentation of Financial Statements* (effective for financial years beginning on or after 1 January 2009). This amendment introduces a number of changes, including introduction of a new terminology, revised presentation of equity transactions and introduction of a new statement of comprehensive income as well as amended requirements related to the presentation of the financial statements when they are restated retrospectively. The Group is still evaluating whether it will present all items of recognised revenue and expense in one single statement or in two linked statements.

- Amendment to IAS 23 *Borrowing Costs* (effective for annual periods beginning on or after 1 January 2009). The revised standard eliminates the option of expensing all borrowing costs and requires borrowing costs to be capitalised if they are directly attributable to the acquisition, construction or production of a qualifying asset. In accordance with the transitional requirements of the Standard, the Group will adopt this as a prospective change. Accordingly, borrowing costs will be capitalised on qualifying assets with a commencement date after 1 January 2009. No changes will be made for borrowing costs incurred to this date that have been expensed.

- Amendments to IAS 32 *Financial Instruments: Presentation* and IAS 1 *Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation* (effective for financial years beginning on or after 1 January 2009 once adopted by the EU). The revisions provide a limited scope exception for puttable instruments to be classified as equity if they fulfil a number of specified features. The amendments to the standards will have no impact on the financial position or performance of the Group, as the Group has not issued such instruments.

- Amendment to IAS 39 *Financial Instruments: Recognition and Measurement – Eligible Hedged Items* (effective for financial years beginning on or after 1 July 2009).The amendment addresses the designation of a one-sided risk in a hedged item, and the designation of inflation as a hedged risk or portion in particular situations. It clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as hedged item. The amendment will have no impact on the financial position or performance of the Group, as the Group has not entered into any such hedges.

Improvements to IFRSs

In May 2008 IASB issued its first omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard; most of the changes are effective for financial years beginning on or after 1 January 2009. The Group anticipates that these amendments to standards will have no material effect on the financial statements.

- IFRS 7 Financial Instruments: Disclosures. Removal of the reference to 'total interest revenue' as a component of finance costs.
- IAS 1 Presentation of Financial Statements. Assets and liabilities classified as held for trading in accordance with IAS 39 are not automatically classified as current in the balance sheet.
- IAS 8 Accounting Policies, Change in Accounting Estimates and Errors. Clarification that only implementation guidance that is an integral part of an IFRS is mandatory when selecting accounting policies.
- IAS 10 Events after the Reporting Period. Clarification that dividends declared after the end of the reporting period are not obligations.
- IAS 16 Property, Plant and Equipment. Items of property, plant and equipment held for rental that are routinely sold in the ordinary course of business after rental, are transferred to inventory when rental ceases and they are held for sale. Also, replaced the term "net selling price" with "fair value less costs to sell".
- IAS 18 Revenue. Replacement of the term 'direct costs' with 'transaction costs' as defined in IAS 39.
- IAS 19 Employee Benefits. Revised the definition of 'past service costs', 'return on plan assets' and 'short term' and 'other long-term' employee benefits. Amendments to plans that result in a reduction in benefits related to future services are accounted for as curtailment.
- IAS 20 Accounting for Government Grants and Disclosures of Government Assistance. Loans granted in the future with no or low interest rates will not be exempt from the requirement to impute interest. The difference between the amount received and the discounted amount is accounted for as government grant. Also, revised various terms used to be consistent with other IFRS.
- IAS 23 Borrowing Costs. The definition of borrowing costs is revised to consolidate the two types of items that are considered components of 'borrowing costs' into one – the interest expense calculated using the effective interest rate method calculated in accordance with IAS 39.
- IAS 27 Consolidated and Separate Financial Statements. When a parent entity accounts for a subsidiary at fair value in accordance with IAS 39 in its separate financial statements, this treatment continues when the subsidiary is subsequently classified as held for sale.
- IAS 28 Investment in Associates. If an associate is accounted for at fair value in accordance with IAS 39, only the requirement of IAS 28 to disclose the nature and extent of any significant restrictions on the ability of the associate to transfer funds to the entity in the form of cash or repayment of loans applies. In addition, an investment in an associate is a single asset for the purpose of conducting the impairment test. Therefore, any impairment is not separately allocated to the goodwill included in the investment balance.
- IAS 29 Financial Reporting in Hyperinflationary Economies. Revised the reference to the exception to measure assets and liabilities at historical cost, such that it notes property, plant and equipment as being an example, rather than implying that it is a definitive list. Also, revised various terms used to be consistent with other IFRS.
- IAS 31 Interest in Joint ventures: If a joint venture is accounted for at fair value, in accordance with IAS 39, only the requirements of IAS 31 to disclose the commitments of the venturer and the joint venture, as well as summary financial information about the assets, liabilities, revenue and expense will apply.
- IAS 34 Interim Financial Reporting. Earnings per share is disclosed in interim financial reports if an entity is within the scope of IAS 33.
- IAS 36 Impairment of Assets. When discounted cash flows are used to estimate 'fair value less cost to sell' additional disclosure is required about the discount rate, consistent with disclosures required when the discounted cash flows are used to estimate 'value in use'.
- IAS 38 Intangible Assets. Expenditure on advertising and promotional activities is recognised as an expense when the entity either has the right to access the goods or has received the service. The reference to there being rarely, if ever, persuasive evidence to support an amortisation method of intangible assets other than a straight-line method has been removed.
- IAS 39 Financial Instruments: Recognition and Measurement. Changes in circumstances relating to derivatives are not reclassifications and therefore may be either removed from, or included in, the 'fair value through profit or loss' classification after initial recognition. Removed the reference in IAS 39 to a 'segment' when determining whether an instrument qualifies as a hedge. Require the use of the revised effective interest rate when remeasuring a debt instrument on the cessation of fair value hedge accounting.
- IAS 40 Investment Property. Revision of the scope such that property under construction or development for future use as an investment property is classified as investment property. If fair value cannot be reliably determined, the investment under construction will be measured at cost until such time as fair value can be determined or construction is complete. Also, revised of the conditions for a voluntary change in accounting policy to be consistent with IAS 8 and clarified that the carrying amount of investment property held under lease is the valuation obtained increased by any recognised liability.
- IAS 41 Agriculture. Removed the reference to the use of a pre-tax discount rate to determine fair value. Removed the prohibition to take into account cash flows resulting from any additional transformations when estimating fair value. Also, replaced the term 'point-of-sale costs' with 'costs to sell'.

- IFRIC 12 *Service Concession Arrangements* (effective once adopted by the EU). This interpretation applies to service concession operators and explains how to account for the obligations undertaken and rights received in service concession arrangements. No member of the Group is an operator and, therefore, this interpretation has no impact on the Group.

- IFRIC 13 *Customer Loyalty Programmes* (effective for financial years beginning on or after 1 July 2008). This interpretation requires customer loyalty award credits to be accounted for as a separate component of the sales transaction in which they are granted and therefore part of the fair value of the consideration received is allocated to the award credit and deferred over the period that the award credit is fulfilled. The Group does not maintain customer loyalty programmes, therefore, this interpretation will have no impact on the financial position or performance of the Group.

- IFRIC 15 *Agreement for the Construction of Real Estate* (effective for financial years beginning on or after 1 January 2009 once adopted by the EU). The interpretation clarifies when and how revenue and related expenses from the sale of a real estate unit should be recognised if an agreement between a developer and a buyer is reached before the construction of the real estate is completed. Furthermore, the interpretation provides guidance on how to determine whether an agreement is within the scope of IAS 11 or IAS 18. The Group does not conduct such activity, therefore, this interpretation will not have an impact on the consolidated financial statements.

- IFRIC 16 *Hedges of a Net Investment in a Foreign Operation* (effective for financial years beginning on or after 1 October 2008 once adopted by the EU). The interpretation provides guidance on the accounting for a hedge of a net investment in a foreign operation. IFRIC 16 will not have an impact on the consolidated financial statements because the Group does not have hedges of net investments.

- IFRIC 17 *Distributions of Non-cash Assets to Owners* (effective for financial years beginning on or after 1 July 2009 once adopted by the EU). The interpretation provides guidance on the appropriate accounting treatment when an entity distributes assets other than cash as dividends to its shareholders. IFRIC 17 will not have an impact on the consolidated financial statements because the Group does not distribute non-cash assets to owners.

3. INTEREST REVENUE AND EXPENSE

LVL '000	Group 2008	Group 2007	Bank 2008	Bank 2007
Interest revenue				
Loans and advances to customers	33,205	23,252	31,580	23,225
Including impaired	185	329	185	329
Securities	2,116	1,869	2,104	1,869
Incl. Held-to-maturity investments	1,125	424	1,116	424
Incl. Financial assets held for trading	10	-	7	-
Incl. Financial assets designated at fair value through profit or loss	981	1,445	981	1,445
Balances due from credit institutions	6,750	7,400	6,704	7,400
Total interest revenue	**42,071**	**32,521**	**40,388**	**32,494**
Interest expense:				
Deposits from the customers	(19,641)	(14,152)	(19,666)	(14,174)
Balances due to credit institutions	(1,150)	(1,014)	(733)	(1,014)
Debt securities issued	(199)	(165)	(199)	(165)
Contributions to deposit guarantee fund	(930)	(807)	(930)	(807)
Subordinated debt	(732)	(634)	(732)	(634)
Total interest expense	**(22,652)**	**(16,772)**	**(22,260)**	**(16,794)**
Net interest revenue	**19,419**	**15,749**	**18,128**	**15,700**

4. INTEREST PRODUCTIVITY OF THE BANK'S BALANCE SHEET

		2008			2007		
	LVL '000	Average monthly balance	Interest	Effective interest rate	Average monthly balance	Interest	Effective interest rate
	Assets						
	Cash and balances due from the central bank	54,139	1,111	-	45,859	660	-
	Balances due from credit institutions	170,702	5,593	3.28	133,150	6,740	5.06
	Financial investments	27,526	2,104	7.64	33,830	1,869	5.52
	Derivative assets	995	-	-	555	-	-
	Loans and advances to customers, net	326,935	31,580	9.66	247,196	23,225	9.40
	Other assets	43,267	-	-	28,564	-	-
A	**Total assets**	**623,564**	**40,388**	**6.48**	**489,154**	**32,494**	**6.64**
	Liabilities						
	Deposits from the customers	530,257	20,596	3.88	411,334	14,981	3.64
	Balances due to credit institutions	16,947	733	4.33	23,048	1,014	4.40
	Derivative liabilities	1,584	-	-	378	-	-
	Subordinated debt	8,855	732	8.27	8,072	634	7.85
	Debt securities issued	3,514	199	5.66	3,231	165	5.11
	Other liabilities	20,277	-	-	18,201	-	-
B	**Total liabilities**	**581,434**	**22,260**	**3.83**	**464,264**	**16,794**	**3.62**
	Shareholders' equity	42,130	-	-	24,890	-	-
C	**Total liabilities and shareholders' equity**	**623,564**	**22,260**	**3.57**	**489,154**	**16,794**	**3.43**
	Net interest revenue		**18,128**			**15,700**	
	***Investment spread* % (A-C)**			**2.91%**			**3.21%**

There is no significant difference in productivity between the Bank and the Group.

5. COMMISSION AND FEE REVENUE AND EXPENSE

LVL '000	Group 2008	Group 2007	Bank 2008	Bank 2007
Commission and fee revenue:				
Payment cards	3,667	3,122	3,667	3,122
Money transfers	2,284	2,097	2,284	2,097
Transactions with privatization certificates	496	504	496	504
Maintenance fee	491	567	491	569
Cash services	383	424	383	424
Trust operations	217	217	217	217
Brokerage fee	87	124	87	124
Other	842	575	633	381
Total commission and fee revenue	**8,467**	**7,630**	**8,258**	**7,438**
Commission and fee expense:				
Payment cards	(1,374)	(1,230)	(1,374)	(1,230)
Settlements	(177)	(199)	(177)	(199)
Other	(370)	(449)	(362)	(438)
Total commission and fee expense	**(1,921)**	**(1,878)**	**(1,913)**	**(1,867)**
Net commission and fee revenue	**6,546**	**5,752**	**6,345**	**5,571**

6. NET RESULT ON SALE OF SECURITIES AND FOREIGN EXCHANGE TRADING AND REVALUATION

LVL '000	Group 2008	Group 2007	Bank 2008	Bank 2007
Net result from trading with foreign currency	4,652	4,549	4,028	4,549
Net result on sale of financial assets at fair value through profit or loss	(952)	87	(952)	87
Incl. Financial assets designated at fair value through profit or loss	(973)	87	(973)	87
Incl . Financial assets held for trading	21	-	21	-
Net result from revaluation of financial assets at fair value through profit or loss	11	(208)	26	(208)
Incl. Financial assets designated at fair value through profit or loss	22	(208)	22	(208)
Incl. Financial assets held for trading.	(11)	-	4	-
Net result from revaluation of foreign currency positions	2,687	(729)	3,324	(729)
Total net result on sale of securities and foreign exchange trading and revaluation	**6,398**	**3,699**	**6,426**	**3,699**

7. OTHER OPERATING REVENUE

LVL '000	Group 2008	Group 2007	Bank 2008	Bank 2007
Gain from sale of fixed assets	177	33	3	33
Penalties received	711	902	711	902
Other operating revenue	792	126	445	120
Rental revenue	169	93	157	93
Total other operating revenue	**1,849**	**1,154**	**1,316**	**1,148**

A major part of penalties received are penalties for non-compliance with contract terms and conditions.

8. PERSONNEL EXPENSE

Personnel expense include remuneration to the Supervisory Council, the Management Board and other employees of the Bank as well as related social security contributions and costs of other benefits.

LVL '000	Group 2008	Group 2007	Bank 2008	Bank 2007
Remuneration to the Supervisory Council	681	155	622	155
Remuneration to the Management Board	688	517	642	459
Remuneration to other personnel	8,432	7,071	7,925	6,931
Social security contributions	2,162	1,730	1,982	1,686
Total remuneration and related social security contributions	**11,963**	**9,473**	**11,171**	**9,231**

The total number of personnel employed by the Bank and the Group is specified as follows:

	Group 2008	Group 2007	Bank 2008	Bank 2007
Members of the Management Board	22	18	6	6
Other Management personnel	68	40	35	34
Staff personnel	1,035	928	920	909
Total number of personnel employed	**1,125**	**986**	**961**	**949**

The Bank has entered into employment agreements with three Board members granting the 6 month average salary in case of their dismissal.

9. OTHER OPERATING EXPENSES

LVL '000	Group 2008	Group 2007	Bank 2008	Bank 2007
Rent of premises and land	2,416	1,785	2,393	1,780
Non-refundable value added tax	1,409	933	1,400	933
Advertising and marketing	869	764	868	760
Consulting and professional fees	776	275	708	275
Repairs and maintenance of premises and buildings	750	518	750	518
Communications	566	467	566	464
EDP maintenance	551	531	539	531
Car maintenance	412	326	391	319
Insurance	357	149	355	149
Security	301	367	301	367
Loss from fixed assets disposal	240	87	230	87
Training and other personnel expenses	202	180	198	180
Office expense	196	170	189	167
Participation fees and payments to funds	190	195	190	195
Audit fees	75	56	56	51
Property and real estate tax	33	53	33	53
Other operating expenses	2,123	1,220	1,553	1,097
Total operating expenses	**11,466**	**8,076**	**10,720**	**7,926**

In 2007 the Bank concluded an operating lease contract for the usage of real estate and land. The building at 15 Jāņa Daliņa Street is being used as an administrative office. The term of the lease contract is 20 years, ending 31 March 2027. The total expected minimum lease payment amounts to LVL 24,620 thousand. That includes payments up to 1 year of LVL 1,355 thousand, payments 1-5 years – LVL 5,421 thousand and LVL 17,844 thousand for payments over 5 years.

Since 2006, the Bank has concluded operating lease contracts with SIA SEB līzings and SIA LKB Lizings for the time period from one to three years for the lease of 59 (fifty-nine) cars. According to those contracts, the operating lease per year comprises LVL 185 thousand. The total amount of operating lease payments throughout the period comprises of LVL 325 thousand. The payments up to one year comprise of LVL 185 thousand, from one up to five years – LVL 140 thousand.

