



*Bank and Consolidated Financial Statements (non-audited)  
for the year ended 31 December 2008*

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

Honourable shareholders and customers,

2008 was the year of rapid events and changes in Latvia and in entire world, but exactly this year on 23 April, concluding the integration of AS Baltic Trust Bank and AS GE Money, operations in Latvian financial market started a bank of the General Electric corporation - AS "GE Money Bank".

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

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

**Operating activity of the bank in 2008**

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

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

Based on this conservative business approach and investments in GE Money Bank future growth, the bank concluded the previous year with unaudited loss of 14.961 million LVL. At the end of 2008 Bank's assets comprised 253.8 million LVL, 197.3 million LVL were allocated in loans, the deposit volume was 204.4 million LVL.

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

The biggest values of GE Money Bank to the Latvian society are its rich international experience in various markets all over the world, security and reliability, a team of highly professional employees, a wide offer of products and services, and one of the largest branch networks in Latvia.

**Subsidiary companies**

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

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

**Corporate citizenship**

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

This year with the aggravating economic situation GE Money Bank has taken active part and provided support to development of operations of the nongovernmental organization Money Planning Center in the field of society's financial education on personal budget planning (the organization was established in May 2007 by AS GE Money, a company of the GE Money companies group in Latvia, in cooperation with the Riga International School of Economics and Business Administration). With the help of GE Money Bank there was created financial literacy web page [www.vissparnaudu.lv](http://www.vissparnaudu.lv), organised different projects and activities to make people understand

financial matters and budget planning, as well as an innovative solution in personal budget planning was introduced - a downloadable program in mobile phones "Money Controller".

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

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

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

The bank also considers its employees as its biggest value therefore significant work in favor of employees has been done in the company – reshaping the organizational structure for more effective operations, improving processes and procedures, establishing GE Money Bank Training Centre for employees with a wide offer of training programs and developing the internal communication environment by creating new information channels, traditions, a film about GE Money Bank establishment and other activities.

### **Financial stability and future growth**

Bank's stability and future growth is acknowledged also by positions of its owner General Electric – a very high credit rating and funding provided to the bank. Thus GE Money Bank is one of the safest banks in Latvia at the moment as it mostly gains funding from diversified business corporation.

The total funding from GE reached 110.78 million EUR at the end of the year (available within the concluded agreements – 300 million EUR) that testifies significant shareholder support to the Bank and assent on the chosen operational strategy. The shareholder resolved to increase the capital of the bank for the purpose of securing the bank in the current situation even more – the subordinate capital of 11 million EUR in December 2008 and 30 million LVL investment in the bank's equity capital in Q1 2009.

Also according to requirements of the Finance and Capital Market Commission the capital position of GE Money Bank is very good – the capital adequacy indicator as of the end of the year is 11.68% and upon the capital increase in Q1 2009 the capital adequacy indicator is forecast within 20% that almost 2.5 times exceeds the standard defined by the Financial and Capital Market Commission. While the bank maintains the liquidity indicator above 40% (the standard is 30%) and bank's liquidity is secured also by availability of the long-term GE credit line the volume of which is equal to the volume of the deposit base.

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

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

Concluding the report we would like to express gratitude to employees of the Bank for work contributed to bank's growth and to customers for trust and loyalty to the bank!

Chairman of the board \_\_\_\_\_ Dmitrijs Cimbers

Board member \_\_\_\_\_ Inga Vagele

On 26 February 2009

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**INFORMATION ON THE BANK'S MANAGEMENT**
**Council members as of the date of signing these financial statements**

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

**Board members as of the date of signing these financial statements**

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

### STATEMENT OF MANAGEMENT RESPONSIBILITY

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

While preparing the financial statements included on pages 8 to 60 for the years ended 31 December 2008, management has applied appropriate accounting principles that are based on prudent and reasonable judgments and estimates. In our opinion, all appropriate accounting principles have been consistently applied, including International Financial Reporting Standards as adopted by the European Union and the requirements of the Financial and Capital Market Commission.

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

On behalf of the Bank's management:

Chairman of the Board \_\_\_\_\_ Dmitrij Cimber

Member of the Board \_\_\_\_\_ Inga Vagele

26 February 2009

## CONSOLIDATED AND BANK INCOME STATEMENT

	Notes	2008 Group	2008 Bank	2007 Group	2007 Bank
Interest income	19	17,292	17,292	16,436	16,436
Interest expense	19	(9,303)	(9,314)	(6,327)	(6,332)
<b>Net interest income</b>		<b>7,989</b>	<b>7,978</b>	<b>10,109</b>	<b>10,104</b>
Commissions and fee income	20	4,170	4,076	5,073	5,026
Commissions and fee expense	20	(1,011)	(1,009)	(1,043)	(1,041)
<b>Net commission income</b>		<b>3,159</b>	<b>3,067</b>	<b>4,030</b>	<b>3,985</b>
Realised net profit from available-for-sale financial assets		4	4	50	50
Net profit from held for trading financial assets		(253)	(253)	88	88
Gain from foreign exchange		1,699	1,701	2,423	2,423
Dividends		84	84	-	-
Other operating income	21	1,600	1,600	834	834
<b>Net operating income</b>		<b>14,282</b>	<b>14,181</b>	<b>17,534</b>	<b>17,484</b>
Administrative expenses	22	(16,150)	(16,068)	(11,774)	(11,712)
Depreciation, amortization and loss on sale of intangible assets and property, plant and equipment	9	(1,439)	(1,438)	(1,303)	(1,302)
Other operating expenses	21	(190)	(190)	(228)	(228)
Net impairment allowance expense	23	(11,923)	(11,923)	(693)	(693)
<b>Profit/ (loss) before corporate income tax</b>		<b>(15,420)</b>	<b>(15,438)</b>	<b>3,536</b>	<b>3,549</b>
Corporate income tax	24	477	477	(614)	(614)
<b>Profit/ (loss) for the period</b>		<b>(14,943)</b>	<b>(14,961)</b>	<b>2,922</b>	<b>2,935</b>
<b>Basic earnings per share (LVL)</b>	35	<b>-</b>	<b>-</b>	<b>9.36</b>	<b>9.41</b>

The accompanying notes on pages 15 to 60 form an integral part of these Bank and Consolidated financial statements.