10. IMPAIRMENT LOSSES

An analysis of impairment losses for the Bank and the Group is presented as follows:

Group LVL`000	Impairment losses for loans	Other impairment losses	Total
Impairment losses as at 31 December 2006	**2,850**	**175**	**3,025**
Impairment losses	1,769	11	1,780
Reversal of impairment losses	(551)	(1)	(552)
Recovery of assets previously written-off	(214)	-	(214)
Net charge to the income statement	**1,004**	**10**	**1,014**
Foreign exchange movements	(2)	(1)	(3)
Net write-offs and recovery of assets	(1,607)	(3)	(1,610)
Impairment losses as at 31 December 2007	**2,245**	**181**	**2,426**
Impairment losses	5,636	43	5,679
Reversal of impairment losses	(346)	(4)	(350)
Recovery of assets previously written-off	(240)	-	(240)
Net charge to the income statement	**5,050**	**39**	**5,089**
Foreign exchange movements	(100)	-	(100)
Net write-offs and recovery of assets	(2,567)	(44)	(2,611)
Subsidiary's impairment of losses upon acquisition	1,541	-	1,541
Impairment losses as at 31 December 2008	**6,168**	**176**	**6,344**

Bank LVL`000	Impairment losses for loans	Other impairment losses	Total
Impairment losses as at 31 December 2006	**2,850**	**175**	**3,025**
Impairment losses	1,769	11	1,780
Reversal of impairment losses	(551)	(1)	(552)
Recovery of assets previously written-off	(214)	-	(214)
Net charge to the income statement	**1,004**	**10**	**1,014**
Foreign exchange movements	(2)	(1)	(3)
Net write-offs and recovery of assets	(1,607)	(3)	(1,610)
Impairment losses as at 31 December 2007	**2,245**	**181**	**2,426**
Impairment losses	5,157	43	5,200
Reversal of impairment losses	(346)	(4)	(350)
Recovery of assets previously written-off	(240)	-	(240)
Net charge to the income statement	**4,571**	**39**	**4,610**
Foreign exchange movements	1	-	1
Net write-offs and recovery of assets	(2,563)	(44)	(2,607)
Impairment losses as at 31 December 2008	**4,254**	**176**	**4,430**

There is no impairment for memorandum items.

11. CORPORATE INCOME TAX

LVL '000	Group 2008	Group 2007	Bank 2008	Bank 2007
Deferred tax income	94	(43)	94	(43)
Corporate income tax	528	962	501	955
Corporate income tax for the reporting year	**622**	**919**	**595**	**912**

The reconciliation of corporate income tax at the statutory rate of 15% (2007: 15%) and the actual corporate income tax expense was as follows:

LVL '000	Group 2008	Group 2007	Bank 2008	Bank 2007
Profit before corporate income tax	3,406	5,873	3,603	6,062
Theoretical tax: 15% (2007: 15%)	511	881	540	909
Non-deductible expenses, net	229	207	172	172
Tax allowance on charity	(118)	(169)	(117)	(169)
Corporate income tax for the reporting year	**622**	**919**	**595**	**912**

Changes in deferred tax during the current period can be specified as follows:

LVL '000	Group 2008	Group 2007	Bank 2008	Bank 2007
Deferred tax liability at the beginning of the reporting period	848	755	848	755
Deferred tax charged through the income statement	94	(43)	94	(43)
Deferred tax charged through revaluation reserve	(12)	136	(12)	136
Deferred tax liability at the end of the reporting period	**930**	**848**	**930**	**848**

The deferred tax assets and liabilities relate to the following items:

LVL '000	Group 2008	Group 2007	Bank 2008	Bank 2007
Deferred tax liability:				
-temporary difference on fixed asset carrying value for financial purposes and tax written down value	1,237	1,192	1,237	1,192
Deferred tax asset:				
- loan commissions	(220)	(225)	(220)	(225)
- other provisions	(87)	(119)	(87)	(119)
Deferred tax liability	**930**	**848**	**930**	**848**

12. EARNINGS PER SHARE

Earnings per share are calculated based upon the profit after taxation attributable to ordinary shareholders of the Bank and the average number of shares in issue during the year.

	Group 2008	Group 2007
Profit after taxation (LVL'000)	2,770	4,954
Average number of shares in issue (thousand)	12,149	9,745
Earnings per share	**0.228**	**0.508**

Preference shares have not been included.

Diluted earnings per share are calculated based on the agreements, which in future might impact the number of shares in issue, as well as leave an impact on the current year income statement. Thus the diluted earnings per share are calculated by dividing profit or loss after taxation adjusted for the interest paid on subordinated debt, by the average number of shares in issue during the year adjusted for the effects of the amount of shares, which might be issued by converting subordinated debt from C*onvers group management company* at the ratio of 1.15 LVL of subordinated debt for one share (see also Note 29).

	Group 2008	Group 2007
Profit after taxation (LVL'000)	2,770	4,954
Interest for subordinated debt, net of income tax (LVL'000)	250	230
	3,020	**5,184**
Average number of shares in issue (thousand)	12,149	9,745
Potential shares as a result of conversion of subordinated debt (thousand)	3,361	3,361
	15,510	**13,106**
Diluted earnings per share (LVL)	**0.195**	**0.396**

13. CASH AND DEPOSITS ON DEMAND WITH THE CENTRAL BANK

LVL '000	Group 31.12.2008	Group 31.12.2007	Bank 31.12.2008	Bank 31.12.2007
Cash	17,169	17,440	17,081	17,440
Deposits with the Bank of Latvia	41,044	30,711	41,044	30,711
Total cash and deposits on demand with the central bank	**58,213**	**48,151**	**58,125**	**48,151**

According to the resolution of the Council of the Bank of Latvia, credit institutions should comply with the compulsory reserve requirement. As at 31 December 2008, the compulsory reserves were LVL 24,553 thousand (2007 LVL 32,097 thousand). In the reporting year, the Bank complied with the compulsory reserve requirement.

14. BALANCES DUE FROM CREDIT INSTITUTIONS AND CENTRAL BANKS

LVL '000	Group 31.12.2008	Group 31.12.2007	Bank 31.12.2008	Bank 31.12.2007
Demand deposits	126,624	219,003	126,622	219,003
Term deposits	95,080	56,005	93,878	56,005
Total balances due from credit institutions	**221,704**	**275,008**	**220,500**	**275,008**

Balances due from credit institutions by geographical region:

LVL '000	Group 31.12.2008	Group 31.12.2007	Bank 31.12.2008	Bank 31.12.2007
Placements with Latvian commercial banks	19,989	54,050	19,740	54,050
Placements with OECD banks	72,296	212,154	72,296	212,154
Placements with other banks	129,419	8,804	128,464	8,804
Total balances due from credit institutions	**221,704**	**275,008**	**220,500**	**275,008**

15. LOANS AND ADVANCES TO CUSTOMERS

An analysis of loan loss impairment per classes for the Bank and the Group is presented as follows:

LVL'000	Group 2008	Group 2007	Bank 2008	Bank 2007
Business loans	**153,809**	**113,381**	**153,809**	**113,381**
Accumulated loan loss impairment at the beginning of the reporting period	(393)	(402)	(393)	(402)
Charge for the year	(579)	(242)	(579)	(242)
Recoveries	238	251	238	251
Accumulated loan loss impairment at the end of the reporting period	(734)	(393)	(734)	(393)
Utilised credit lines	**48,037**	**28,440**	**48,037**	**28,440**
Accumulated loan loss impairment at the beginning of the reporting period	(669)	(888)	(669)	(888)
Charge for the year	(201)	(45)	(201)	(45)
Recoveries	650	264	650	264
Accumulated loan loss impairment at the end of the reporting period	(220)	(669)	(220)	(669)
Mortgage loans	**65,632**	**76,155**	**65,632**	**76,155**
Accumulated loan loss impairment at the beginning of the reporting period	(238)	(105)	(238)	(105)
Charge for the year	(796)	(244)	(796)	(244)
Recoveries	176	111	176	111
Accumulated loan loss impairment at the end of the reporting period	(858)	(238)	(858)	(238)
Consumer loans	**28,564**	**33,142**	**28,501**	**33,142**
Accumulated loan loss impairment at the beginning of the reporting period	(2,730)	(987)	(794)	(987)
Charge for the year	(2,061)	(1,152)	(1,982)	(1,152)
Recoveries	1,718	1,345	1,617	1,345
Accumulated loan loss impairment at the end of the reporting period	(3,073)	(794)	(1,159)	(794)
Debit balance settlement cards and overdrafts	**6,080**	**4,216**	**6,080**	**4,216**
Accumulated loan loss impairment at the beginning of the reporting period	(99)	(177)	(99)	(177)
Charge for the year	(667)	(141)	(667)	(141)
Recoveries	164	219	164	219
Accumulated loan loss impairment at the end of the reporting period	(602)	(99)	(602)	(99)
Other loans	**42,576**	**44,592**	**44,009**	**45,158**
Accumulated loan loss impairment at the beginning of the reporting period	(52)	(291)	(52)	(291)
Charge for the year	(730)	(110)	(730)	(110)
Recoveries	101	349	101	349
Accumulated loan loss impairment at the end of the reporting period	(681)	(52)	(681)	(52)
Net loans	**338,530**	**297,681**	**341, 814**	**298,247**

Loans and advances to customers before impairment losses by industry:

LVL '000	Group 31.12.2008	Group 31.12.2007	Bank 31.12.2008	Bank 31.12.2007
Private individuals	157,225	159,700	145,177	159,700
Real estate development	54,917	38,477	54,321	38,477
Transport, warehousing and communications	27,163	19,003	25,238	19,003
Retail trade and wholesale distribution	20,621	14,342	15,883	14,342
Construction	14,666	6,071	11,412	6,071
Manufacturing	14,283	12,429	13,655	12,429
Financial intermediaries	10,204	13,933	34,550	13,933
Hotels and restaurants	10,603	11,208	10,074	11,208
Sports and leisure activities	8,512	8,145	8,512	8,145
Agriculture and forestry	8,069	7,632	6,132	7,632
Investment companies	7,936	1,079	7,936	1,079
Other service industries	3,155	4,063	5,996	4,629
Debt collection	2,314	-	2,314	-
Postal services	2,109	-	2,109	-
State administration and healthcare	1,481	1,766	1,448	1,766
Electricity, gas and water utilities	921	1,459	792	1,459
Computer services	519	619	519	619
Total loans and advances to customers, gross	**344,698**	**299,926**	**346,068**	**300,492**

Loans issued to corporate customers specifically for the purpose of constructing buildings or other premises in the above industry profile have been classified as loans and advances to construction industry.

Finance lease

Present value of minimum lease payments by maturity:

LVL '000 Maturity	2007 Issued	Repaid	31.12.	2008 Issued	Repaid	31.12.	Future payments Within one year	Over 1 - 5 years	Over more than 5 years	Total
Within one year	20	1	19	402	338	83	23	54	6	83
Over 1 – 5 years	1,758	465	1,293	4,627	1,810	4,110	985	2,793	332	4,110
Over more than 5 years	9,436	1,801	7,635	16,102	6,516	17,221	4,127	11,705	1,389	17,221
Total finance lease portfolio (A)	**11,214**	**2,267**	**8,947**	**21,131**	**8,664**	**21,414**	**5,135**	**14,552**	**1,727**	**21,414**

Future interest revenue by maturity:

LVL '000 Maturity	2007 Calculate	Received	31.12.	2008 Calculated	Received	31.12.	Future payments Within one year	Over 1 - 5 years	Over more than 5 years	Total
Within one year	0	0	0	12	12	12	9	15	1	25
Over 1 – 5 years	30	27	30	226	220	256	190	325	24	539
Over more than 5 years	146	131	146	986	957	1,132	841	1,439	107	2,387
Total future interest revenue (B)	**176**	**158**	**176**	**1,224**	**1,189**	**1,400**	**1,040**	**1,779**	**132**	**2,951**

Minimum finance lease payments by maturity:

LVL '000	2007			2008			Future payments			
Maturity	:alculate	Received	31.12.	:alculate	Received	31.12	Within one year	Over 1 - 5 years	Over more than 5 years	Total
Within one year	20	1	19	414	350	6,175	32	69	7	108
Over 1 – 5 years	1,788	492	1,296	4,853	2,030	16,331	1,175	3,118	356	4,649
Over more than 5 years	9,582	1,932	7,650	17,088	7,473	1,859	4,968	13,144	1,496	19,608
Total investments, gross (A+B)	**11,390**	**2,425**	**8,965**	**22,355**	**9,853**	**24,365**	**6,175**	**16,331**	**1,859**	**24,365**

The lease maturity does not exceed 5 years.
As at 31 December 2008 and 2007, the accrued interest on impaired loans was LVL 185 thousand and LVL 183 thousand, respectively

The Bank does not have any significant concentrations of credit risk.

16. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

LVL '000	Group 31.12.2008	Group 31.12.2007	Bank 31.12.2008	Bank 31.12.2007
Financial assets at fair value through profit or loss				
Government bonds	2,556	7,944	2,536	7,944
Corporate bonds	-	3,008	-	3,008
Credit and other financial institutions bonds	2,459	9,878	2,232	9,878
Municipal bonds	-	257	-	257
Shares	331	509	439	509
Privatization certificates	42	98	42	98
Total financial assets designated at fair value through profit or loss	**5,388**	**21,694**	**5,249**	**21,694**
Derivatives (Note 17)	**865**	**291**	**865**	**291**
Total financial assets at fair value through profit or loss	**6,253**	**21,985**	**6,114**	**21,985**

17. DERIVATIVES (GROUP AND BANK)

			Fair value			
	Notional amount		Assets		Liabilities	
LVL`000	31.12.2008	31.12.2007	31.12.2008	31.12.2007	31.12.2008	31.12.2007
Currency derivatives	204,184	119,501	865	291	1,057	456
Total derivatives	**204,184**	**119,501**	**865**	**291**	**1,057**	**456**

18. HELD-TO-MATURITY INVESTMENTS

LVL '000	Group 31.12.2008	Group 31.12.2007	Bank 31.12.2008	Bank 31.12.2007
Government bonds	10,200	1,613	9,992	1,613
Credit and other financial institutions bonds	3,873	602	3,873	602
Municipal bonds	237	-	237	-
Corporate bonds	6,734	2,532	6,734	2,532
Total held-to-maturity investments	**21,044**	**4,747**	**20,836**	**4,747**

19. INVESTMENT IN SUBSIDIARIES

LVL '000	Business profile	Historical cost 31.12.2008	Share (%)	Historical cost 31.12.2007	Share (%)
AS Ieguldījumu sabiedrība LKB Krājfondi (till 06.11.2008.-AS Ieguldījumu pārvaldes sabiedrība' Astra Krājfondi')	Investment fund management	361	100	361	100
Ieguldījumu pārvaldes sabiedrība LKB Assets management	Investment fund management	120	100	120	100
SIA LKB līzings	Leasing company	120	100	120	100
AS Pirmais atklātais pensiju fonds	Investment fund management	85	100	32	100
SIA Krājinvestīcijas	Real estate management	5	100	5	100
SIA Baltic Property project	Real estate management	2	100	2	100
SIA LKB Drošība	Real estate management	10	100	-	-
AAS LKB Life (līdz 14.11.2008. – AAS Baltikums dzīvība)	Insurance services	2,714	99,79%	-	-
SIA Center Credit	Financial services	962	51%	-	-
Total investment in subsidiaries		**4,379**		**640**	

On 20 June 2008, AS Latvijas Krājbanka signed an agreement with AS Akciju komercbanka Baltikums, SIA Sergey Peshkov Holdings, and SIA Alexander Peshkov Family Holdings on the purchase of 2,511,895 shares in AAS BALTIKUMS DZĪVĪBA for the total amount of LVL 2,714,235 (equivalent to EUR 3,862,030 according to the exchange rate stated by the Bank of Latvia at the transaction date). The par value of one share is LVL 1. The registered and paid-in share capital of AAS BALTIKUMS DZĪVĪBA is LVL 2,517,059.
On 14 November 2008, the name of the company was changed to AAS LKB Life to facilitate the recognisability of the image of the insurance company and emphasise its belonging to the Latvijas Krājbanka Group.