Chairman of the Board \_\_\_\_\_ Dmitrij Cimber

Member of the Board \_\_\_\_\_ Inga Vagele

26 February 2009

## CONSOLIDATED AND BANK BALANCE SHEET AND OFF BALANCE SHEET ITEMS

ASSETS	Notes	31.12.2008		31.12.2007	
		Group	Bank	Group	Bank
Cash and due from central bank	3	16,764	16,764	25,987	25,987
Due from credit institutions	5	23,076	23,076	55,651	55,635
Held for trading financial assets	4	847	1,407	1,506	1,974
<i>Fixed-income securities</i>		695	-	954	84
<i>Shares and other non-fixed income securities</i>		123	1,394	289	1,627
<i>Derivatives</i>	7	29	13	263	263
Loans	6	197,295	197,295	176,958	176,958
Available-for-sale financial assets	4	2,959	2,959	4,274	4,274
<i>Fixed-income securities</i>		2,959	2,959	4,274	4,274
Held-to-maturity investments	4	1,958	1,958	1,957	1,957
Investments in subsidiaries	8	-	249	-	199
Intangible assets	9	483	483	765	763
Property, plant and equipment	9	7,576	7,576	8,027	8,027
Deferred expense and accrued income		284	272	231	224
Other assets	10	1,751	1,748	1,958	1,958
<b>Total assets</b>		<b>252,993</b>	<b>253,787</b>	<b>277,314</b>	<b>277,956</b>

The accompanying notes on pages 15 to 60 form an integral part of these Bank and Consolidated financial statements.

Chairman of the Board \_\_\_\_\_ Dmitrij Cimber

Member of the Board \_\_\_\_\_ Inga Vagele

26 February 2009



## CONSOLIDATED AND BANK BALANCE SHEET AND OFF BALANCE SHEET ITEMS

		31.12.2008	31.12.2008	31.12. 2007	31.12. 2007
	Notes	Group	Bank	Group	Bank
<b>LIABILITIES</b>					
Due to central bank	11	4,850	4,850	-	-
Due to credit institutions	11	8,198	8,198	1,007	1,007
Financial liabilities held for trading		32	32	337	337
<i>Derivatives</i>	7	32	32	337	337
Financial liabilities at amortised cost		218,731	219,514	239,098	239,712
<i>Deposits</i>	12	203,719	204,382	231,883	232,377
<i>Debt securities</i>	13	5,058	5,058	5,023	5,023
<i>Subordinated debt</i>	15	9,954	10,074	2,192	2,312
Deferred income and accrued expense		1,634	1,625	1,269	1,259
Tax liabilities	16	692	692	692	692
<i>Deferred tax liabilities</i>		692	692	692	692
Other liabilities	14	361	361	538	538
<b>Total liabilities</b>		<b>234,498</b>	<b>235,272</b>	<b>242,941</b>	<b>243,545</b>
Capital and reserves					
<i>Share capital</i>	17	15,601	15,601	15,601	15,601
<i>Share premium</i>		7,272	7,272	7,272	7,272
<i>Reserve capital</i>		2,815	2,815	2,815	2,815
<i>Property, plant and equipment revaluation reserve</i>		1,661	1,661	1,661	1,661
<i>Available for sale financial asset revaluation reserve</i>		(1,461)	(1,461)	(526)	(526)
<i>Retained earnings</i>		(7,393)	(7,373)	7,550	7,588
<b>Total equity</b>		<b>18,495</b>	<b>18,515</b>	<b>34,373</b>	<b>34,411</b>
<b>Total liabilities and equity</b>		<b>252,993</b>	<b>253,787</b>	<b>277,314</b>	<b>277,956</b>
<b>OFF-BALANCE SHEET ITEMS</b>					
Guarantees	18	3,537	3,537	4,381	4,381
Other commitments	18	6,201	6,201	7,245	7,245

The accompanying notes on pages 15 to 60 form an integral part of these Bank and Consolidated financial statements.

Chairman of the Board \_\_\_\_\_ Dmitrij Cimber

Member of the Board \_\_\_\_\_ Inga Vagele

26 February 2009

## STATEMENT OF CHANGES IN EQUITY (THE BANK)

	Share capital	Share premium	AFS Revalu- ation reserve	Property, plant and equipment revaluation reserve	Reserve capital	Retaining earnings	Total
<b>31 December 2006</b>	<b>15,601</b>	<b>7,272</b>	<b>(417)</b>	<b>1,661</b>	<b>2,815</b>	<b>4,653</b>	<b>31,585</b>
Available for sale financial asset revaluation	-	-	(109)	-	-	-	<b>(109)</b>
Profit for the period	-	-	-	-	-	2,935	<b>2,935</b>
<b>31 December 2007</b>	<b>15,601</b>	<b>7,272</b>	<b>(526)</b>	<b>1,661</b>	<b>2,815</b>	<b>7,588</b>	<b>34,411</b>
Available for sale financial asset revaluation	-	-	(935)	-	-	-	<b>(935)</b>
Loss for the period	-	-	-	-	-	(14,961)	<b>(14,961)</b>
<b>31 December 2008</b>	<b>15,601</b>	<b>7,272</b>	<b>(1,461)</b>	<b>1,661</b>	<b>2,815</b>	<b>(7,373)</b>	<b>18,515</b>

The accompanying notes on pages 15 to 60 form an integral part of these Bank and Consolidated financial statements.

## STATEMENT OF CHANGES IN EQUITY (THE GROUP)

	Share capital	Share premium	Translation and AFS revaluation reserve	Property, plant and equipment revaluation reserve	Reserve capital	Retaining earnings	Total
<b>31 December 2006</b>	<b>15,601</b>	<b>7,272</b>	<b>(417)</b>	<b>1,661</b>	<b>2,815</b>	<b>4,628</b>	<b>31,560</b>
Available for sale financial asset revaluation reserve	-	-	(109)	-	-	-	(109)
Profit for the year	-	-	-	-	-	2,922	2,922
<b>31 December 2007</b>	<b>15,601</b>	<b>7,272</b>	<b>(526)</b>	<b>1,661</b>	<b>2,815</b>	<b>7,550</b>	<b>34,373</b>
Available for sale financial asset revaluation reserve	-	-	(935)	-	-	-	(935)
Loss for the year	-	-	-	-	-	(14,943)	(14,943)
<b>31 December 2008</b>	<b>15,601</b>	<b>7,272</b>	<b>(1,461)</b>	<b>1,661</b>	<b>2,815</b>	<b>(7,393)</b>	<b>18,495</b>

The accompanying notes on pages 15 to 60 form an integral part of these Bank and Consolidated financial statements.

## CONSOLIDATED AND BANK STATEMENT OF CASH FLOWS

	2008	2008	2007	2007
	Group	Bank	Group	Bank
<b>Cash flows from operating activities</b>				
Profit/ (loss) before corporate income tax	(15,420)	(15,438)	3,536	3,549
Depreciation, amortization and write-off of intangible assets and property, plant and equipment	1,412	1,411	1,270	1,270
Profit from sale of property, plant and equipment	22	22	33	32
Increase of impairment allowance	11,923	11,923	693	693
Result from revaluation of foreign currencies	23	21	(171)	(171)
<b>Increase of cash and cash equivalents before changes in assets and liabilities</b>	<b>(2,040)</b>	<b>(2,061)</b>	<b>5,361</b>	<b>5,373</b>
Change in due from credit institutions	509	509	3,170	3,156
Change in loans	(32,260)	(32,260)	(64,358)	(64,358)
Change in available-for-sale financial assets	(276)	(368)	10,489	10,489
Change in held for trading financial assets	1,315	1,315	1,031	934
Change in deferred expense and accrued income	(53)	(48)	(123)	(118)
Change in other assets	207	209	(261)	(261)
Change in due to credit institutions	1,365	1,360	(11,225)	(11,225)
Change in deposits	(28,164)	(27,990)	57,766	57,996
Change in held for trading financial liabilities	(305)	(305)	308	308
Change in deferred income and accrued expense	365	366	498	494
Change in other liabilities	(111)	(111)	(271)	(269)
Income tax paid	477	477	(1,472)	(1,472)
<b>Net cash used in operating activities</b>	<b>(58,971)</b>	<b>(58,907)</b>	<b>913</b>	<b>1,047</b>

*(to be continued)*

	2008 Group	2008 Bank	2007 Group	2007 Bank
<b>Cash flows from investing activities</b>				
Purchase of property, plant and equipment, and intangibles	(707)	(707)	(1,676)	(1,676)
Sale of property, plant and equipment	5	5	15	16
Purchase of held-to-maturity investments	-	-	3,976	3,976
Investments in subsidiaries	-	(50)	-	(45)
<b>Net cash from investing activities</b>	<b>(702)</b>	<b>(752)</b>	<b>2,315</b>	<b>2,271</b>
<b>Cash flows from financing activities</b>				
Mortgage bonds (repaid)	-	-	(9,909)	(10,015)
Proceeds from issue of subordinated liabilities	7,731	7,731	-	-
<b>Net cash from financing activities</b>	<b>7,731</b>	<b>7,731</b>	<b>(9,909)</b>	<b>(10,015)</b>
<b>Net (decrease)/increase of cash and cash equivalents</b>	<b>(51,942)</b>	<b>(51,928)</b>	<b>(6,681)</b>	<b>(6,697)</b>
Opening balance of cash and cash equivalents	78,660	78,644	85,170	85,170
Results from exchange rate differences	(23)	(21)	171	171
<b>Closing balance of cash and its equivalents</b>	<b>26,695</b>	<b>26,695</b>	<b>78,660</b>	<b>78,644</b>

**Cash and cash equivalents include the following:**

	31.12.2008 Group	31.12.2008 Bank	31.12.2007 Group	31.12.2007 Bank
Cash and due from Bank of Latvia	16,764	16,764	25,987	25,987
Due from credit institutions including term deposits due in less than three months	21,113	21,113	53,179	53,163
Due to credit institutions including term deposits due in less than three months	(11,182)	(11,182)	(506)	(506)
<b>Total</b>	<b>26,695</b>	<b>26,695</b>	<b>78,660</b>	<b>78,644</b>

Chairman of the Board \_\_\_\_\_ Dmitrijs Cimber

Member of the Board \_\_\_\_\_ Inga Vagele

26 February 2009

**NOTES TO THE CONSOLIDATED AND BANK FINANCIAL STATEMENTS****1. COMMENTS TO THE FINANCIAL STATEMENTS****1.1. General information**

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

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

***Legislation regulating the Bank's operations***

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

**2. PRINCIPAL ACCOUNTING POLICIES*****Statement of compliance***

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

***Basis for preparation of the financial statements***

The financial statements have been prepared on the historical cost basis, except for land and buildings, which are stated at revalued amount and derivative financial instruments, financial assets at fair value through profit and loss account and available for sale financial assets which are stated at fair value. Other financial assets and liabilities and non-financial assets and liabilities are carried at amortized cost.

These financial statements have been prepared in the functional currency of the Group and Bank, the Latvian national currency, in thousands of lats ("000'LVL"), unless otherwise stated.

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

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

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

Judgments made by management in the application of IFRSs that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year relate to loan loss impairment allowances.

***Basis of Consolidation***

Subsidiaries are entities controlled by the Group. Control is achieved where the company has the power to govern the financial and operating policies of an investee enterprise so as to obtain benefits from its activities.

***Accounting for income and expenses***

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

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

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

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

### **Foreign currency transactions**

The income and expenses of the Group and Bank are accounted for in the national currency – LVL. In cases when income is recognized (or expenses incurred) in a foreign currency, these amounts are translated into LVL at the rate of exchange on the date of the transaction

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value or cost are translated at the exchange rate at the date that the fair value or cost was determined.

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

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

### **Property, plant and equipment**

Property, plant and equipment and intangible assets are initially recognized in a balance-sheet at their acquisition cost including transaction costs.

Land plots, buildings and constructions owned by the Group and Bank are revalued up to their fair value on the grounds of their market value no less than once a 3 years. The value of buildings and construction after revaluation shall be reduced for depreciation, which has been calculated taking into account the remaining useful life of these assets. The Group and Bank ensure valuation of its real estate by an independent certified expert at least once a year. Increase in the value of land plots, buildings and constructions are shown in the item "Revaluation Reserve" of the balance-sheet. Decrease in the value shall be recognized as expenditure, excluding the decrease, which does not exceed the amount of the increase, which has been included in the item "Revaluation Reserves" on the balance-sheet.