On 27 August 2008, AS Latvijas Krājbanka signed an agreement on the purchase of 1,020 shares in SIA Center Credit (registration No.40103185252; hereinafter – the Company) with a par value of LVL 1 each, constituting in total 51% of the Company's share capital. According to Article 2.2 of the purchase agreement, the title to 51% of the Company's shares is transferred to AS Latvijas Krājbanka upon the registration of the changes in the Company's shareholding structure with the respective registry. AS Latvijas Krājbanka title to 1,020 shares of the Company constituting 51% of the Company's share capital, was registered with the Commercial Register of the Republic of Latvia Enterprise Register on 21 October 2008.
The purchase fee for the acquired shares amounted to USD 717,060 (equivalent to LVL 402,271) and was paid to the seller on 29 October 2008.
On 28 October 2008, an increase of the Company's share capital was registered. Accordingly, the investment of AS Latvijas Krājbanka in the Company's share capital increased by LVL 484 500 shares with a par value of LVL 1 each (shares or 51% of the share capital).
On 10 December 2008, an additional increase of the Company's share capital was registered. Accordingly, the investment of AS Latvijas Krājbanka in the Company's share capital increased by LVL 75 556 shares with a par value of LVL 1 each (the total investment comprising 561 076 shares or 51% of the share capital).

On 27 August 2008, SIA Center Credit signed an agreement on the purchase of the 100% shareholding in Spozhyv Servis (Спожів Сервис), a limited liability company incorporated in Ukraine, with the following sellers: the private company Odisseya (Ukraine), the private company Olimpiya (Ukraine), and the limited liability company Assets Management Company Trust Center (Ukraine). According to Article 2.1 of the agreement, the title to the shares was transferred to the Buyer (i.e. SIA Center Credit) on the date of singing of the purchase agreement (the purchase price had to be paid later).

In June and October 2008, AS Pirmais atklātais pensiju fonds issued additional shares for LVL 20,800 and LVL 32,000 respectively, thus increasing the share capital to LVL 82,000. AS Latvijas Krājbanka purchased all the above mentioned shares with a par value of LVL 1 (one lat) each.

In 2008, the Management Board of AS Latvijas Krājbanka resolved to establish a limited liability company LKB Drošība, fully owned by AS Latvijas Krājbanka. The share capital of SIA LKB Drošība is LVL 10,000. The registered office of the company is in Riga, Jēkaba iela 2. The company provides collection services.

In 2007 the Bank established its own company SIA LKB līzings (LKB Līzings Ltd) with the share capital in the amount of LVL 120 thousand. SIA LKB līzings was registered with the Commercial Register of the Republic of Latvia on 3 January 2007.

SIA Baltic Property project has not commenced its operations, and its liquidation is under discussion.

The shares of the subsidiaries are not listed. All the subsidiaries are residents of Latvia.

20. BUSINESS ACQUISITION

In 2008, the Bank bought 99,79% of AAS **LKB Life**, by acquiring 2,511,895 shares for the amount of 2,714 thousand lats.
At the date of the transaction, the fair value of the net assets acquired equalled the total purchase price.
At the acquisition date, the fair value of the assets and liabilities of AAS **LKB LIFE** can be specifies as follows:

	Fair value at the acquisition date	Carrying value at the acquisition date
Balances due from credit institutions	2,831	2,831
Financial assets held for trading	310	310
Available-for-sale financial assets	1	1
Intangible assets	115	-
Other assets	72	72
Total assets	**3,329**	**3,214**
Liabilities	(610)	(610)
Net assets	**2,719**	**2,604**
Minority interest (0.21%)	(5)	
Paid	**2,714**	

Cash flow on acquisition	
Net cash acquired with the subsidiary	1
Cash paid	(2,714)
Net cash outflow	**(2,713)**

The fair value of the assets acquired equaled the purchase price therefore no goodwill was recognized on acquisition.

From the date of acquisition AAS LKB Life has contributed LVL 18 thousand to the profit for the year from continuing operations of the Group. If the combination had taken place at the beginning of the year, the loss for the year from continuing operations for the Group would have been LVL 44 thousand and revenue from continuing operations would have been LVL 283 thousand.

In 2008 the Bank bought 51% of AS **Center Credit**, by acquiring 75,556 shares for the amount of 561 thousand lats.
At the date of the transaction, the fair value of the net assets acquired equalled the total purchase price.
At the acquisition date, the fair value of the assets and liabilities of AAS Center Credit can be specifies as follows:

	Fair value at the acquisition date	Carrying value at the acquisition date
Cash	123	123
Due from credit institutions	1,993	1,993
Loans and advances to customers	6,039	6,039
Intangible assets	57	57
Fixed assets	470	470
Other assets	134	134
Total assets	**8,816**	**8,816**
Due to credit institutions	(6,824)	(6,824)
Other liabilities	(1,175)	(1,175)
Net assets	**817**	**817**
Minority interest (49%)	(400)	
Total net assets acquired	**417**	
Goodwill arising on acquisition	(15)	
Paid	**402**	

Cash flow on acquisition	
Net cash acquired with the subsidiary	123
Cash paid	(402)
Net cash outflow	**(279)**

From the date of acquisition AS Center Credit Group has contributed LVL 28 thousand to the profit for the year from continuing operations of the Group. If the combination had taken place at the beginning of the year, the loss for the year from continuing operations for the Group would have been LVL 844 thousand and net interest revenue from continuing operations would have been LVL 3,513 thousand.

The amount of excess in AS Center Credit Group net assets at fair value over cost is recognized in the statement of income in other operating revenue.

21. INTANGIBLE ASSETS

Group

LVL '000	Licences, software, etc.	Other intangible assets	Advance payments	Intangible assets, total
Historical cost				
As at 31 December 2006	**3,233**	**240**	**112**	**3,585**
Additions	571	-	61	**632**
Transfer to other assets	-	-	(68)	**(68)**
Disposals	(120)	-	-	**(120)**
As at 31 December 2007	**3,684**	**240**	**105**	**4,029**
Additions	554	115	-	**669**
Transfer	78	-	(78)	**-**
Disposals	(146)	-	(4)	**(150)**
As at 31 December 2008	**4,170**	**355**	**23**	**4,548**
Amortization				
As at 31 December 2006	**2,559**	**-**	**-**	**2,559**
Charge	262	-	-	**262**
Disposals	(112)	-	-	**(112)**
As at 31 December 2007	**2,709**	**-**	**-**	**2,709**
Charge	290	-	-	**290**
Disposals	(132)	-	-	**(132)**
As at 31 December 2008	**2,867**	**-**	**-**	**2,867**
Impairment losses				
As at 31 December 2006	-	120	-	**120**
As at 31 December 2007	-	120	-	**120**
As at 31 December 2008	-	120	-	**120**
Net book value				
As at 31 December 2006	**674**	**120**	**112**	**906**
As at 31 December 2007	**975**	**120**	**105**	**1,200**
As at 31 December 2008	**1,303**	**235**	**23**	**1,561**

Bank

LVL '000	Licences, software, etc.	Advance payments	Intangible assets, total
Historical cost			
As at 31 December 2006	**3,229**	**112**	**3,341**
Additions	562	57	**619**
Transfer to other assets	-	(68)	**(68)**
Disposals	(120)	-	**(120)**
As at 31 December 2007	**3,671**	**101**	**3,772**
Additions	490	-	**490**
Transfer	78	(78)	**-**
Disposals	(146)	-	**(146)**
As at 31 December 2008	**4,093**	**23**	**4,116**
Amortization			
As at 31 December 2006	**2,555**	**-**	**2,555**
Charge	262	-	**262**
Disposals	(112)	-	**(112)**
As at 31 December 2007	**2,705**	**-**	**2,705**
Charge	283		**283**
Disposals	(132)	-	**(132)**
As at 31 December 2008	2,856	-	**2,856**
Net book value			
As at 31 December 2006	**674**	**112**	**786**
As at 31 December 2007	**966**	**101**	**1,067**
As at 31 December 2008	**1,237**	**23**	**1,260**

22. FIXED ASSETS

The Group

LVL '000	Land and buildings	Leasehold improvements	Transport vehicles	Office equipment	Advance payments	Total fixed assets
Historical cost/ Revaluated						
As at 31 December 2006	**5,232**	**2,265**	**610**	**11,650**	**397**	**20,154**
Additions*	3,523	1,531	378	2,755	56	**8,243**
Transfer	2,593	-	-	-	-	**2,593**
Disposals	(327)	(51)	(363)	(912)		**(1,653)**
As at 31 December 2007	**11,021**	**3,745**	**625**	**13,493**	**453**	**29,337**
Additions	2,858	236	12	1,623	241	**4,970**
Revaluation	-	-	9	-	-	**9**
Disposals	(3)	(465)	(13)	(864)	(14)	**(1,359)**
As at 31 December 2008	**13,876**	**3,516**	**633**	**14,252**	**680**	**32,957**
Depreciation						
As at 31 December 2006	**140**	**700**	**346**	**8,579**	**-**	**9,765**
Charge	179	246	108	1,123	-	**1,656**
Depreciation written off as a result of revaluation	(319)	-	-	-	-	**(319)**
Disposals	-	(50)	(313)	(863)	-	**(1,226)**
As at 31 December 2007	**-**	**896**	**141**	**8,839**	**-**	**9,876**
Charge	253	348	115	1,282	-	**1,998**
Revaluation	-	-	9	-	-	**9**
Foreign exchange movements	-	-	-	(16)	-	**(16)**
Disposals	-	(465)	(3)	(816)	-	**(1,284)**
As at 31 December 2008	**253**	**779**	**262**	**9,289**	**-**	**10,583**
Net book value						
As at 31 December 2006	**5,092**	**1,565**	**264**	**3,071**	**397**	**10,389**
As at 31 December 2007	**11,021**	**2,849**	**484**	**4,654**	**453**	**19,461**
As at 31 December 2008	**13,623**	**2,737**	**371**	**4,963**	**680**	**22,374**

*The cost value of the revaluated fixed assets is approximately LVL 5.5 million.

The Bank

LVL '000	Land and buildings	Leasehold improvements	Transport vehicles	Office equipment	Advance payments	Total fixed assets
Historical cost/ Revaluated						
As at 31 December 2006	**5,232**	**2,265**	**584**	**11,643**	**397**	**20,121**
Addition	3,523	1,531	67	2,738	56	**7,915**
Revaluation	2,593	-	-	-	-	**2,593**
Disposal	(327)	(51)	(363)	(912)	-	**(1,653)**
As at 31 December 2007	**11,021**	**3,745**	**288**	**13,469**	**453**	**28,976**
Addition	2,858	230	-	1,331	241	**4,660**
Disposal	(3)	(465)	-	(864)	-	**(1,332)**
As at 31 December 2008	**13,876**	**3,510**	**288**	**13,936**	**694**	**32,304**
Depreciation						
As at 31 December 2006	**140**	**700**	**346**	**8,576**	**-**	**9,762**
Charge	179	246	88	1,118	-	**1,631**
Depreciation written off as a result of revaluation	(319)	-	-	-	-	**(319)**
Disposal	-	(50)	(313)	(862)	-	(1,225)
As at 31 December 2007	**-**	**896**	**121**	**8,832**	**-**	**9,849**
Charge	253	348	49	1,208	-	**1,858**
Disposal	-	(465)	-	(815)	-	**(1,280)**
As at 31 December 2008	**253**	**779**	**170**	**9,225**	**-**	**10,427**
Net book value						
As at 31 December 2006	**5,092**	**1,565**	**238**	**3,067**	**397**	**10,359**
As at 31 December 2007	**11,021**	**2,849**	**167**	**4,637**	**453**	**19,127**
As at 31 December 2008	**13,623**	**2,731**	**118**	**4,711**	**694**	**21,877**

Revaluation reserve statement:

LVL '000	Group 2008	Group 2007
Revaluation reserve at the beginning of the year	**5,352**	**2,839**
Increase of revaluation reserve after revaluation of the land and building in 2007	-	2,913
Decrease of the previously revaluated building value	-	(264)
(A) *Change in revaluation reserve due to changes in fixed assets value*	**-**	**2,649**
Change in temporary deferred tax differences due to asset revaluation difference	-	(146)
Change in deferred tax related to revaluation reserve	12	10
Revaluation reserve at the year end	**5,364**	**5,352**
(B)*Decrease of revaluation reserve, which is reflected in the income statement*	-	(56)
Total revaluation reserve changes for fixed assets (A+B)	**-**	**2,593**

The land and buildings are measured, applying the revaluation method, unified for the whole category.

On 28 September 2007, the Bank signed a contract with two independent consultants for the revaluation of the Bank's real estate. Only services of certified valuers were used and revaluation was made in accordance with Latvian Property Valuation Standards and International Valuation Standards. Revaluation was made within 40 (forty) days from the day of the Contract conclusion. The fair value was determined by reference to market-based evidence, both using the comparable market transactions and the income methods.

As a result of valuations in 2005 and 2007, the revaluated value of fixed assets is approximately LVL 5,472 thousand, including revaluation reserve increase to the amount of LVL 5,592 thousand.

In December 2008, SIA Biznesa Konsultantu Grupa (BKG) performed observation of the real estate owned by AS Latvijas Krājbanka. BKG concluded that in 2008 there were no material changes in the market value of the real estate. The real estate are properly managed, and current repairs are carried out. Therefore the technical conditions of the premises has not deteriorated. BKG concluded that since the previous valuation date the changes in the market value of the real estate has not exceeded 5%-10%. Such changes are not material enough to justify any restatements.

The historical cost of revaluated assets is approximately LVL 2,353 thousand.

23. OTHER ASSETS

LVL '000	Group 31.12.2008	Group 31.12.2007	Bank 31.12.2008	Bank 31.12.2007
Unrealised gains from SPOT transactions	2,265	316	2,265	316
Prepayment on corporate income tax	1,281	887	1,281	887
Value added tax prepaid	138	152	138	152
Settlement with Western Union	110	84	110	84
Other	7,304	1,204	774	962
Incl. collaterals taken over by SIA Krājinvestīcijas for realization	6,153	-	-	-
Incl. client collaterals taken over for realization	409	341	409	341
Gross total other assets	**11,098**	**2,643**	**4,568**	**2,401**
Impairment losses (see Note 10)	**(176)**	**(181)**	**(176)**	**(181)**
Total other assets	**10,922**	**2,462**	**4,392**	**2,220**

In June 2007, the Bank obtained two real estate properties as a result of realising the loan collateral.

In 2009, the Bank continues the activities related to the realisation of the loan collaterals. Given the overall current economic situation and the stagnant real estate market, the Bank has commenced and will continue to exercise a flexible approach to realisation of the loan collaterals. Specific activities are related to the development and realisation of the collaterals by assessing the necessity to perform additional works which would add value to the respective real estate and increase its competitiveness in the real estate market, as well as the inclusion of the collateral in the business and the realisation of the respective collateral as an operating business, for example, the resumption of the operations and cash flows of collaterals (e.g. the hotel in Ventspils, Dzintaru prospects 32) subsequently marketing the respective collateral not only as a real estate but also as an operating business.

24. BALANCES DUE TO THE CENTRAL BANK AND CREDIT INSTITUTIONS

LVL '000	Group 31.12.2008	Group 31.12.2007	Bank 31.12.2008	Bank 31.12.2007
Correspondent accounts and demand deposits	13,646	24,659	13,646	24,659
Term deposits	24,141	2,009	21,049	2,009
Total balances due to credit institutions	**37,787**	**26,668**	**34,695**	**26,668**

Balances due to credit institutions by geographic region:

LVL '000	Group 31.12.2008	Group 31.12.2007	Bank 31.12.2008	Bank 31.12.2007
Placements from Latvian commercial banks	7,181	22,194	7,181	22,194
Placements from other OECD banks	8,474	5	8,474	5
Placements from other non-OECD banks	22,132	4,469	19,040	4,469
Total balances due from credit institutions	**37,787**	**26,668**	**34,695**	**26,668**

In the second quarter of 2008, Latvijas Krājbanka signed a syndicated loan agreement. The total amount of the syndicated loan is EUR 15 million (LVL 10.54 million). The loan has been issued for 364 days from the signature date, and it bears an interest rate of 1.2% + 3M EURIBOR. The mandated lead arranger and agent of the syndicated loan is Bayerische Landesbank, Germany. In total five credit institutions participated in the transaction: Bayerische Landesbank, Raiffeisen Zentralbank Osterreich Aktiengesellschaft, AS Parex banka, Salzburger Landes - Hypothekenbank AG, and VAS Latvijas Hipotēku un zemes banka. This is the first and, according to the Bank's estimate, a very successful Latvijas Krājbanka transaction on the international syndicated lending market.

As at 31 December 2008, the Bank had not attracted any additional long-term financing from credit institutions.

25. DEPOSITS FROM THE CUSTOMERS

Deposits by type of customers:

LVL '000	Group 31.12.2008	Group 31.12.2007	Bank 31.12.2008	Bank 31.12.2007
Private individuals	281,251	264,918	281,251	264,918
State owned enterprises	52,874	54,472	52,874	54,472
Privately held companies	240,064	257,507	243,073	257,949
Non-governmental and religious institutions	2,401	2,450	2,401	2,450
Municipal authorities	5,196	6,782	5,196	6,782
Total deposits from the customers	**581,786**	**586,129**	**584,795**	**586,571**

Deposits from the customers by geographic region:

LVL '000	Group 31.12.2008	Group 31.12.2007	Bank 31.12.2008	Bank 31.12.2007
Residents	355,910	360,553	372,530	360,994
Non-residents	225,876	225,576	212,265	225,577
Total deposits from the customers	**581,786**	**586,129**	**584,795**	**586,571**

26. ISSUED DEBT INSTRUMENTS

The offer of the AS Latvijas Krājbanka mortgage bonds was closed successfully on 26 January 2007. The total amount of the issue of the mortgage bonds was LVL 3,514,020 (EUR 5,000,000), the maturity period is 3 years, the interest rate is 6 month EUR LIBOR + 1% and interest is paid twice a year. Accumulated mortgage interest due for payment by the end of 2007 – LVL 79 thousand. The bonds were acquired by qualified investors, as well as those who acquired bonds for at least EUR 50 thousand.

AS Latvijas Krājbanka has calculated interest on its CA series mortgage bonds (ISIN code: LV0000800357). The calculation date was 29 January 2009. The interest revenue per one CA series mortgage bond issued by AS Latvijas Krājbanka for the period from 31 July 2008 to 31 January 2009 (excluding) is EUR 3.0625 (three euros and 6.25 eurocents). The interest was paid out in accordance with the terms set out in the CA series mortgage bonds prospectus of AS Latvijas Krājbanka on 30 January 2009.

After registration of the Prospectus with the Finance and Capital Market Commission the mortgage bonds were listed on the Riga Stock Exchange Baltic Bond List.

The Mortgage Bonds are collateralized by mortgage loans, which are included into the Cover Register. The mortgage loans are secured by pledge of the real estate property (mortgage) registered in the member state of the European Union. Mortgage loans can be fully or partially replaced by loans guaranteed by the Latvian national or regional governments, by mortgage bonds issued by other issuers and admitted to trading on a regulated market in the European Union and by other cover assets specified in the Law on Mortgage Bonds. The total amount of the interest payable on the Mortgage Bonds is covered by the exceeding total amount of the interest on the assets included the Cover Register.

The Cover Register is composed in accordance with the Law on Mortgage Bonds, FCMC regulations and the Issuers Rules on the Mortgage Bond Cover Register Management.

27. DEFERRED INCOME AND ACCRUED EXPENSES

LVL '000	Group 31.12.2008	Group 31.12.2007	Bank 31.12.2008	Bank 31.12.2007
Other accrued expense	774	1,049	724	1,001
Vacation accruals	478	365	478	365
Accrued remuneration costs and social security contributions	201	323	201	323
Deferred income	71	78	71	78
Total deferred income and accrued expense	**1,524**	**1,815**	**1,474**	**1,767**

28. OTHER LIABILITIES

LVL '000	Group 31.12.2008	Group 31.12.2007	Bank 31.12.2008	Bank 31.12.2007
Other liabilities	1,771	547	143	380
Unrealized losses from SPOT transactions	1,812	307	1,812	307
Account payable related to purchase of LKB Krājfondi	79	95	79	95
Total other liabilities	**3,662**	**949**	**2,034**	**782**

29. SUBORDINATED DEBT

LVL '000	Bank/ Group 31.12.2008	Bank/ Group 31.12.2007
Convers Group Management Company	3,866	3,866
Akademgrupp	5,162	5,047
Total other liabilities	**9,028**	**8,913**

On 8 November 2005, the Bank signed a subordinated loan contract with Convers Group Management Company for the amount of EUR 5.5 million with an interest rate of 7 % per annum and the repayment term seven years. On 16 October 2008 the parties agreed to prolong repayment term until 10 years and changed interest rate to 10% per annum starting from 17 October 2008. The lender has the right to request conversion of the subordinate capital into ordinary shares in accordance with the procedure specified in the contract and the applicable regulatory acts. If the subordinate capital is converted into ordinary shares, the purchase price of the ordinary shares under the contract is LVL 1.15 per one share.

On 27 December 2006, the Bank signed a subordinated loan contract with the closed joint-stock company Akademgrupp for the amount of USD 7.1 million with an interest rate of 8.6 % per year and the repayment term of seven years. On 16 October 2008 the parties agreed to prolong repayment term until 9 years.

On 23 August 2007, the Bank signed a subordinated loan contract with the closed joint-stock company Akademgrupp for the amount of USD 3.3 million with an interest rate of 9.3 % per year and the repayment term of six years. On 16 October 2008 the parties agreed to prolong repayment term until 9 years.

According to the provisions under the above-mentioned contracts, the lender has the right to demand early repayment of the loan only upon liquidation of the Bank, and the lender's claim will be settled following settlement of the claims of all other creditors but before settlement of the claims by the Bank shareholders.

30. SHAREHOLDERS' EQUITY AND RESERVES

On 31 December 2008, the Bank's registered and paid-in capital comprised LVL 12,149 thousand lats (2007: LVL 12,149 thousand). The stock capital consists of 12,149,246 shares, including 12,146,412 ordinary bearer shares and 2,834 "A" category preference bearer shares. Nominal value of one share is 1 (one) lat.

Based on the resolution of the extraordinary shareholders' meeting of 24 October 2008, the Bank has issued 5,000 thousand ordinary bearer shares. The selling price of one share was stated at LVL 3. Under the public offering, 10 shares have been subscribed and fully paid for. According to the resolution of the Bank's shareholders' meeting, it is deemed that the issue has been carried out in the amount of the subscribed shares. At the same time, AB Bankas Snoras, the major shareholder of Latvijas Krājbanka, has suggested the Management Board of the Bank that the necessary activities for continuing the issue process should be carried out. After considering the public offering results and the shareholder's suggestion, the Management Board of Latvijas Krājbanka have convened an extraordinary shareholders' meeting on 16 February 2009. The agenda of the meeting includes the following issues: the public offering results and the increase of the share capital of Latvijas Krājbanka. The Management Board intend to recommend the shareholders' meeting should deem the issue as void and resolve to increase the share capital up to LVL 17,149 thousand.

All 12,149,246 shares of AS Latvijas Krājbanka are listed on the Baltic Second List of the NASDAQ QMX Riga Stock Exchange There are no limitations for transfer of the Bank's shares.

The Bank's principal shareholders as at 31 December 2008 and 2007 were as follows:

LVL '000	31.12.2008 Paid-in share capital	31.12.2008 % of total paid-in capital	31.12.2007 Paid-in share capital	31.12.2007 % of total paid-in capital
AS banka Snoras	9,304	76.58	9,223	75.92
Ratto Holdings Limited	1,213	9.98	1,213	9.98
AS West Investment	868	7.15	868	7.15
Other *	764	6.29	845	6.95
Total	**12,149**	**100.00**	**12,149**	**100.00**

* The total number of the shares held by the shareholder is smaller than 5% of the total number of the Bank's voting shares.

At the end of the reporting year the Bank's Board and Council members did not own the Bank's shares.

During the reporting period the Bank did not issue any employee shares. There are no shareholders with the special control rights. The Bank has no information about any agreements that may cause restrictions to the shareholders in transferring their shares or voting right to other persons.

The decisions about changes in the Bank's Articles of Association are adopted at the shareholders` meeting by a ¾ majority vote of the shareholders with voting rights represented at the meeting.

The Bank has not concluded any contracts, which would come into force, would be terminated or altered in the case of change of the control type.

The Bank's shareholder's voting rights can be restricted in the cases stated in the regulatory acts of the Republic of Latvia. The Bank's Articles of Association do not envisage the shareholders` right to the profit share, which is not related to the part of shares proportionally owned by them.

Bank reserves:

- The reserve was based on legislation that existed in 1993 – 2001 and mainly refers to privatization and the treatment of capital increase and distribution of profit. The last movement relates to the share capital increase on 21 November 2000. As at the 31 December 2008 the Bank's reserve amounted LVL 626 thousand (2007: LVL 626 thousand).
- The revaluation reserve is a reserve from revaluation of fixed assets. Based on the provisions of IAS 16 revaluations shall be made with the sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the balance sheet date. In 2007 the Bank has performed revaluation of all its property under "Land and Building", as a result, the revaluation reserve was increased by LVL 2,648 thousand. Revaluation was performed by certified, independent valuers. For recognition purposes the average value between two unrelated valuers' statements was used. In 2008, the revaluation reserve remained at the same level of LVL 5,352 thousand (see also note 22).
- The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of foreign subsidiaries. As at the 31 December 2008 the Group's reserve amounted LVL 322 thousand (2007: LVL 0).

Share premium relates to the share capital increase in 2001. The excess of share capital sales value over its nominal value was LVL 1,323 thousand.

The share capital increase in the first half of 2007 resulted in the issue of 800,000 ordinary and 2,834 preference shares with nominal value of 1 LVL for each type of shares. Ordinary share premium is LVL 2.50 per share totalling LVL 2,000 thousand for the issue. The preference share premium is 6.00 LVL per share totalling LVL 17 thousand for the issue. The difference between the nominal value of the shares and the sales price was LVL 2,017 thousand.

During the second half of 2007 the Bank completed the issue of additional 2,240,000 ordinary shares. The share premium is 4.00 LVL per share. The difference between the nominal value of the shares and the sales price was LVL 8,960 thousand.

In year 2008 no share premium was recognized.

31. ASSETS AND LIABILITIES UNDER MANAGEMENT

As at 31 December 2008, the total assets under management amounted to LVL 52,874 thousand (2007: LVL 90,188 thousand) recognized off-balance sheet. Based on the fund owner's specific requests, the Bank issues loans to non-banking customers classified as funds under trust management. Based on the trust management agreements with customers, the fund owners bear all the risks associated with these loans, and the Bank acts only as an intermediary for loan issuance.

32. ASSETS HELD IN CUSTODY

Assets held in custody reached total value of LVL 29,971 thousand (2007: LVL 27,435 thousand) as at 31 December 2008. This includes investments in non-resident and resident financial instruments in the amount of LVL 18,842 thousand and LVL 11,129 thousand (2007: LVL 4,974 thousand and LVL 22,461 thousand), respectively.

33. CASH AND CASH EQUIVALENTS

LVL '000	Group 31.12.2008	Group 31.12.2007	Bank 31.12.2008	Bank 31.12.2007
Cash and deposits with the Bank of Latvia	58,213	48,151	58,125	48,151
Balances due from credit institutions	207,583	261,081	207,333	261,081
Balances due to credit institutions	(24,102)	(26,668)	(24,102)	(26,668)
Total cash and cash equivalents	**241,694**	**282,564**	**241,356**	**282,564**

34. FINANCIAL INSTRUMENTS AT FAIR VALUE

The table represents a breakdown of differences between carrying value and fair value of the Bank's financial instruments by asset groups. The table does not include fair value revaluation of non-financial items.

As at 31 December 2008 LVL '000	Carrying value	Fair value	Difference
Financial assets			
Cash and demand deposits with central banks	58,125	58,125	-
Due from credit institutions	220,500	220,500	-
Loans and advances to customers	341,814	341,628	(186)
Financial assets at fair value through profit or loss	6,114	6,114	-
Held-to-maturity investments	20,836	19,748	(1,088)
Financial liabilities			
Due to the other credit institutions	34,695	34,695	-
Deposits from the customers	584,795	584,345	450
Derivative financial instruments	1,057	1,057	-
Issued debt securities	3,604	3,604	-
Subordinated debt	9,028	8,940	88
Net position of accounting and fair value			**(736)**

As at 31 December 2007 LVL '000	Carrying value	Fair value	Difference
Financial assets			
Cash and demand deposits with central banks	48,151	48,151	-
Due from credit institutions	275,008	275,008	-
Loans and advances to customers	298,247	297,912	(335)
Financial assets at fair value through profit or loss	21,985	21,985	-
Held-to-maturity investments	4,747	4,734	(13)
Financial liabilities			
Due to the other credit institutions	26,668	26,668	-
Deposits from the customers	586,571	586,336	235
Derivative financial instruments	456	456	-
Issued debt securities	3,593	3,593	-
Subordinated debt	8,913	8,199	714
Net position of accounting and fair value			**601**

Financial assets/ liabilities whose fair value approximates carrying value

For financial assets/ liabilities that are liquid or with a short term maturity less than 1 year it is assumed that their fair value approximates carrying value. Such assumption is also applied to demand deposits, saving accounts and financial instruments with variable interest rate.

Fixed rate financial instruments

The fair value of the following classes of financial instruments - loans and advances to customers, deposits from the customers and subordinated debt - with the remaining maturity term of more than a year is determined comparing their effective yield with the market rates and discounting the future cash flows.

The table represents the Bank's financial assets and financial liabilities recorded at fair value according to different methods of valuation.

As at 31 December 2008 LVL '000	Quoted market price	Valuation techniques – market observable inputs	Valuation techniques – non-market observable inputs	Total
Financial assets				
Derivative financial instruments	-	865	-	865
Financial assets designated as at fair value through profit and loss	5,240	-	9	5,249
Total financial assets	**5,240**	**865**	**9**	**6,194**
Financial liabilities				
Derivative financial instruments	-	1,057	-	1,057
Total financial liabilities	**-**	**1,057**	**-**	**1,057**

As at 31 December 2007 LVL '000	Quoted market price	Valuation techniques – market observable inputs	Valuation techniques – non-market observable inputs	Total
Financial assets				
Derivative financial instruments	-	291	-	291
Financial assets designated as at fair value through profit and loss	21,685	-	9	21,694
Total financial assets	**21,685**	**291**	**9**	**21,985**
Financial liabilities				
Derivative financial instruments	-	456	-	456
Total financial liabilities	**-**	**456**	**-**	**456**

Net result of revaluation of financial instruments as at fair value through profit and loss using valuation techniques with non-market observable inputs is 0 LVL (2007: LVL 0).

35. CONCENTRATION OF ASSETS AND OFF-BALANCE SHEET ITEMS BY GEOGRAPHIC REGION

LVL '000 Group	Latvia 2008	OECD countries 2008	Other 2008	Latvia 2007	OECD countries 2007	Other 2007
Financial assets						
Cash and demand deposits with central banks	54,617	3,451	145	44,383	3,723	45
Due from credit institutions	19,989	72,296	129,419	54,050	212,154	8,804
Loans and advances to customers	293,875	6,682	37,973	283,789	1,485	12,407
Financial assets at fair value through profit or loss	4,474	1,083	994	12,032	1,530	8,423
Held-to-maturity investments	9,992	2,952	8,100	1,613	1,974	1,160
Other assets	34,963	92	378	23,770	-	1
Total	417,910	86,556	177,009	419,637	220,866	30,840
Equity and liabilities						
Due to the other credit institutions	7,181	8,474	22,132	22,194	5	4,469
Deposits from the customers	369,522	9,532	202,732	360,553	7,832	217,744
Derivative financial instruments	1,057	-	-	456	-	-
Issued debt securities	3,604	-	-	3,593	-	-
Subordinated debt	-	-	9,028	-	-	8,913
Other liabilities	36,905	125	11,183	34,658	172	10,754
Total	418,269	18,131	245,075	421,454	8,009	241,880

LVL '000 Bank	Latvia 2008	OECD countries 2008	Other 2008	Latvia 2007	OECD countries 2007	Other 2007
Financial assets						
Cash and demand deposits with central banks	54,571	3,502	52	44,383	3,723	45
Due from credit institutions	19,740	72,296	128,464	54,050	212,154	8,804
Loans and advances to customers	300,238	6,682	34,894	284,355	1,485	12,407
Financial assets at fair value through profit or loss	4,251	1,067	796	12,032	1,530	8,423
Held-to-maturity investments	9,992	2,952	7,892	1,613	1,974	1,160
Other assets	32,304	58	98	23,679	-	1
Total	421,096	86,557	172,196	420,112	220,866	30,840
Equity and liabilities						
Due to the other credit institutions	7,181	8,474	19,040	22,194	5	4,469
Deposits from the customers	372,531	9,532	202,732	360,995	7,832	217,744
Derivative financial instruments	1,057	-	-	456	-	-
Issued debt securities	3,604	-	-	3,593	-	-
Subordinated debt	-	-	9,028	-	-	8,913
Other liabilities	35,713	125	10,832	34,691	172	10,754
Total	**420,086**	**18,131**	**241,632**	**421,929**	**8,009**	**241,880**

36. CAPITAL ADEQUACY

Capital adequacy reflects capital resources necessary to cover credit and market risks associated with the Bank's assets and off-balance sheet exposures.