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

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

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

Leasehold improvements are capitalized and amortized during the term of the lease agreement.

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

### **Financial instruments**

Financial instruments are classified into the following categories.

#### *Financial assets held for trading*

Financial assets held for trading and at fair value through profit and loss account are initially recognized at fair value and subsequently carried at fair value based on market prices. All related realized and unrealized profits and losses are included in net trading income. Financial assets held for trading are recognized using a settlement date basis for both purchases and sales.

*Available-for-sale financial assets*

Available-for-sale financial assets are initially recognized at fair value including directly attributable transactions costs and subsequently carried at fair value based on market prices. When equity securities are not traded in active markets, the Bank and Group uses alternative methods to determine fair value (for example, prices of similar investments).

Those available-for-sale financial assets that do not have a quoted market price and whose fair value cannot be reliably measured by other models mentioned above, are measured at cost, less allowance for permanent diminution in value, when appropriate.

Gains or losses on available-for-sale investments revaluation are recognized directly in equity, through the statement of changes in equity, except for impairment losses and foreign exchange gains and losses until the financial asset is derecognized, at which time the cumulative gain or loss previously recognized in equity is recognized in profit or loss.

*Held-to-maturity investments*

Held to maturity investments are financial assets with fixed or determinable payments and fixed maturities and the Group and Bank has the positive intent and ability to hold them to maturity.

Held to maturity investments are initially measured at fair value including directly attributable transactions costs and are subsequently remeasured at amortised cost, less allowance for impairment, if any. Interest earned on held to maturity securities is reported as interest income.

*Derivative financial instruments*

In the normal course of business, the Group and Bank is a party to foreign currency swap contracts. Profits or losses resulting from changes in exchange rate subsequent to the date of the transaction are recognized in the statement of income as a profit or loss from revaluation of foreign currencies.

*Off-balance sheet items*

In the ordinary course of business, the Group and Bank has been involved in off-balance sheet financial instruments consisting of commitments to extend loans, financial guarantees and commercial letters of credit. Such financial instruments are recorded in the financial statements upon the conclusion of the respective agreements.

**Loans**

Loans are measured at amortised cost using the effective interest rate method.

Impairment losses on loans are measured as the difference between the carrying amount of the loan and the present value of estimated cash flows discounted at the original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against loans and advances. Interest on the impaired asset continues to be recognised through the unwinding of the discount.

When a loan is uncollectible it is written off against the related impairment allowance; subsequent recoveries are credited to the income statement.

**Derecognition**

Financial assets are derecognised when the rights to receive cash flows from the financial asset have expired or where the Group and Bank has transferred substantially all risks and rewards of ownership. Financial liabilities are derecognised when they are extinguished – that is, when the obligation is discharged, cancelled or expires.

**Investments in subsidiaries**

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

**Provisions**

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



**Cash and cash equivalents**

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

**Corporate income tax**

Corporate income tax comprises current and deferred tax. Corporate income tax is calculated in accordance with Latvian tax regulations and is based on the taxable profit reported for the taxation period.

Deferred tax is recognized using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax bases. The amount of deferred tax recognized is based on the expected manner of realization as settlement of the carrying amount of assets and liabilities using tax rates enacted or substantively enacted at the balance sheet date. The principal temporary differences arise from the differing rates and methods used for accounting and tax depreciation on property, plant and equipment and accruals.

Deferred tax assets are only recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

**Funds under trust management**

Funds managed by the Group and Bank on behalf of its customers, funds and other institutions are not regarded as assets of the Group and Bank and, therefore, are not included in its balance sheet. Risks and benefits associated with these assets is borne by the clients of the Bank and Group.

**Mortgage bonds**

Debt securities issued by the Group and Bank are stated at amortised cost using the effective interest rate method. Interest expense arising on the issue of debt securities is included in the profit and loss statement line "Interest expense".

**Fair value of financial assets and liabilities**

Fair value represents the amount at which an asset could be exchanged or a liability settled on an arm's length basis or based on discounted future cash flow method. Where, in the opinion of the management, the fair values of financial assets and liabilities differ materially from their carrying values, such fair values are separately disclosed in the notes to the financial statements.

**Impairment of financial assets**

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

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

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

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

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

**Impairment of non-financial assets**

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

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

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

**Share-based payment transactions**

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

**Segment reporting**

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

**Measurement of non-current assets classified as held for sale**

Non-current assets are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition. The Bank and Group measures non-current assets classified as held for sale at the lower of its carrying amount and fair value less costs to sell.

**Earnings per share**

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

**Employee benefits**

The Bank and Group provides short-term benefits to employees which are recognized through profit and loss. The Bank and Group do not have in any long-term defined benefit plans or other long term employee benefits. Pension obligations for employees rest with the State or the employee.

**Risk management**

Risk management is the cornerstone of the Group and Bank's business activity and a key element within its planning process. Through the developed system for the identification, supervision and management of its main financial risks the Group and Bank ensures that it has the functional capability to manage the risk in new and existing businesses, and that business plans are consistent with the risk appetite. The Group and Bank's Risk management system is regularly reviewed taking into account the market conditions and the Group and Bank's business strategy and in order to set appropriate risk limits and controls. The Executive Board has the overall responsibility for the establishing and supervision of the Group and Bank's risk management framework. The Group and Bank have established a Credit committees and Compliance Review Board, which are responsible for developing and supervising of the respective risk management policies and procedures.

The risk appetite is the level of risk the Group and Bank choose to take to reach its strategic objectives, acknowledging a range of possible outcomes, as business plans are implemented. The Group and Bank's

Risk management framework, combines a top-down view of its capacity to take risk, with a bottom-up view of the business risk profile requested and recommended by each business area. The objectives of the risk appetite framework are to:

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

### **Risk elements and policy framework**

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

#### **Credit Risk**

All lending transactions of the Bank are connected with appropriate level Credit Risk. The Group and Bank accept and limit the risk by defining reasonable limits and elaborating Internal Control system for their supervision. The responsibility for the credit decision making and management is delegated to the Credit Risk Committees with all the deals over LVL 4 million approved by the Group and Bank's Executive Board and Supervisory Council. The principal elements of Credit Risk management of the Group and Bank include:

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

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

#### **Market risk**

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

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

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

#### **Foreign currency risk**

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

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

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

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

### **Operational Risk**

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

- Ensure that the full range of significant Operational Risks is encompassed within the risk management process of the Group and Bank;
- Develop controls to mitigate this risks regarding their frequency and their impact;
- Improve risk transparency and promote common understanding of risks and controls among organization.

### **Interest rate risk**

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

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

### **Liquidity risk**

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

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

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

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

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

### **Residual risk**

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

**Trading portfolio management policy**

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

**Investment policy**

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

**The policy of interest conflict situation management**

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

**Client policy**

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

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

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

**BASEL II**

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

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

**Sensitivity analysis**

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

Effect in thousands of LVL

	<b>Group</b>	<b>Bank</b>
<b>31.12.2008</b>		
USD	(4)	(4)
EUR	23	23
RUB	4	4
GBP	4	4
<b>31.12.2007</b>		
USD	(8)	(8)
EUR	(9)	(9)
RUB	6	6

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GBP 1 1

**Cash flow sensitivity analysis**

A change of 100 basis points in interest rates at the reporting date would have increased (decreased) equity and profit or loss during the next 1 year period by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed at the same basis for 2007.

	100 bps increase		100 bps decrease	
	Profit and loss	Equity	Profit and loss	Equity
<b>31.12.2008</b>				
Bank	(124)	(162)	124	162
Group	(156)	(162)	156	162
<b>31.12.2007</b>				
Bank	38	-	(38)	-
Group	66	-	(66)	-

**3. CASH AND DUE FROM THE CENTRAL BANK**

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

According to the rules of the Bank of Latvia (BoL) the Bank holds mandatory reserves with BoL, which at the end of 2008 were required to be at least the sum of:

- 3% of deposits with initial term above 2 years
- 3% of deposits with withdrawal notice term above 2 years
- 3% of irrevocable debt securities with maturity above 2 years
- 0% of liabilities in repo deals
- 5% of other deposits, issued debt securities, amounts due to MFIs, excluding BoL and banks subject to mandatory reserve requirements.

In accordance with Bank of Latvia regulations in 2007, the Bank maintained a compulsory reserve in the amount of 8% of the average monthly balance of the following total on deposit with the Bank of Latvia:

- Demand and term deposits
- Due to other banks ( non - residents)
- Bonds and other debt securities issued by the Bank

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

As of 31 December 2008 and 2007 the compulsory reserve of the Bank was 9,850 thousand LVL and 17,878 thousand LVL, respectively.

**4. INVESTMENTS IN FINANCIAL ASSETS**

	31.12.2008	31.12.2008	31.12.2007	31.12.2007
	Group	Bank	Group	Bank
Held for trading financial assets	847	1,407	1,506	1,974
Available-for-sale financial assets	2,959	2,959	4,274	4,274
Held-to-maturity financial assets	1,958	1,958	1,957	1,957
	<b>5,764</b>	<b>6,324</b>	<b>7,737</b>	<b>8,205</b>

Financial instruments by listing:

	31.12.2008	31.12.2008	31.12.2007	31.12.2007
	Group	Bank	Group	Bank
<b>Held for trading financial assets</b>				
Quoted securities	695	-	1,243	144
Non-quoted securities	123	1,394	-	1,567
Non-quoted derivatives (Note 7)	29	13	263	263
<b>Total</b>	<b>847</b>	<b>1,407</b>	<b>1,506</b>	<b>1,974</b>
<b>Available-for-sale financial assets</b>				
Quoted securities	2,959	2,959	4,274	4,274
<b>Total</b>	<b>2,959</b>	<b>2,959</b>	<b>4,274</b>	<b>4,274</b>
<b>Held-to-maturity investments</b>				
Quoted securities	1,958	1,958	1,957	1,957
<b>Total</b>	<b>1,958</b>	<b>1,958</b>	<b>1,957</b>	<b>1,957</b>
<b>Total</b>	<b>5,764</b>	<b>6,324</b>	<b>7,737</b>	<b>8,205</b>

Financial instruments by type:

	31.12.2008	31.12.2008	31.12.2007	31.12.2007
	Group	Bank	Group	Bank
Fixed income government securities	5,012	4,917	6,419	6,231
Credit institution fixed-income securities	250	-	321	-
Private companies fixed-income securities	350	-	445	84
<b>Total bonds and other fixed-income securities</b>	<b>5,612</b>	<b>4,917</b>	<b>7,185</b>	<b>6,315</b>
Shares and other non-fixed income securities	123	1,394	289	1,627
Derivatives	29	13	263	263
<b>Total</b>	<b>5,764</b>	<b>6,324</b>	<b>7,737</b>	<b>8,205</b>

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

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

	31.12.2008	31.12.2008	31.12.2007	31.12.2007
	Group	Bank	Group	Bank
Latvia	4,985	4,917	6,355	6,231
OECD countries	80	-	108	-
Other countries	547	-	722	84
<b>Total</b>	<b>5,612</b>	<b>4,917</b>	<b>7,185</b>	<b>6,315</b>



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

	31.12.2008	31.12.2008	31.12.2007	31.12.2007
	Group	Bank	Group	Bank
Latvia	2	1,333	7	1,567
OECD countries	61	61	60	60
Other countries	60	-	222	-
<b>Total</b>	<b>123</b>	<b>1,394</b>	<b>289</b>	<b>1,627</b>

## 5. DUE FROM CREDIT INSTITUTIONS

Due from credit institution is comprised as follows:

	31.12.2008	31.12.2008	31.12.2007	31.12.2007
	Group	Bank	Group	Bank
<b>Demand</b>				
Credit institutions of OECD countries	20,905	20,905	13,669	13,669
Latvian credit institutions	1,949	1,949	11,295	11,295
Credit institutions non-OECD countries	222	222	637	637
<b>Total</b>	<b>23,076</b>	<b>23,076</b>	<b>25,601</b>	<b>25,601</b>
<b>Term</b>				
Latvian credit institutions	-	-	30,050	30,034
<b>Total</b>	<b>-</b>	<b>-</b>	<b>30,050</b>	<b>30,034</b>
<b>Total demand and term</b>	<b>23,076</b>	<b>23,076</b>	<b>55,651</b>	<b>55,635</b>

Average interest rate received on deposits due from credit institutions for the Group and Bank was 3,23% in 2008, and 4.32% in 2007.