As at 31 December 2008, the Bank's capital adequacy ratio calculated in accordance with the Basel II guidelines was 11.37% (2007: 12.3%), exceeding the minimum ratio of 8% recommended by the Basel Committee and exceeding the minimum ratio of 8% imposed on the Latvian banks by the Law on Credit Institutions.

The Financial Capital and Market Commission requires credit institutions to calculate market risk capital requirements for the trading book positions. The Bank's management believes that the Bank's trading activities are insignificant, therefore the calculation of market risk capital requirements will not have a material impact on the Bank's capital adequacy ratio. As at 31 December 2008, the market risk capital requirements had been calculated only for foreign exchange risks.

The Financial Capital and Market Commission capital adequacy regulations have been developed in accordance with the European Union directives and are in conformance with the guidelines developed by the Basel Committee.

The Group's capital adequacy ratio as at 31 December 2008 was 11.30% (31 December 2007: 12.0%).

LVL '000	Group 31.12.2008	Bank 31.12.2008
Tier 1		
Paid-in share capital	12,149	12,149
Minority interest	658	-
Share premium	12,300	12,300
Reserve capital	626	626
Revaluation investment assets	(322)	-
Audited retained earnings (not subject to dividend distribution)	8,030	8,286
Audited profit for the year (not subject to dividend distribution)	2,770	3,008
Less		
Intangible assets	(1,561)	(1,260)
Participations hold in insurance undertakings, reinsurance undertakings and insurance holding companies	(1,357)	(1,357)
Total Tier 1	**33,293**	**33,752**
Tier 2		
Subordinated debt	9,013	9,013
Revaluation reserve	3,755	3,755
Participations hold in insurance undertakings, reinsurance undertakings and insurance holding companies	(1,357)	(1,357)
Total Tier 2	**11,411**	**11,411**
Equity to be utilized for the capital adequacy calculation	**44,704**	**45,163**

Shareholders meeting is empowered to decide upon the distribution of the profit, including the pay-out of the dividends.

Risk assets and memorandum items:

LVL '000	Risk Weighted assets and memorandum items		Risk Weighted assets and memorandum items	
	Group 31.12.2008	**Group 31.12.2007**	**Bank 31.12.2008**	**Bank 31.12.2007**
Total Risk Weighted Assets and memorandum items	**352,582**	**386,571**	**357,153**	**387,311**
Capital requirements for credit and counterparty credit risks	28,207	30,695	28,572	30,746
Capital requirements for foreign exchange risks	**327**	**231**	**97**	**231**
Capital requirements for operational risks	3,117	-	3,103	-
Capital adequacy ratio*	**11.30%**	**12.0%**	**11.37%**	**12.1%**

The calculation as at 31 December 2008 is based on Basel II guidelines (2007: Basel I).

37. CURRENCY ANALYSIS

As at 31 December 2008 LVL`000	LVL	USD	EUR	Other currencies	Total
Assets					
Cash and deposits with the central bank	54,383	649	2,577	516	58,125
Balances due from credit institutions and central banks	8,801	198,650	10,644	2,405	220,500
Loans and advances to customers	77,413	35,191	229,182	28	341,814
Securities and investments	22,385	5,898	2,704	342	31,329
Fixed and intangible assets	23,137	-	-	-	23,137
Prepayments and other assets	4,684	141	104	15	4,944
Total assets	190,803	240,529	245,211	3,306	679,849
Liabilities and shareholders' equity					
Balances due to the central bank and Credit institutions	115	20,400	14,180	-	34,695
Deposits from the customers	257,038	214,650	108,511	4,596	584,795
Derivatives	1,057	-	-	-	1,057
Debt securities issued	-	-	3,604	-	3,604
Accounts payable and other liabilities	4,788	58	78	14	4,938
Subordinated debt	-	5,162	3,866	-	9,028
Shareholders' equity	41,732	-	-	-	41,732
Total liabilities and shareholders' equity	304,730	240,270	130,239	4,610	679,849
Net long/ (short) position on balance sheet	(113,927)	259	114,972	(1,304)	-

Memorandum items from foreign exchange*					
Unsettled spot foreign exchange transactions	35,432	(769)	(34,228)	-	435
Forward foreign exchange transaction	80,402	924	(81,977)	1,529	878
Net long/(short) position on foreign exchange	115,834	155	(116,205)	1,529	1,313
Net long/(short) position	1,907	414	(1,233)	225	1,313
Net long/(short) position %	4.22%	0.93%	(2.74%)	(0.50%)	-
Financial commitments and contingencies					
Contingent liabilities	314	252	8,406	-	8,972
Financial commitments	7,512	628	13,595	-	21,735
Total financial commitments and contingencies	7,826	880	22,001	-	30,707

* These items are considered memorandum items for the purpose of this disclosure as required by local legislation.

As at 31 December 2007 LVL`000	LVL	USD	EUR	Other currencies	Total
Assets					
Cash and deposits with the central bank	44,156	943	2,383	669	48,151
Balances due from credit institutions and central banks	53,849	210,013	1,690	9,456	275,008
Loans and advances to customers	78,897	15,175	204,175		298,247
Securities and investments	15,302	6,070	5,596	404	27,372
Fixed and intangible assets	20,194				20,194
Prepayments and other assets	2,479	153	182	32	2,846
Total assets	214,877	232,354	214,026	10,561	671,818
Liabilities and shareholders' equity					
Balances due to the central bank and Credit institutions	22,106	670	3,892		26,668
Deposits from the customers	254,034	232,972	97,201	2,364	586,571
Derivatives	456				456
Debt securities issued			3,593		3,593
Accounts payable and other liabilities	4,142	37	125	48	4,352
Subordinated debt		5,047	3,866		8,913
Shareholders' equity	41,265				41,265
Total liabilities and shareholders' equity	322,003	238,726	108,677	2,412	671,818
Net long/ (short) position on balance sheet	(107,126)	(6,372)	105,349	8,149	-
Memorandum items from foreign exchange*					
Unsettled spot foreign exchange transactions	(697)	(840)	1,526	20	9
Forward transaction liabilities	105,262	7,473	(105,172)	(7,250)	313
Net long/(short) position on foreign exchange	104,565	6,633	(103,646)	(7,230)	322
Net long/(short) position	(2,561)	261	1,703	919	322
Net long/(short) position %	(5.48%)	0.55%	3.65%	1.97%	-
Financial commitments and contingencies					
Contingent liabilities	130	247	1,443	-	1,820
Financial commitments	15,297	1,567	8,580	-	25,444
Total financial commitments and contingencies	15,427	1,814	10,023	-	27,264

* These items are considered off-balance sheet items for the purpose of this disclosure as required by local legislation.

LVL is used as the functional currency by all Group entities, there is no significant difference between currency profiles of the Bank and the Group.
Consolidated companies use LVL as the functional currency, therefore the Group's currency position does not differ from the Bank's currency position.

The regulations of the Republic of Latvia state that an open position in each foreign currency shall not exceed 10% of the equity, but total open position shall not exceed 20% of the equity.

As at 31 December 2008 and 2007, the Bank complied with the requirements for the net open currency position.

38. ASSETS, LIABILITIES AND MEMORANDUM ITEMS BY MATURITY PROFILE– The Group

As at 31 December 2008: **LVL'000**	**Within 1 month**	**1 - 3 months**	**3 - 6 months**	**6 - 12 months**	**1 - 5 years**	**More than 5 years**	**Indefinite term**	**Total**
Assets								
Cash and deposits with the central bank	58,213	-	-	-	-	-	-	58,213
Balances due from credit institutions and central banks	206,927	3,628	6,399	-	100	-	4,650	221,704
Loans and advances to customers	20,622	14,840	22,007	43,472	166,198	71,391	-	338,530
Securities and investments	20,983	3,719	1,439	164	897	18	375	27,595
Fixed and intangible assets	-	-	-	-	-	-	23,935	23,935
Prepayments and other assets	3,226	-	-	-	-	6,467	1,805	11,498
Total assets	309,971	22,187	29,845	43,636	167,195	77,876	30,765	681,475
Liabilities and shareholders' equity								
Balances due to the central bank and credit institutions	24,153	2,533	60	10,542	499	-	-	37,787
Deposits from the public	401,799	50,220	51,941	61,922	14,834	1,070	-	581,786
Derivative liabilities	90	-	-	-	3,514	-	-	3,604
Debt securities issued	417	543	97	-	-	-	-	1,057
Deferred tax liability	-	-	-	-	-	-	930	930
Accounts payable and other liabilities	5,703	-	-	-	-	-	-	5,703
Subordinated debt	1	14	-	-	-	9,013	-	9,028
Shareholders' equity	-	-	-	-	-	-	41,580	41,580
Total liabilities and shareholders' equity	432,163	53,310	52,098	72,464	18,847	10,083	42,510	681,475
Net liquidity gap	(122,192)	(31,123)	(22,253)	(28,828)	148,348	67,793	(11,745)	-
Financial commitments and contingencies								
Contingent liabilities 8,972					-	8,972		
Financial commitments	20,848	-	-	-	-	-	-	20,848
Total financial commitments and contingencies	29,820							29,820

As at 31 December 2007: LVL'000	Within 1 month	1 - 3 months	3 - 6 months	6 - 12 months	1 - 5 years	More than 5 years	Indefinite term	Total
Assets								
Cash and deposits with the central bank	48,151	-	-	-	-	-	-	48,151
Balances due from credit institutions and central banks	259,460	9,977	1,924	20	-	-	3,627	275,008
Loans and advances to customers	12,535	7,177	13,764	33,484	227,833	2,555	333	297,681
Securities and investments	23,037	2,745	311	31	-	-	608	26,732
Fixed and intangible assets	-	-	-	-	-	-	20,661	20,661
Prepayments and other assets	1,305	-	-	-	-	-	1,805	3,110
Total assets	344,488	19,899	15,999	33,535	227,833	2,555	27,034	671,343
Liabilities and shareholders' equity								
Balances due to the central bank and credit institutions	26,668	-	-	-	-	-	-	26,668
Deposits from the public	424,533	29,324	65,784	48,636	17,554	298	-	586,129
Debt securities issued	-	79	-	-	3,514	-	-	3,593
Derivative liabilities	398	58	-	-	-	-	-	456
Deferred tax liability	-	-	-	-	-	-	848	848
Accounts payable and other liabilities	3,726	-	-	-	-	-	-	3,726
Subordinated debt	-	14	-	-	3,865	5,034	-	8,913
Shareholders' equity	-	-	-	-	-	-	41,010	41,010
Total liabilities and shareholders' equity	455,325	29,475	65,784	48,636	24,933	5,332	41,858	671,343
Net liquidity gap	(110,837)	(9,576)	(49,785)	(15,101)	202,900	(2,777)	(14,824)	-
Financial commitments and contingencies								
Contingent liabilities	1,820	-	-	-	-	-	-	1,820
Financial commitments	25,200	-	-	-	-	-	-	25,200
Total financial commitments and contingencies	27,020	-	-	-	-	-	-	27,020

The Bank

As at 31 December 2008: LVL'000	Within 1 month	1 - 3 months	3 - 6 months	6 - 12 months	1 - 5 years	More than 5 years	Indefinite term	Total
Assets								
Cash and deposits with the central bank	58,125	-	-	-	-	-	-	58,125
Balances due from credit institutions and central banks	206,297	3,154	6,399	-	-	-	4,650	220,500
Loans and advances to customers	19,373	36,387	24,401	40,979	151,365	68,724	585	341,814
Securities and investments	20,645	3,475	1,432	115	801	-	4,861	31,329
Fixed and intangible assets	-	-	-	-	-	-	23,137	23,137
Prepayments and other assets	2,838	-	-	-	-	-	2,106	4,944
Total assets	307,278	43,016	32,232	41,094	152,166	68,724	35,339	679,849
Liabilities and shareholders' equity								
Balances due to the central bank and credit institutions	24,153	-	-	10,542	-	-	-	34,695
Deposits from the public	404,709	50,235	51,962	61,985	14,834	1,070	-	584,795
Derivative liabilities	417	543	97	-	-	-	-	1,057
Debt securities issued	90	-	-	-	3,514	-	-	3,604
Deferred tax liability	-	-	-	-	-	-	930	930
Accounts payable and other liabilities	4,008	-	-	-	-	-	-	4,008
Subordinated debt	1	14	-	-	-	9,013	-	9,028
Shareholders' equity	-	-	-	-	-	-	41,732	41,732
Total liabilities and shareholders' equity	433,378	50,792	52,059	72,527	18,348	10,083	42,662	679,849
Net liquidity gap	(126,100	(7,776)	(19,827)	(31,433)	133,818	58,641	(7,323)	-
Financial commitments and contingencies								
Contingent liabilities	8,972				-	8,972		
Financial commitments	21,735	-	-	-	-	-	-	21,735
Total financial commitments and contingencies	30,707						-	30,707

As at 31 December 2007: LVL'000	Within 1 month	1 - 3 months	3 - 6 months	6 - 12 months	1 - 5 years	More than 5 years	Indefinite term	Total
Assets								
Cash and deposits with the central bank	30,711	-	-	-	-	-	17,440	48,151
Balances due from credit institutions and central banks	259,460	9,977	1,924	20	-	-	3,627	275,008
Loans and advances to customers	12,606	7,084	13,383	32,691	231,025	1,125	333	298,247
Securities and investments	23,037	2,745	311	31	-	-	1,248	27,372
Fixed and intangible assets	-	-	-	-	-	-	20,194	20,194
Prepayments and other assets	1,041	-	-	-	-	-	1,805	2,846
Total assets	326,855	19,806	15,618	32,742	231,025	1,125	44,647	671,818
Liabilities and shareholders' equity								
Balances due to the central bank and credit institutions	26,668	-	-	-	-	-	-	26,668
Deposits from the public	424,912	29,327	65,784	48,636	17,614	298	-	586,571
Debt securities issued	-	79	-	-	3,514	-	-	3,593
Derivative liabilities	398	58	-	-	-	-	-	456
Deferred tax liability	-	-	-	-	-	-	848	848
Accounts payable and other liabilities	3,504	-	-	-	-	-	-	3,504
Subordinated debt		14	-	-	3,865	5,034	-	8,913
Shareholders' equity	-	-	-	-	-	-	41,265	41,265
Total liabilities and shareholders' equity	455,482	29,478	65,784	48,636	24,993	5,332	42,113	671,818
Net liquidity gap	(128,627)	(9,672)	(50,166)	(15,894)	206,032	(4,207)	2,534	-
Financial commitments and contingencies								
Contingent liabilities	1,820	-	-				-	1,820
Financial commitments	25,444	-	-	-	-	-	-	25,444
Total financial commitments and contingencies	27,264	-	-				-	27,264

39. REPRICING MATURITY OF ASSETS AND LIABILITIES BASED ON INTEREST RATE CHANGES
The Group

As at 31 December 2008: LVL'000	Within 1 month	1 - 3 months	3 - 6 months	6 - 12 months	1 - 5 years	Over 5 years	Non-interest bearing	Total
Assets								
Cash and deposits with the central bank	39,731	-	-	-	-	-	18,482	58,213
Balances due from credit institutions and central banks	211,628	3,490	6,106	-	100	-	380	221,704
Loans and advances to customers	18,153	274,682	6,500	8,988	22,361	1,210	6,636	338,530
Securities and investments	5,833	5,550	1,823	2,351	9,838	887	1,313	27,595
Fixed and intangible assets	-	-	-	-	-	-	23,935	23,935
Prepayments and other assets	-	-	-	-	-	-	11,498	11,498
Total assets	275,345	283,722	14,429	11,339	32,299	2,097	62,244	681,475
Liabilities and shareholders' equity								
Balances due to the central bank and credit institutions	24,101	13,076	60	-	499	-	51	37,787
Deposits from the public	400,559	48,920	50,335	60,671	14,348	1,070	5,883	581,786
Derivative liabilities	417	543	97	-	-	-	-	1,057
Debt securities issued	3,604	-	-	-	-	-	-	3,604
Accounts payable and other liabilities	-	-	-	-	-	-	6,633	6,633
Subordinated debt	-	-	-	-	-	9,028	-	9,028
Shareholders' equity	-	-	-	-	-	-	41,580	41,580
Total liabilities and shareholders' equity	428,681	62,539	50,492	60,671	14,847	10,098	54,147	681,475
Total interest sensitivity gap	(153,336)	221,183	(36,063)	(49,332)	17,452	(8,001)	8,097	-