As of 31 December 2008 within due from banks 1,962 thousand LVL are used as a collateral against client issued guarantees and letters of credit, as of 31 December 2007 – 2,472 thousand LVL.

## 6. LOANS

Loans by groups are comprised as follows:

	31.12.2008	31.12.2008	31.12.2007	31.12.2007
	Group	Bank	Group	Bank
General government	646	646	753	753
Financial agencies	52,041	52,041	3,000	3,000
Private companies	98,079	98,079	102,537	102,537
Private individuals	50,174	50,174	63,288	63,288
State companies and municipalities	7,675	7,675	9,035	9,035
<b>Gross loans</b>	<b>208,615</b>	<b>208,615</b>	<b>178,613</b>	<b>178,613</b>
<i>Allowances for loan losses (Note 23)</i>	<i>(11,320)</i>	<i>(11,320)</i>	<i>(1,655)</i>	<i>(1,655)</i>
<b>Total</b>	<b>197,295</b>	<b>197,295</b>	<b>176,958</b>	<b>176,958</b>

In 2008, the Bank's average interest rate for loans granted was 7,79%, in 2007 it was 8.06%.

Loans issued by type:

	31.12.2008	31.12.2008	31.12.2007	31.12.2007
	Group	Bank	Group	Bank
Mortgage loans	44,565	44,565	59,043	59,043
Commercial loans	23,223	23,223	47,097	47,097
Industrial loans	125,289	125,289	42,034	42,034
Finance lease	10,595	10,595	12,998	12,998
Consumer loans	3,213	3,213	3,837	3,837
Credits for credit cards	760	760	563	563
Loans backed by claim rights ( <i>factoring</i> )	120	120	92	92
Other	850	850	12,949	12,949
<b>Gross loans</b>	<b>208,615</b>	<b>208,615</b>	<b>178,613</b>	<b>178,613</b>
<i>Allowances for loan losses (Note 23)</i>	<i>(11,320)</i>	<i>(11,320)</i>	<i>(1,655)</i>	<i>(1,655)</i>
<b>Total</b>	<b>197,295</b>	<b>197,295</b>	<b>176,958</b>	<b>176,958</b>

Loans by industry are comprised as follows:

	31.12.2008	31.12.2008	31.12.2007	31.12.2007
	Group	Bank	Group	Bank
<b>Industry</b>				
Manufacturing industry	23,207	23,207	24,797	24,797
Trade	13,612	13,612	9,947	9,947
Real estate, renting and other business activities	15,265	15,265	17,530	17,530
Agriculture and forestry	13,868	13,868	13,407	13,407
Transport, storage and communications	9,467	9,467	9,327	9,327
Other community, social and personal service activities	4,874	4,874	5,224	5,224
Construction	8,929	8,929	11,200	11,200
Electricity, gas and water supply	5,229	5,229	9,043	9,043
Hotels and restaurants	4,723	4,723	4,192	4,192
Fishing	1,727	1,727	1,644	1,644
Financial intermediation	55,312	55,312	6,203	6,203
Mining and quarrying	1,377	1,377	1,270	1,270
Other services	850	850	1,541	1,541
<b>Total</b>	<b>158,440</b>	<b>158,440</b>	<b>115,325</b>	<b>115,325</b>
Loans to private individuals	50,175	50,175	63,288	63,288
<b>Gross loans</b>	<b>208,615</b>	<b>208,615</b>	<b>178,613</b>	<b>178,613</b>
<i>Allowances for loan losses (Note 23)</i>	<i>(11,320)</i>	<i>(11,320)</i>	<i>(1,655)</i>	<i>(1,655)</i>
<b>Total</b>	<b>197,295</b>	<b>197,295</b>	<b>176,958</b>	<b>176,958</b>

Group's loans issued by country of customers:

Country	Amount of loans		Allowance		Net value of loans	
	31.12.2008	31.12.2007	31.12.2008	31.12.2007	31.12.2008	31.12.2007
Latvia	207,976	177,030	(11,320)	(1,648)	196,656	175,382
OECD countries	555	811	-	(1)	555	810
Other countries	84	772	-	(6)	84	766
<b>Total</b>	<b>208,615</b>	<b>178,613</b>	<b>(11,320)</b>	<b>(1,655)</b>	<b>197,295</b>	<b>176,958</b>

Bank's loans issued by country of customers:

Country	Amount of loans		Allowance		Net value of loans	
	31.12.2008	31.12.2007	31.12.2008	31.12.2007	31.12.2008	31.12.2007
Latvia	207,976	177,030	(11,320)	(1,648)	196,656	175,382
OECD countries	555	811	-	(1)	555	810
Other countries	84	772	-	(6)	84	766
<b>Total</b>	<b>208,615</b>	<b>178,613</b>	<b>(11,320)</b>	<b>(1,655)</b>	<b>197,295</b>	<b>176,958</b>

Loans by classification and grouped:

	31.12.2008	31.12.2008	31.12.2007	31.12.2007
	Group	Bank	Group	Bank
<b>Loans assessed on individual basis</b>	<b>167,737</b>	<b>167,737</b>	<b>11,982</b>	<b>11,982</b>
<i>Standard</i>	142,009	142,009	9,758	9,758
<i>Watch-list</i>	18,677	18,677	1,170	1,170
<i>Substandard</i>	5,246	5,246	12	12
<i>Doubtful</i>	1,329	1,329	162	162
<i>Bad</i>	476	476	880	880
Allowances	(7,464)	(7,464)	(1,414)	(1,414)
<b>Net loans assessed on individual basis</b>	<b>160,273</b>	<b>160,273</b>	<b>10,568</b>	<b>10,568</b>
<b>Assessed grouped loans</b>	<b>40,878</b>	<b>40,878</b>	<b>166,631</b>	<b>166,631</b>
Allowances	(3,856)	(3,856)	(241)	(241)
<b>Net assessed grouped loans</b>	<b>37,022</b>	<b>37,022</b>	<b>166,390</b>	<b>166,390</b>
<b>Net loans, Total</b>	<b>197,295</b>	<b>197,295</b>	<b>176,958</b>	<b>176,958</b>

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

	31.12.2008	31.12.2008	31.12.2007	31.12.2007
	Group	Bank	Group	Bank
<b>Loans to legal persons with collateral</b>				
Loans with no impairment allowance:	122,827	122,827	99,437	99,437
<i>Loans without delinquency</i>	109,358	109,358	96,605	96,605
<i>Loans with delinquency</i>	13,469	13,469	2,832	2,832
Loans with an impairment allowance	21,385	21,385	3,122	3,122
<i>Loans without delinquency</i>	8,840	8,840	1,595	1,595
<i>Loans with delinquency</i>	12,545	12,545	1,527	1,527
Impairment allowance	(4,718)	(4,718)	(800)	(800)
<b>Net loans to legal persons with collateral</b>	<b>139,494</b>	<b>139,494</b>	<b>101,759</b>	<b>101,759</b>
<b>Financial lease</b>				
Loans with no impairment allowance:	8,271	8,271	12,815	12,815
<i>Loans without delinquency</i>	6,042	6,042	12,102	12,102
<i>Loans with delinquency</i>	2,229	2,229	713	713
Loans with an impairment allowance	2,323	2,323	175	175
<i>Loans without delinquency</i>	67	67	18	18
<i>Loans with delinquency</i>	2,256	2,256	157	157
Impairment allowance	(870)	(870)	(112)	(112)
<b>Total financial lease</b>	<b>9,724</b>	<b>9,724</b>	<b>12,878</b>	<b>12,878</b>
<b>Mortgage loans</b>				
Loans with no impairment allowance:	32,004	32,004	45,663	45,663
<i>Loans without delinquency</i>	24,677	24,677	41,299	41,299
<i>Loans with delinquency</i>	7,327	7,327	4,364	4,364
Loans with an impairment allowance	12,561	12,561	3,137	3,137
<i>Loans without delinquency</i>	176	176	654	654
<i>Loans with delinquency</i>	12,385	12,385	2,483	2,483
Impairment allowance	(4,837)	(4,837)	(292)	(292)
<b>Total mortgage loans</b>	<b>39,728</b>	<b>39,728</b>	<b>48,508</b>	<b>48,508</b>
<b>Loans to private persons with other collateral</b>				
Loans with no impairment allowance:	1,256	1,256	8,752	8,752
<i>Loans without delinquency</i>	851	851	8,560	8,560
<i>Loans with delinquency</i>	405	405	192	192
Loans with an impairment allowance	245	245	59	59
<i>Loans without delinquency</i>	2	2	5	5
<i>Loans with delinquency</i>	243	243	54	54
Impairment allowance	(121)	(121)	(23)	(23)
<b>Total loans to private persons with other collateral</b>	<b>1,380</b>	<b>1,380</b>	<b>8,788</b>	<b>8,788</b>

	31.12.2008	31.12.2008	31.12.2007	31.12.2007
	Group	Bank	Group	Bank
<b>Card, overdraft and consumer loans without collateral</b>				
Loans with no impairment allowance:	6,751	6,751	5,021	5,021
<i>Loans without delinquency</i>	6,534	6,534	4,662	4,662
<i>Loans with delinquency</i>	217	217	359	359
Loans with an impairment allowance	992	992	432	432
<i>Loans without delinquency</i>	529	529	6	6
<i>Loans with delinquency</i>	463	463	426	426
Impairment allowance	(774)	(774)	(428)	(428)
<b>Total card, overdraft and consumer loans without collateral</b>	<b>6,969</b>	<b>6,969</b>	<b>5,025</b>	<b>5,025</b>
<b>Total</b>	<b>197,295</b>	<b>197,295</b>	<b>176,958</b>	<b>176,958</b>

Loans quality by delinquency periods:

	31.12.2008	31.12.2008	31.12.2007	31.12.2007
	Group	Bank	Group	Bank
<b>Loans with no impairment allowance</b>	<b>171,096</b>	<b>171,096</b>	<b>171,688</b>	<b>171,688</b>
Loans without delinquency	147,434	147,434	163,228	163,228
Delinquent loans	23,662	23,662	8,460	8,460
<i>Delinquent up to 30 days</i>	14,405	14,405	4,012	4,012
<i>Delinquent 30-60 days</i>	4,449	4,449	2,373	2,373
<i>Delinquent 60-90 days</i>	3,632	3,632	687	687
<i>Delinquent over 90 days</i>	1,176	1,176	1,388	1,388
<b>Loans with an impairment allowance</b>	<b>37,519</b>	<b>37,519</b>	<b>6,925</b>	<b>6,925</b>
Loans without delinquency	9,607	9,607	2,278	2,278
Delinquent loans	27,912	27,912	4,647	4,647
<i>Delinquent up to 30 days</i>	879	879	23	23
<i>Delinquent 30-60 days</i>	426	426	699	699
<i>Delinquent 60-90 days</i>	4,114	4,114	592	592
<i>Delinquent over 90 days</i>	22,493	22,493	3,333	3,333
<b>Loans, total</b>	<b>208,615</b>	<b>208,615</b>	<b>178,613</b>	<b>178,613</b>
Impairment allowance	(11,320)	(11,320)	(1,655)	(1,655)
<b>Net loans, total</b>	<b>197,295</b>	<b>197,295</b>	<b>176,958</b>	<b>176,958</b>

**7. DERIVATIVE ASSETS AND LIABILITIES**

Bank's foreign currency interchange deals (swap) fair value are as follows:

	31.12.2008	31.12.2008	31.12.2007	31.12.2007
	Assets	Liabilities	Assets	Liabilities
Foreign currency interchange deals (swap)				
Notional value	9,109	(9,128)	73,237	(73,311)
<b>Fair value</b>	<b>13</b>	<b>(32)</b>	<b>263</b>	<b>(337)</b>

**8. INVESTMENTS IN SUBSIDIARIES**

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

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

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

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

\* until 23 April 2008 IS "BTB Asset management"