As at 31 December 2007: LVL'000	Within 1 month	1 - 3 months	3 - 6 months	6 - 12 months	1 - 5 years	More than 5 years	Non interest bearing	Total
Assets								
Cash and deposits with the central bank	29,700	-	-	-	-	-	18,451	48,151
Balances due from credit institutions and central banks	262,691	9,945	1,900	20	-	-	452	275,008
Loans and advances to customers	7,739	243,069	5,508	11,474	23,672	1,125	5,094	297,681
Securities and investments	2,934	3,434	3,976	2,226	9,090	3,395	1,677	26,732
Fixed and intangible assets	-	-	-	-	-	-	20,661	20,661
Prepayments and other assets	-	-	-	-	-	-	3,110	3,110
Total assets	303,064	256,448	11,384	13,720	32,762	4,520	49,445	671,343
Liabilities and shareholders' equity								
Balances due to the central bank and credit institutions	26,668	-	-	-	-	-	-	26,668
Deposits from the public	423,457	32,652	63,116	46,373	16,068	298	4,165	586,129
Debt securities issued	3,514	-	-	-	-	-	79	3,593
Accounts payable and other liabilities	-	-	-	-	-	-	5,030	5,030
Subordinated debt		-	-	-	3,865	5,034	14	8,913
Shareholders' equity	-	-	-	-	-	-	41,010	41,010
Total liabilities and shareholders' equity	453,639	32,652	63,116	46,373	19,933	5,332	50,298	671,343
Total interest sensitivity gap	(150,575)	223,796	(51,732)	(32,653)	12,829	(812)	(853)	-

The Bank

As at 31 December 2008: LVL'000	Within 1 month	1 - 3 months	3 - 6 months	6 - 12 months	1 - 5 years	Over 5 years	Non-interest bearing	Total
Assets								
Cash and deposits with the central Bank	39,730	-	-	-	-	-	18,395	58,125
Balances due from credit institutions and central banks	210,998	3,016	6,106	-	-	-	380	220,500
Loans and advances to customers	13,323	275,027	10,063	8,988	26,567	1,210	6,636	341,814
Securities and investments	5,495	5,306	1,816	2,302	9,742	869	5,799	31,329
Fixed and intangible assets	-	-	-	-	-	-	23,137	23,137
Prepayments and other assets	511	218	136	-	-	-	4,079	4,944
Total assets	270,057	283,567	18,121	11,290	36,309	2,079	58,426	679,849
Liabilities and shareholders' equity								
Balances due to the central bank and credit institutions	24,101	10,543	-	-	-	-	51	34,695
Deposits from the public	403,469	48,935	50,356	60,734	14,348	1,070	5,883	584,795
Derivative liabilities	417	543	97	-	-	-	-	1,057
Debt securities issued	3,604	-	-	-	-	-	-	3,604
Accounts payable and other liabilities	-	-	-	-	-	-	4,938	4,938
Subordinated debt	-	-	-	-	-	9,028	-	9,028
Shareholders' equity	-	-	-	-	-	-	41,732	41,732
Total liabilities and shareholders' equity	431,591	60,021	50,453	60,734	14,348	10,098	52,604	679,849
Total interest sensitivity gap	(161,534)	223,546	(32,332)	(49,444)	21,961	(8,019)	5,822	-

As at 31 December 2007: LVL'000	Within 1 month	1 - 3 months	3 - 6 months	6 - 12 months	1 - 5 years	Over 5 years	Non-interest bearing	Total
Assets								
Cash and deposits with the central Bank	29,700	-	-	-	-	-	18,451	48,151
Balances due from credit institutions and central banks	262,691	9,945	1,900	20	-	-	452	275,008
Loans and advances to customers	7,966	243,253	5,508	11,474	23,827	1,125	5,094	298,247
Securities and investments	2,934	3,434	3,976	2,226	9,090	3,395	2,317	27,372
Fixed and intangible assets	-	-	-	-	-	-	20,194	20,194
Prepayments and other assets	-	-	-	-	-	-	2,846	2,846
Total assets	303,291	256,632	11,384	13,720	32,917	4,520	49,354	671,818
Liabilities and shareholders' equity								
Balances due to the central bank and credit institutions	26,668	-	-	-	-	-	-	26,668
Deposits from the public	423,845	32,652	63,120	46,373	16,118	298	4,165	586,571
Debt securities issued	3,514	-	-	-	-	-	79	3,593
Accounts payable and other liabilities	-	-	-	-	-	-	4,808	4,808
Subordinated debt		-	-	-	3,865	5,034	14	8,913
Shareholders' equity	-	-	-	-	-	-	41,265	41,265
Total liabilities and shareholders' equity	454,027	32,652	63,120	46,373	19,983	5,332	50,331	671,818
Total interest sensitivity gap	(150,736)	223,980	(51,736)	(32,653)	12,934	(812)	(977)	-

40. RELATED PARTIES

Related parties are defined as shareholders who have control over the Bank, members of the Council and the Board of Directors, key Management personnel, their close relatives and companies in which they have a controlling interest as well as subsidiaries and associated companies.

LVL '000	Group 2008	Group 2007	Bank 2008	Bank 2007
***Amounts receivable*:**				
Loans and advances to related parties:				
- Management	329	133	200	89
- Parent company	84,292	28	84,292	28
- Other related legal entities	44,116	8,678	74,410	18,576
- Other related private individuals	38	131	42	131
Financial assets at fair value through profit or loss - credit and other financial institutions bonds:				
- Parent company	-	659	-	659
Financial assets at fair value through profit or loss - currency derivative fair value:				
- Parent company	355	-	355	-
- Other related legal entities	1	11	1	11
Other assets - currency spot deal fair value:				
- Parent company	-	72	-	72
- Other related legal entities	-	-	-	-
- Other related private individuals	169	36	169	36
Total loans and advances to related parties	**129,300**	**9,748**	**159,469**	**19,602**
***Amounts payable*:**				
Deposits and funds received:				
- Management	387	167	189	142
- Parent company	18,971	4,456	18,971	4,456
- Other related legal entities	62	-	3,044	440
- Other related private individuals	98	99	98	99
Derivative liabilities - currency derivative fair value:				
- Parent company	7	1	7	1
Other liabilities - currency spot deal fair value:				
- Parent company	-	58	-	58
- Other related legal entities	1,204	-	1,204	-
- Other related private individuals	-	200	-	200
Total amounts payable	20,729	4,981	23,513	5,396
Credit commitments and contingencies to related legal entities				
- Management	394	375	381	375
- Parent company	53,866	-	53,866	-
- Other related legal entities	71,628	-	71,628	244
- Other related private individuals	795	697	808	697
Total commitments and contingencies to related parties	**126,683**	**1,072**	**126,683**	**1,316**
Profit and loss items				
Interest revenue	1,133	95	1,196	251
Inc. Interest revenue from parent company	1,133	3	1,133	3
Interest expense	(129)	(139)	(1,408)	(322)
Inc. Interest expense from parent company	(129)	(139)	(129)	(139)
Commission revenue	-	38	19	41
Inc. Interest expense from parent company	-	38	-	38
Other revenue/ expense	9	**(87)**	9	(87)
Total profit or loss	**1,013**	**(93)**	**(184)**	**(117)**

All deals with related parties are made in accordance with the Bank's regulations and conditions applicable to the transactions with clients.

The Bank has issued a 770,000 EUR guarantee in favour of AS Hansabanka to assist a related party with real estate acquisition. The standard fee has been charged. The guarantee expires on 8 July 2011. The guarantee had been secured by a collateral with the value that exceeds the guarantee amount several times. The Bank also has issued a EUR 150,000 and USD 150,000 guarantee to American Express Services Europe Ltd to secure credit card transactions.

There is no accrued impairment loss in relation to the loans issued to related parties.

41. COMMITMENTS AND CONTINGENCIES

Memorandum items include the following contingent liabilities and commitments, as well as client security account balances outstanding at the end of the year:

LVL '000	Group 31.12.2008	Group 31.12.2007	Bank 31.12.2008	Bank 31.12.2007
Contingent liabilities				
Outstanding guarantees	8,972	1,820	8,972	1,820
Total contingent liabilities	**8,972**	**1,820**	**8,972**	**1,820**
Financial commitments				
Credit commitments	19,197	15,052	20,084	15,296
Other commitments	1,651	10,148	1,651	10,148
Total financial commitments	**20,848**	**25,200**	**21,735**	**25,444**
Total contingent liabilities and financial commitments	**29,820**	**27,020**	**30,707**	**27,264**

Credit commitments include unused credit limits granted on settlement cards, which as at 31 December 2008 amounted to LVL 4,312 thousand (2007: LVL 4,232 thousand).

42. RISK MANAGEMENT

Introduction

The Bank has developed a system for identification, supervision and management of the main financial risks to which the Bank and the Group entities are exposed. Risk management within the Group is governed by the Risk Management Policy and by the Group's regulations of the internal control system.

The main aim of the risk management is to prevent occurrences of significant losses that may affect the Group's Equity and Reserves.

Timely identification of the risk factors, effective risk management, proper evaluation and continuous monitoring are the main risk management system principles.

Bank activities are closely related to the development of new market segments. Internal processes and technologies that support customer services are continuously improved. The effective management of these risks is ensured by the timely and full-fledged automation and process documentation. The tools for risk control and management are regularly improved to meet the requirements of effective risk management. Technological stability, and safety of operations are the core principles that are stated in the Bank's Information Safety Policy.

In 2008, the Bank has implemented Capital Management Policy and evaluates the capital adequacy in order to ensure the capital required to cover risks arising of the Bank's activities and possible risks.

In the course of the daily operations, the principle of independence is used to ensure balanced analysis of risk and business factors to secure optimal revenues.

Risk Management Structure

The Bank and the Group's Risk Management Policy is approved by the Council of the Bank. Principles of the Bank's Risk Management Policy are in conformance with the risk management principles set by the Snoras Bank.

The Board is responsible for implementation of the Risk Management Policy general principles. The Board also is responsible for implementation of the risk control to assure that the Bank assets are ensured against losses, unauthorised management and unauthorised use, the Bank's operating risks are continuously identified and managed, the Bank's capital in terms of its size, components and their relative weights is sufficient to cover identified and possible risks, transactions are executed in accordance with the internal regulations, the Bank acts reasonably, carefully and efficiently, fully complying with all applicable laws and regulations.

The Board had authorized the Assets and Liabilities Management Committee to manage asset allocation and funding risks, and to manage capital base to ensure its adequacy and development.

The main tasks of the Assets and Liabilities Management Committee are:

- Implementation of binding policy in risk elements arising of the Bank's operations, ensuring complete monitoring and management of the totality of these risk;
- management of the Bank's capital resources to evenly distribute them between separate business lines to ensure adequate capitalization of risk;
- assess and confirm adequate and valid risk position limits and methodology of limit calculation.

The Assets and Memorandum Item Assessment Committee is a permanent body mainly responsible for evaluation of all types of loans, other assets and memorandum items, which are subject to credit and market risks.
The Money Laundering Prevention Committee is a permanent body established to ensure and control the Bank's operations in accordance with the Republic of Latvia legislation, the Bank's policies and internal regulations, to prevent legalization of illegally acquired funds and to prevent financing of terrorism. The Committee also ensures the process of customer and transaction monitoring, cooperates with the authorized state institutions and oversees the Customer Transaction Control Unit.

Management of money laundering risks during daily activities is performed by the Customer Transaction Control Unit.

Management of other risks is performed by the Risk Management Department. The Risk Management Department is responsible for the implementation of risk management principles, evaluation of risk identification tools, oversight of risk assessment and management (including IT risk), planning of the Bank's further operations and disclosure of the relevant information. Each business function has its own responsible managers, which are independent and separated from business units.

Credit risk

Credit risk relates to potential losses arising for Latvijas Krajbanka Group if a borrower is unable to meet its contractual obligations. The Bank is subject to credit risk mainly from lending operations. The amount of credit risk is significant, and it is reflected in the balance sheet asset values.

The Bank is exposed to credit risk also from other products, including derivatives and investments in debt securities.

The Bank is subject to off-balance credit risk that occurs from commitments to grant additional loans and from outstanding guarantees.

The Bank is exposed to credit risk in trading, lending and investing activities and also while acting as intermediary on the clients' behalf or issuing guarantees to third parties.

Credit risk that arises from investing and trading activities is managed in accordance with the Bank's trading risk management procedures.

Credit risk arising from potential default on the part of the Bank's counterparties in transactions with derivatives or other financial instrument is managed on a daily basis.

To prevent occurrence of credit risk in derivative financial instruments, the Bank cooperates only with well-rated counterparties.

The Group's main principles for Credit Risk Management are included in the Loan Policy and are defined as follows:

- risk should be undertaken only in well known business lines;
- main source of loan repayment funds are cash flow from core business, salary and other revenue;
- the price of the loan product should be adequate to the customer credit risk – risk should be evaluated according to the future returns;
- the customer must be able to provide adequate contribution to the project financing;
- each collateral must be liquid and sufficient;
- the loan should be issued only for a definite aim, the term structure of the loan should be consistent with the aim;
- there are standardized criteria and procedures for handling lending transactions;
- risk control should be ensured through segregation of the employee functions and necessary authorizations.

The core principle of credit risk management is adequate estimation of the customer's creditworthiness, as customer related risk increases, its creditworthiness is analyzed more carefully. The credit risk management of daily operations is ensured by Credit Department, who is responsible for the implementation of the Credit Risk Management Policy principles and control of the Policy implementation.

The Bank continuously monitors the customer's creditworthiness, collateral sufficiency and fair value adequacy. The Assets and Memorandum Item Assessment Committee evaluates loan to determine its fair value on a monthly basis. The Risk Management Department, an independent unit of the Bank, is responsible for the development of the credit risk evaluation methods and their application.

The Bank carries out a stress test to test possible impact of different possible events on capital adequacy of the Bank and the Group.

Maximum exposure to credit risk

The table represents maximum exposure of different financial instrument groups to credit risk before accounting for the effects of credit risk mitigation instruments.

LVL '000	Note	Group 31.12.2008	Group 31.12.2007	Bank 31.12.2008	Bank 31.12.2007
Demand deposits with the central bank	13	41,044	30,711	41,044	30,711
Balances due from credit institutions and central banks	14	221,704	275,008	220,500	275,008
Loans and advances to customers	15	338,530	297,681	341,814	298,247
Financial assets at fair value through profit or loss	16	6,253	21,985	6,114	21,985
Held-to-maturity investments	18	21,044	4,747	20,836	4,747
Total		**628,575**	**630,132**	**630,308**	**630,698**
Contingent liabilities	41	8,972	1,820	8,972	1,820
Financial commitments	41	20,848	25,200	21,735	25,444
Total	41	**29,820**	**27,020**	**30,707**	**27,264**
Total amount that can be affected by credit risk		**658,310**	**657,152**	**661,015**	**657,962**
Credit risk concentration to single customer		84,334	55,660	84,334	55,660

The Board has approved a regulation that the loan amount to a single customer or a group of related customers should not exceed the maximum credit limit of 25% of the Group's equity.

As at 31 December of 2008, the largest loan amount issued to a single customer amounted to LVL 22,367 thousand (three loans to the Bank's subsidiary LKB Līzings). The Bank was granted permission by the Financial and Capital Markets Commission not to limit the exposure to this client.

As at 31 December 2008, the Bank's largest exposure to one customer, which was not related to the Bank, was a loan to a legal entity in the amount of LVL 10,122 thousand (2007: LVL 6,817 thousand). The loan is secured by a real estate pledge in the amount of LVL 14,903 thousand.

The Bank has risk concentration limits for industries in place. The maximum amount (35%) is set for to real estate operations (2008: 27.0%; 2007: 27.4%). The quality of such loans is good – in 2008 loan loss provisions amounting to 0.33% were charged (2007: 0.01%).

The Bank has maximum possible risk concentration limits by the loan type in place. The largest limit is for mortgage loans 45% (2008: 19%; 2007: 25.4%).

The Bank has also set limits for country risk – the maximum limit of 600% of the equity applies to investments in countries with the highest ratings, assessing their financial environments as stable (Fitch AAA, Moody's Aaa). There are no country risk limits for investments in the Republic of Latvia.

Maximum exposure to credit risk by industry

The table represents the Bank's (and the Group's) maximum exposure to credit risk by industry before accounting for the effect of the credit risk mitigation instruments:

LVL'000	Gross maximum exposure 31.12.2008	Gross maximum exposure 31.12.2007
Financial intermediaries	305,721	341,394
Private individuals	149,129	164,696
Real estate management	55,933	39,330
Transport and communications	29,986	19,854
Manufacturing	19,001	17,374
Retail trade and wholesale distribution	17,356	17,504
Construction	15,213	6,754
Government	12,806	10,465
Hotels and restaurants	9,866	11,263
Sports and leisure activities	8,554	-
Investment companies	7,936	-
Agriculture and forestry	6,243	7,836
Postal services	4,247	-
Debt collection	2,314	-
State administration and healthcare	1,497	1,777
Electricity, gas and water utilities	1,159	1,463
IT services	538	-
Other	14,944	18,252
Total	**661,015**	**657,962**

Maximum exposure to credit risk by countries

The table represents the Bank' s (and the Group's) maximum exposure to credit risk by countries and regions before taking into account any collaterals held or other credit enhancements.

LVL'000	31.12.2008	31.12.2007
Latvia	402,691	401,290
Europe Union	107,833	152,006
Other Europe	10,600	34,353
North America	57,566	43,060
Ex-CIS states	60,841	19,123
Other	21,484	8,130
Total	**661,015**	**657,962**

Credit quality of financial assets

The table describes quality of the Bank's financial assets according to the rating agency data. The Bank uses Fitch, Moody's, Standard&Poors ratings to classify balance due form credit institutions and fixed income securities.

Financial assets are grouped according to the Basel 2 regulations. The Bank's (and Group's) loan portfolio does not contain loans to customers with international credit rating.

As at 31 December 2008: LVL'000	Neither past due nor impaired				Past due or impaired	Total
	High grade	Standard grade	Sub-standard grade	Individually evaluated without grade		
Demand deposits with the central bank	41,044	-	-	-	-	41,044
Balances due from credit institutions and the central bank	72,250	89,441	-	58,809	-	220,500
Loans and advances to customers	-	-	-	285,980	55,834	341,814
Financial assets at fair value through profit or loss	4,031	595	12	611	-	5,249
Held-to-maturity investments	11,881	3,768	773	4,414	-	20,836
Derivative financial instruments	147	355	-	363	-	865
Total	**129,353**	**94,159**	**785**	**350,177**	**55,834**	**630,308**

As at 31 December 2007: LVL'000	Neither past due nor impaired				Past due or impaired	Total
	High grade	Standard grade	Sub-standard grade	Individually evaluated without grade		
Demand deposits with the central bank	30,711	-	-	-	-	30,711
Balances due from credit institutions and the central bank	206,886	31,192	8,717	28,213	-	275,008
Loans and advances to customers	-	-	-	253,392	44,855	298,247
Financial assets at fair value through profit or loss	13,907	5,697	-	2,090	-	21,694
Held-to-maturity investments	1,903	757	-	2,087	-	4,747
Derivative financial instruments	2	-	11	278	-	291
Total	**253,409**	**37,646**	**8,728**	**286,060**	**44,855**	**630,698**

The ratings are grouped according to following rules (the example below uses ratings assigned by Moody`s).

Rating value	Moody's rating
High grade	Aaa Aa1-A3 Baa1-Baa2
Standard grade	Baa3 Ba1 Ba2-Ba3 B1-B2
Sub-standard grade	B3- Caa-C
Individually evaluated	D or without rating

The Bank (and the Group) does not use internal credit rating system to manage the quality of loans and advances to customers.

LVL'000	Standard 31.12.2008	Past due or individually impaired 31.12.2008	Total 31.12.2008	Standard 31.12.2007	Past due or individually impaired 31.12.2007	Total 31.12.2007
Demand deposits with the central Bank	41,044	-	41,044	30,711	-	30,711
Balances due from credit institutions and central banks	220,500	-	220,500	275,008	-	275,008
Loans and advances to customers	285,980	55,834	341,814	253,392	44,855	298,247
Financial assets at fair value through profit or loss	5,249	-	5,249	21,694	-	21,694
Held-to-maturity investments	20,836	-	20,836	4,747	-	4,747
Derivative instruments	865	-	865	291	-	291
Total	**574,474**	**55,834**	**630,308**	**585,843**	**44,855**	**630,698**

Aging analysis of past due but not impaired loans per class of financial assets (Bank and Group)

As at 31 December 2008:	Past due but not impaired loans				
LVL'000	Less than 30 days	31 to 60 days	61 to 90 days	More than 91 days	Total
Business loans	14,181	1,585	3,188	2,604	**21,558**
Utilised credit lines	181	76	270	601	**1,128**
Mortgage loans	7,064	2 ,954	1,810	2,628	**14,456**
Consumer loans	2 ,127	987	667	1,249	**5,030**
Debit balances on settlement cards and Overdrafts	-	-	-	-	**-**
Other loans	3,852	3, 330	3 ,904	1,267	**12,353**
Total	**27,405**	**8 ,932**	**9,839**	**8,349**	**54,525**

As at 31 December 2007:	Past due but not impaired loans				
LVL'000	Less than 30 days	31 to 60 days	61 to 90 days	More than 91 days	Total
Business loans	15,513	-	1, 585	430	**17,528**
Utilised credit lines	1,111	-	29	120	**1, 260**
Mortgage loans	8,144	71	1,115	424	**9,754**
Consumer loans	2,288	5	99	4	**2,396**
Debit balances on settlement cards and Overdrafts	-	-	-	-	**-**
Other loans	6,596	36	1,301	1,131	**9,064**
Total	**33, 652**	**112**	**4,129**	**2 ,109**	**40,002**

Gross loans and advances to customers by type of collateral (Bank and Group)

As at 31 December 2008: LVL'000	Real estate	Term deposits	Securities	Movable property	Commercial collateral	Guarantees	Other collateral and without collateral	Total
Business loans	113,034	1,326	-	14,997	21,853	179	2,420	**153,809**
Utilised credit lines	9,557	86	-	7,342	30,788	159	105	**48,037**
Mortgage loans	65,615	-	-	-	-	-	-	**65,615**
Consumer loans	4	-	-	-	-	616	27,881	**28,501**
Debit balances on settlement cards and Overdrafts	5	45	-	-	9	214	5,807	**6,080**
Other loans	41,508	1,704	416	238	-	18	142	**44,026**
Total	**229,723**	**3,161**	**416**	**22,577**	**52,650**	**1,186**	**36,355**	**346,068**
Charged allowance for impairment	**2,208**	**0**	**0**	**43**	**233**	**35**	**1,735**	**4,254**

As at 31 December 2007: LVL'000	Real estate	Term deposits	Movable property	Commercial collateral	Guarantees	Other collateral and without collateral	Total
Business loans	80,896	12	13, 030	15,846	470	3,127	**113,381**
Utilised credit lines	6,483	66	259	11,389	150	10,093	**28,440**
Mortgage loans	75,721	-	-	-	-	434	**76,155**
Consumer loans	5	-	-	-	769	32,368	**33,142**
Debit balances on settlement cards and Overdrafts	5	35	-	-	12	4,164	**4,216**
Other loans	43,994	454	326	40	202	142	**45,158**
Total	**207,104**	**567**	**13,615**	**27,275**	**1,603**	**50,328**	**300,492**
Charged allowance for impairment	**358**	**0**	**18**	**115**	**38**	**1,716**	**2,245**

Carrying amount per class of financial assets (loans and advances to customers) with renegotiated terms (Bank and Group)

LVL'000	2008	2007
Business loans	2,036	5,674
Utilised credit lines	-	-
Mortgage loans	323	1,502
Consumer loans	166	-
Debit balances on settlement cards and Overdrafts	-	-
Other loans	5,426	577
Total	**7,951**	**7,753**

The table does not include past due loans where renegotiation of terms is not caused by the Client's inability to repay the loan.

See Note 15 for more detailed information.

Impairment assessment

Assets and memorandum items of the Bank and the Group are evaluated on a monthly basis to reflect loans in the balance sheet at fair value.

The main criterion for the loan evaluation is the customer's creditworthiness. When evaluating all important factors that affect the client's creditworthiness are taken into account:

- the customer's credit history,
- the customer's financial position,
- the customer's financial performance and projections,
- reasonableness of the use of the loan, analysis of sufficiency of the current and future cash flows for loan repayment,
- collateral and guarantees, their market value, etc.

When evaluating a collateral-dependent loan, its fair value should be evaluated at the fair value of the collateral, using the principle of caution.

If the due date has passed or if the borrower might not be able to make the payments as they become due, impairment allowances are charged. The amount of the allowance charge is calculated based on the difference between the loan's carrying value and the recoverable amount or present value of estimated future cash flows, including realization value of the collateral and guarantees, discounted by the initial effective interest rate.

The Bank determines loan impairment on an individual and collective basis. Based on the individual assessment of the loan, it can be rated as standard, close-watch, sub-standard, doubtful and lost.

Standard loans are loans that undoubtedly will be repaid, where repayment difficulties are not expected, the repayment schedule is not delayed, the projected cash flows are sufficient to repay the loan, or the value of collateral in case of a forced sale fully covers the amount of the loan.
Close-watch loans are loans under additional intensified control, because of an inherent potential unreliability which may influence the debt repayment and inflict loss on the Bank. A loan can be classified as close-watch if debt repayment is delayed up to 90 days, but the secondary repayment source is reliable.
Sub-standard loans are loans whose evident unreliability makes full repayment doubtful and there is a threat of loss to the Bank – the delay in debt repayment exceeds 90 days, but the secondary repayment source is reliable. The loan payments are irregular.
Doubtful loans are loans where there is large probability of the Bank incurring losses, however, it is hard to determine the exact amount of the loss. The borrower is facing liquidity problems and shows signs of actual insolvency, the secondary repayment source is doubtful.
Lost loans are loans which do not have any real value, enterprises have been declared bankrupt.

Market risk

Market risk is the probability of incurring losses due to the revaluation of balance sheet and memorandum items, caused by fluctuations in market prices of financial instruments, commodities and commodity derivatives, due to changes in interest rates, foreign exchange rates and other factors.

The Bank has no significant concentration of market risk.

Market risk for portfolio of financial assets at fair value through profit or loss is monitored using sensitivity analysis. As at 31 December 2008, the risk of portfolio revaluation loss due to 100 basis point shifts in the yield curve amounted to LVL 53 thousand (2007: LVL 304 thousand)

Interest rate risk

Interest rate risk is determined to the extent of the effect that changes in the market rates have on the Bank's profit and net interest revenue, as well as equity. Net interest revenue will increase or decrease as a result of fluctuations in interest rates to the extent of the difference in the term structures of interest bearing assets and liabilities.

Interest rate risk indicates the market risk impact on the financial situation of the Group and the Bank.

To determine possible interest rate risk impact on the Bank's future income and net equity, the Bank uses GAP analysis method.

GAP analysis – analysis of term structure mismatch for interest rate sensitive assets and liabilities subject to repricing.

Using GAP analysis, the Bank determines the value describing the amount of interest rate risk – sensitivity to interest rate change, by changing interest rates by 100 basis points and evaluating the risk effect on the Bank's profit and loss.

To calculate the amount of interest rate risk, the Bank uses cumulative weighted GAP with the remaining term of 1 year. The acceptable amount of possible impact on the Bank's income or equity market value should not exceed 5% of equity.

The Treasury Department performs interest rate control and supervision on daily basis.

The Assets and Liabilities Management Committee evaluates the interest rate risk value on a monthly basis.

The Risk Management Department reports to the Board.

The Bank does not use VaR method to determine the risk impact amount, because the value of assets classified as trading portfolio in the balance sheet is insignificant and the Bank's Investment Policy does not stipulate active involvement into speculative deals.
The following table shows the split of interest bearing assets and liabilities in their nominal value as at 31 December 2008 (the Bank and the Group):

LVL '000	Fixed rate	Floating rate	Total
Cash and deposits with the central bank	39,740	-	**39,740**
Balances due from credit institutions and the central bank	216,889	4,650	**221,539**
Securities	24,631	2,403	**27,034**
Loans and advances to customers	63,774	271,628	**335,402**
Total interest bearing assets	**345,034**	**278,681**	**623,715**
Balances due to the central bank and credit institutions	24,102	10,542	**34,644**
Deposits from the customers	544,000	32,663	**576,663**
Subordinated liabilities	9,013	-	**9,013**
Total interest bearing liabilities	**577,115**	**43,205**	**620,320**

The following table shows the split of interest bearing assets and liabilities in their nominal value as at 31 December 2007 (the Bank and the Group):

LVL '000	Fixed rate	Floating rate	Total
Cash and deposits with the central bank	29,700	-	**29,700**
Balances due from credit institutions and the central bank	273,174	3,627	**276,801**
Securities	22,610	2,445	**25,055**
Loans and advances to customers	50,337	242,816	**293,153**
Total interest bearing assets	**375,821**	**248,888**	**624,709**
Balances due to the central bank and credit institutions	26,668	-	**26,668**
Deposits from the customers	354,561	223,962	**578,523**
Debt securities issued	-	3,514	**3,514**
Subordinated liabilities	8,899	-	**8,899**
Total interest bearing liabilities	**390,128**	**227,476**	**617,604**

Interest rate sensitivity analysis

The following table demonstrates the sensitivity to a reasonable possible change in interest rates, with all other variables held constant of the Bank's and the Group's profit and loss and equity for the currencies to which the Bank and the Group had significant exposure at 31 December 2008.

The sensitivity of the Bank and Group profit and loss is the effect on the net interest revenue for one year, based on the repricing maturity analysis of the Bank and Group financial assets and financial liabilities in respective currencies under the assumption of respective change in interest rates for all maturities. Additional effect on the Bank and Group profit and loss is calculated by revaluing financial instruments at fair value for the effects of the assumed changes in interest rates as at the reporting date.

Currency	Interest rate increase/ decrease in base points 2008	Effect on profit before taxes 2008	Effect on Equity pre-tax 2008	Interest rate increase/ decrease in base points 2007	Effect on profit before taxes 2007	Effect on Equity pre-tax 2007
LVL	+200	+778	-	+200	744	-
EUR	+50	+109	-	+50	-28	-
USD	+50	+48	-	+50	22	-
LVL	-200	-778	-	-200	-719	-
EUR	-50	-109	-	-50	33	-
USD	-50	-48	-	-50	-22	-

Currency risk

The Bank manages foreign exchange risk by establishing and regulating the principles related to foreign exchange risk control and governance to minimize the impact of exchange rate volatility on the Bank financial results.

Foreign exchange risk arises if the Bank has an open position in currency, which is subject to exchange rate fluctuations.

The open currency position can arise:

- from the Bank's core business operations – customer driven currency buying/selling transactions, foreign exchange transactions in the interbank market, crediting and deposits taking;
- by engaging in speculative foreign exchange transactions;
- as a result from internal foreign exchange transactions;
- through expenses in foreign currency.

The maximum admissible foreign currency open position is regulated by the legislative acts of the Republic of Latvia.

The Bank's Council has approved the following limits. The foreign currency position limit for individual currencies is defined as maximum 10% of the equity. The foreign currency position limit in aggregate is defined as maximum 20% of the equity.

To restrict foreign exchange risk the Bank chooses the most favourable hedging method that is appropriate for hedging the particular risk. Hedging tools are chosen depending on currency, term, amount and associated expenses. The Bank employs the following financial instruments to hedge foreign exchange risk:

- *spot* and *forward* forex deals;
- currency SWAPs.

The Investment Department implements the Foreign Currency Risk Management Policy. The Risk Management Department controls compliance with the limits stated in the policy and reports to the Bank's Board.

Foreign currency risk sensitivity analysis

The table represents the Bank's and the Group's sensitivity analysis of EUR currency. The Bank and the Group has a significant open position in this currency so there is possible future impact on the Bank's and the Group's profit and loss and the Bank's and the Group's equity.

Currency	Change in currency rate %, 2008	Effect on P/L before taxes 2008	Effect on Equity pre-tax 2008	Change in currency rate % 2007	Effect on P/L before taxes 2007	Effect on Equity pre-tax 2007
EUR	+0.2	(2)	-	+1.7	29	-
EUR	-1.8	21	-	-0.3	(5)	-

The expected changes in the EUR/LVL exchange rate are based on the EUR/LVL exchange rate effective at the end of the year and the fluctuation corridor of the EUR/LVL exchange rate of -1%/+1% stated by the Bank of Latvia.

Management of liquidity risk and investments

The liquidity risk is the risk which is incurred in case the Bank is unable to repay deposits with past due dates in a timely fashion, and/or meet other obligations.

The Council of the Bank has approved the Liquidity Risk Management Policy.

The Policy determines and regulates the permitted differences between the Bank's assets and liabilities, evaluating them according to the repayment term, managing, overseeing and planning changes in the Bank's demand deposits, cash and also investing certain part of assets into liquid financial instruments and short term assets.

Liquidity is managed to meet the following aims:

- the Bank's assets should be allocated to meet the legally sound claims of the Bank's creditors at any time (liquidity);
- to ensure the Bank's operations are in accordance with the Liquidity maintenance ratio requirements;
- to ensure compliance with the internal Liquidity risk limits.

Liquidity risk may occur if:

- the Bank is not able to meet its obligations and to ensure performance of the transactions by the Bank and customers due to internal factors;
- the Bank's solvency is limited due to external factors.

The Bank's current liability base consists of:

- demand deposits by customers (private individuals and legal entities);
- term deposits by customers;
- other financial resources, which the Bank has attracted as payment for services etc. (money in transit, other current liabilities);
- the Bank issued debt securities;
- off-balance liabilities, if there are reasons to believe that the counterparty may require their settlement;

Liquid assets are the following unencumbered Bank assets:

- cash;
- demand deposits with central banks and other solvent credit institutions;
- balances due from central banks and other solvent credit institutions, if the maturity does not exceed 30 days, and other assets, if the transaction terms permit early withdrawal of the funds (less the contractual fee for early withdrawal);
- investments in financial instruments, if there is a continuous unrestricted market for these instruments, i.e. it is possible to sell them at short notice without incurring significant losses or use as a collateral to receive loans.

Loans and advances to customers are not classified as liquid assets.

To assess the difference between assets and liabilities in each period as well as the possibility of covering it from demand deposits and deposits with a 1 month withdrawal notice, the Bank uses statistical information on "sticky" deposits.

The Bank has set a limit for deposits that can be accepted from one person or a group of related persons.

While managing liquidity, the Bank assesses its assets and liabilities according to the remaining term to maturity:

- the remaining repayment and selling terms for the assets are set according to the repayment and selling terms specified by effective contracts or accepted notices about early withdrawal;
- assets that are invested with an option of receive them on demand can be classified as demand investments;
- maturity of investments held for trading and investments available for sale that can be sold at short notice without significant losses and also other financial instruments that can be used as collateral to receive a loan can be classified based on the conditions of the deal;
- assets that do not have any definite repayment or selling term are open-ended assets;
- assets or any part thereof that are past due more than 14 days can be classified as past due assets.

The Bank maintains the liquidity ratio at least equal to 30% of total current liabilities.

The Treasury Department plans the asset and liability term structure and necessary liquid asset amounts on a daily basis.

The Risk Management Department regularly examines the liquidity ratio and reports to the Board.

The principles of managing large risk exposures (exposure to a single customer or a group of related customers in excess of 10% of the Bank's equity) are defined in the Liquidity Management Policy.

The Risk Management Department is responsible for the control of compliance of large risk exposures with limits set by the Parent company for the Group companies.

The Bank has developed Payment and liquidity crisis battling rules, stipulating crisis criteria and signs, and granting certain authorizations for action in crisis situations.

The Investment Policy regulates investment of available resources in financial instruments as part of the investment portfolio. This policy states all aims, requirements, allowed financial instruments and describes the principles of portfolio management and supervision as well as sets the rules for value assessment.

The Investment Policy is approved by the Council and the Board of the Bank.

Changes in the policy are introduced based on proposals from the Assets and Liabilities Management Committee.

Changes in the Investment Policy are implemented at least once in a year or when necessary.

The Assets and Liabilities Management Committee also defines the investment portfolio management strategy and structure by approving limits for investment and financial instrument groups.

The Treasury Department, the Investment Department and the Risk Management Department ensure compliance of the investments with the Bank development targets.

The table shows changes in the liquidity ratio during the reporting period:

	2008 **%**	**2007** **%**
Average during the period	52.15	53.27
Highest	60.83	72.75
Lowest	46.43	46.14

The table represents analysis of the term structure of the financial liabilities and off-balance liability after non-discounted contractual cash flows (the Bank and the Group):

As at 31 December 2008: LVL`000	Less than 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	Over 5 years	Total
Liabilities							
Balances due to the central bank and credit institutions	24,102	136	10,657	-	-	-	34,895
Deposits from the public	404,466	51,119	53,686	65,684	16,211	1,246	592,412
Debt securities issued	-	108	-	108	3,622	-	3,838
Derivative financial instruments	417	543	97	-	-	-	1,057
Subordinated debt	57	153	210	420	3,363	11,079	15,282
Total financial liabilities	429,042	52,059	64,650	66,212	23,196	12,325	647,484
Total contingent liabilities and financial commitments	29,820	-	-	-	-	-	29,820
Total financial liabilities, contingent liabilities and financial commitments	458,862	52,059	64,650	66,212	23,196	12,325	677,304

As at 31 December 2007: LVL`000	Less than 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	Over 5 years	Total
Liabilities							
Balances due to the central bank and credit institutions	26,673	-	-	-	-	-	26,673
Deposits from the public	425,059	29,712	67,731	51,054	19,429	298	593,283
Debt securities issued	-	94	-	94	3,798	-	3,986
Derivative financial instruments	398	58	-	-	-	-	456
Subordinated debt	47	131	179	357	6,701	5,441	12,856
Total financial liabilities	452,177	29,995	67,910	51,505	29,928	5,739	637,254
Total contingent liabilities and financial commitments	27,020	-	-				27,020
Total financial liabilities, contingent liabilities and financial commitments	479,197	29,995	67,910	51,505	29,928	5,739	664,274

Operational risk management.

Operational risk is a possibility to incur loss due to the inadequate or incomplete internal process, human or system operation, or due to the impact of external conditions, including legal risk, but excluding strategic and reputation risk.

Bank has developed the Operational Risk Management Policy.

The main aim of operational risk management is to ensure identification of the Bank's processes exposed to operational risk, to analyze and mitigate the causes and potential loss.
The Bank employs a system for identification of operational risk factors. The system ensures gathering of operational risk events related information.

The Bank facilitates development of operational risk management enviroment and takes measures to reduce the possibility of operational risk occurrences by:

- developing already existing internal regulations and procedures and creating new procedures before the Bank starts offering new products;
- introducing changes to the Bank's structure and management model;
- ensuring participation of structural unit managers into operational risk management process;
- ensuring involvement of internal control bodies and increasing efficiency of their operations;
- improving the system for defining transaction limits and signature rights;
- facilitate segregation of functions in the Bank's operations;
- expanding the use of the "four eyes" principle in authorization of all major deals;
- ensuring mutual authorization of significant deals;
- updating the Bank's contingency plan;
- creating the strategy for response to emergencies;
- implementing recommendations by internal and external auditors;
- ensuring training of the employees;
- by ensuring continuity of the operational risk management process.

The Bank continuously takes measures to prevent or decrease occurrence of operational risk:

- information about development, approval and implementation of the Bank's key products, operations, assets, processes and systems is being analysed;
- possible threats to major positions are being identified;
- factors affecting risk occurrence are being identified;
- types of risks, likely consequences and possible control measures are being analysed;
- several other risk mitigation measures are being implemented (avoidance, prevention, mitigation, insurance).

The Risk Management Department is responsible for process of risk identification and mitigation. All the Bank's structural units are responsible form identification, mitigation and prevention of operational risk.

- the head of each unit has designated a person responsible for identification and reporting of the structural unit's operational risk;
- the responsible employees also prepare reports about operational risk occurrences within the structural unit which include information about internal data, external events and market conditions that may materially affect the Bank's operations as well as about results of the operational risk monitoring and the problems identified.

The Risk Management Departments is responsible for coordination of the operational risk managing process and analysis and systematisation of operational risk occurrences. The Risk Management Department initiates measures to restrict and mitigate risks and prepares a monthly report about the operational risk level for the Board and unit managers.

The recipients of the report ensure analysis of the information in order to improve the Bank's Operational Risk Management practices and further develop management policy and procedures.

43. CAPITAL

The Bank maintains its capital resources at a level sufficient to sustain financial operations appropriate to its activities, volumes and risks. The Law on Credit Institutions stipulates the minimum requirement with respect to the ratio of the Bank's capital resources to risk weighted assets and memorandum items at 8%.

The Financial and Capital Market Commission has developed rules regulating the calculation of the capital requirements. In 2008 the Bank has fully complied with the regulatory capital adequacy requirements.

Capital Management
The Bank's Capital Management Policy has been developed in order to:

- ensure the monitoring of the Bank's operations;
- regulate capital planning, ensuring capital adequacy evaluation process (evaluation of the risk exposure impact on the capital adequacy);
- plan the Bank's capital position appropriateness to the development strategy;
- foster the development of the Bank's Risk Exposure Management Strategy for Meeting Capital Requirements, delineating the Bank's risk profile;
- determine methods and basic principles for calculation of the required capital;
- calculate the required capital and determine its adequacy;
- determine the roles of the structural units involved in the capital management process and their responsibilities in the capital adequacy evaluation process;
- ensure the evaluation of the efficiency of the equity;
- determine actions to maintain the acceptable risk level.

In managing the capital and grouping assets according to their risk level, the Bank strives to achieve optimal balance between risk and return with the aim of:

- optimizing the balance sheet risk profile;
- optimize the tiers of the Bank's equity;
- integrating risk, return and capital in a unified system;
- ensuring Operational risk management;
- ensuring risk tolerance level and its appropriateness to the risk profile;
- evaluating the complexity of exposures.

The Policy defines types and structure of the capital, sets requirements with respect to the process of the capital adequacy evaluation to ensure the necessary capital to cover identified and possible risks of the Bank's operations.

The Bank has identified the following risks as significant in its operations – risks with regulated minimum capital requirements (credit risk, operational risk) and risks that are not fully included in the regulatory minimum capital requirements (interest rate risk in the non-trading portfolio, business risk). Unidentified risks are accepted as unavoidable.

The Bank determines the required capital resources by assessing the capital required to cover the risks associated with its current and prospective activities, plans the measures to maintain the capital, and ensures that the available capital is at all times larger than or equal to the required capital resources.

The Bank ensures that its capital is at all times larger than or equal to the total of the following requirements:

- Credit risk and dilution risk capital requirement;
- foreign exchange risk and commodity price risk capital requirement;
- debt and equity price risk capital requirement;
- settlement risk and counterparty risk for trading book transactions.

The Bank carefully monitors the Bank's capitalisation level by analysing the possible changes in legislation, regulations and standards and forecasting possible impact of economic and political factors on the results of the activities by the Bank and clients.

To ensure the adequacy of the capital structure to the capital management strategy (capitalisation increase) in 2009 the Bank plans to increase its capital with internally generated funds and external funds. The Tier 1 capital is to increased by the new share issue. The Bank includes fixed asset revaluation reserve in the Tier II capital, if material changes occurred to the value of its assets. The revaluation value is the lowest of the real estate value estimates provided by two certified real estate valuation experts. External funds for capital are planned if the amount of the capital, generated by the Bank's activities, is insufficient to support the Bank's future development.

	Group 31.12.2008	Group 31.12.2007	Bank 31.12.2008	Bank 31.12.2007
Total risk weighted assets and memorandum items	395,643	386,571	397,158	387,311
Required regulatory capital	31,651	30,926	31,773	30,985
Tier I	33,293	34,458	33,752*	34,846
Tier II	11,411	11,872	11,411	11,872
Capital adequacy ratio	11.30%	12.0%	11.37%	12.1%
Tier I capital adequacy ratio	8.42%	8.9%	8.50%	9.0%
Tier II capital adequacy ratio	2.88%	3.1%	2.87%	3.1%

* 50% deacrease of Tier 1 capital and 50% decrease of Tier 2 capital comprise from investments in insurance, reinsurance and insurance management share capital and subordinated capital, which directly or indirectly are owned by the entity for at least 20% of equity or shares with voting rights (investment in AAS LKB Life).

In 2008 the Bank has chosen the Basel II standardised approach to calculate the risk weighted value of the exposures.

In calculating the capital requirement for operational risk the Bank applies the basic indicator approach.

44. GOING CONCERN

Global financial crisis, sharp slow-down of the local economy, nationalisation of the largest bank with local capital - these are the factors that may most directly affect further development and stability of the entire banking sector, including also AS Latvijas Krājbanka.

Ensuring steady and forecastable cash flows is the key target set for the year 2009 to maintain continuous operations of the Bank.

Household deposits are the main source of financing for AS Latvijas Krājbanka. Households and enterprises account for more than 90% of all attracted resources. The increasing strain in the society caused by distrust towards individual banks has not affected the Bank's resource base. In 2008, the pace of deposit growth remained at prior year level. The policy pursued by the Bank in the customer attraction and servicing makes it possible to maintain the steady growth of deposits also in 2009 and shows the Bank's ability to attract free cash of households on the local market. Under the current turbulent market circumstances, the fluctuations of deposits were not significant, only about 0.5%.

The syndicated loan of EUR 15 million constitutes only 1.6% of the Bank's liabilities, which is an insignificant portion of attracted resources. Therefore, it can be concluded with certainty that the cash flows of AS Latvijas Krājbankaa do not depend on the availability of external financing.

The Bank has assessed the cash flow scenarios for the year 2009 and defined the efforts aimed at improving its liquidity.

The Bank's capital ensures the most optimum relationship between risk and return. In 2008, the Bank's capital adequacy ratio exceeded the minimum statutory 8% limit considerably, reaching as much as 11.1% -13.5%.

Although no new large exposures are planned for 2009, the Bank still intends to increase the total Tier 1 by LVL 15 million, which is double the current figure, so confirming its willingness to promote its further development and maintain its status as a reliable cooperation partner. The projected capital adequacy ratio following the planned attraction of capital is 13.7%.

In case of necessity the Bank's major shareholder AB Bankas SNORAS is ready to provide financial support to maintain liquidity position.

Based on the above, the management has made prudent and reasonable judgements and estimates aimed at sustaining the Group and the Bank as going concern entities in 2009 and beyond. Therefore, these consolidated and separate financial statements for the year ended 31 December 2008 are prepared on a going concern basis, consistently applying International Financial Reporting Standards as adopted in the European Union.

45. SUBSEQUENT EVENTS

On 6 January 2009, the public offer of the ordinary bearer shares of AS Latvijas Krājbanka was completed. The shareholders and investors were offered to acquire 5,000,000 shares of the new share issue. As a result of the public offer, 10 shares were subscribed and fully paid up, i.e., the issue was not fully subscribed for.

On 16 February 2009, the extraordinary shareholders' meeting took place and resolved the following:

- if the amount of the capital offered for the subscription is not fully subscribed by the date stated in the Rules, it is considered that the share issue has been carried out in the amount of the shares subscribed for. If the number of the subscribed shares does not exceed 10% of the share issue, the issue is considered void;
- to consider the issue of 5,000,000 ordinary bearer shares and the public offer carried out according the resolution of the extraordinary shareholders' meeting of the Bank, dated 24 October 2008, on increasing the share capital of AS Latvijas Krājbanka void and to repay the collected cash to the respective subscribers.

At the same time, considering the suggestion of the Bank's major shareholder AB Bankas SNORAS that the necessary activities for continuing the issue process have to be carried out, the shareholders' meeting resolved to increase the Bank's share capital by LVL 5,000,000, by issuing 5,000,000 ordinary bearer shares with a nominal value of LVL 1, and all having equal rights to dividends, liquidation quota and voting rights at shareholders' meetings. The purchase price of one share is LVL 1.50, the subscription expires on 10 July 2009.

The new public offer will be announced after the completion of all the necessary activities (drawing up the issue prospectus, receipt of the FCMC permission).

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