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

## 9. PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

## Group's property, plant, equipment and intangible assets

	Land and buildings	Leasehold improvements	Vehicles	Office equipment	Other land and buildings	Intangible assets	Total
<b>Historical cost</b>							
<b>As of 31.12.2006</b>	<b>4,299</b>	<b>1,194</b>	<b>321</b>	<b>4,880</b>	<b>135</b>	<b>2,187</b>	<b>13,016</b>
Purchases	114	12	33	1,312	-	205	1,676
Disposals	-	(8)	(14)	(1,506)	(16)	-	(1,544)
<b>As of 31.12.2007</b>	<b>4,413</b>	<b>1,198</b>	<b>340</b>	<b>4,686</b>	<b>119</b>	<b>2,392</b>	<b>13,148</b>
Purchases	-	74	17	558	-	58	707
Disposals	-	(80)	-	(139)	-	-	(219)
<b>As of 31.12.2008</b>	<b>4,413</b>	<b>1,192</b>	<b>357</b>	<b>5,105</b>	<b>119</b>	<b>2,450</b>	<b>13,636</b>
<b>Accumulated depreciation</b>							
<b>As of 31.12.2006</b>	<b>67</b>	<b>421</b>	<b>159</b>	<b>2,632</b>	<b>-</b>	<b>1,303</b>	<b>4,582</b>
Charge for the year	68	91	49	738	-	324	1,270
Depreciation on disposals	-	(8)	(11)	(1,477)	-	-	(1,496)
<b>As of 31.12.2007</b>	<b>135</b>	<b>504</b>	<b>197</b>	<b>1,893</b>	<b>-</b>	<b>1,627</b>	<b>4,356</b>
Charge for the year	72	96	51	854	-	340	1,413
Depreciation on disposals	-	(80)	-	(112)	-	-	(192)
<b>As of 31.12.2008</b>	<b>207</b>	<b>520</b>	<b>248</b>	<b>2,635</b>	<b>-</b>	<b>1,967</b>	<b>5,577</b>
<b>Net book value</b>							
<b>As of 31.12.2006</b>	<b>4,232</b>	<b>773</b>	<b>162</b>	<b>2,248</b>	<b>135</b>	<b>884</b>	<b>8,434</b>
<b>As of 31.12.2007</b>	<b>4,278</b>	<b>694</b>	<b>143</b>	<b>2,793</b>	<b>119</b>	<b>765</b>	<b>8,792</b>
<b>As of 31.12.2008</b>	<b>4,206</b>	<b>672</b>	<b>109</b>	<b>2,470</b>	<b>119</b>	<b>483</b>	<b>8,059</b>

## Bank's property, plant, equipment and intangible assets

	Land and buildings	Leasehold improvements	Vehicles	Office equipment	Other land and buildings	Intangible assets	Total
<b>Historical cost</b>							
<b>As of 31.12.2006</b>	<b>4,299</b>	<b>1,194</b>	<b>321</b>	<b>4,880</b>	<b>135</b>	<b>2,183</b>	<b>13,012</b>
Purchases	114	12	33	1,312		205	1,676
Disposals		(8)	(14)	(1,506)	(16)		(1,544)
<b>As of 31.12.2007</b>	<b>4,413</b>	<b>1,198</b>	<b>340</b>	<b>4,686</b>	<b>119</b>	<b>2,388</b>	<b>13,144</b>
Purchases	-	74	17	558	-	58	707
Disposals	-	(80)	-	(139)	-	-	(219)
<b>As of 31.12.2008</b>	<b>4,413</b>	<b>1,192</b>	<b>357</b>	<b>5,105</b>	<b>119</b>	<b>2,446</b>	<b>13,632</b>
<b>Accumulated depreciation</b>							
<b>As of 31.12.2006</b>	<b>67</b>	<b>421</b>	<b>159</b>	<b>2,632</b>	<b>-</b>	<b>1,301</b>	<b>4,580</b>
Charge for the year	68	91	49	738		324	1,270
Depreciation on disposals	-	(8)	(11)	(1,477)	-	-	(1,496)
<b>As of 31.12.2007</b>	<b>135</b>	<b>504</b>	<b>197</b>	<b>1,893</b>	<b>-</b>	<b>1,625</b>	<b>4,354</b>
Charge for the year	72	96	51	854	-	338	1,411
Depreciation on disposals	-	(80)	-	(112)	-	-	(192)
<b>As of 31.12.2008</b>	<b>207</b>	<b>520</b>	<b>248</b>	<b>2,635</b>	<b>-</b>	<b>1,963</b>	<b>5,573</b>
<b>Net book value</b>							
<b>As of 31.12.2006</b>	<b>4,232</b>	<b>773</b>	<b>162</b>	<b>2,248</b>	<b>135</b>	<b>882</b>	<b>8,432</b>
<b>As of 31.12.2007</b>	<b>4,278</b>	<b>694</b>	<b>143</b>	<b>2,793</b>	<b>119</b>	<b>763</b>	<b>8,790</b>
<b>As of 31.12.2008</b>	<b>4,206</b>	<b>672</b>	<b>109</b>	<b>2,470</b>	<b>119</b>	<b>483</b>	<b>8,059</b>

Depreciation, amortisation and loss on disposal of property, plant and equipment and intangible assets	Group		Bank	
	31.12.2008	31.12.2007	31.12.2008	31.12.2007
Amortisation of intangible assets and depreciation of property, plant and equipment	1,412	1,270	1,411	1,270
Loss on disposal of property, plant and equipment	27	33	27	32
<b>Total</b>	<b>1,439</b>	<b>1,303</b>	<b>1,438</b>	<b>1,302</b>

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

Property, plant and equipment revaluation was not performed in the year 2007 and 2008



**10. OTHER ASSETS**

Other assets are as follows:

	<b>31.12.2008</b>	<b>31.12.2008</b>	<b>31.12.2007</b>	<b>31.12.2007</b>
	<b>Group</b>	<b>Bank</b>	<b>Group</b>	<b>Bank</b>
Money in transit	286	283	1,230	1,230
Accounts receivables	30	30	39	39
Traveller checks	1	1	1	1
Foreign currency exchange ( spot) contracts	315	315	7	7
Corporate income tax receivable	886	886	518	518
Other assets	233	233	163	163
<b>Total</b>	<b>1,751</b>	<b>1,748</b>	<b>1,958</b>	<b>1,958</b>

**11. DUE TO CREDIT INSTITUTIONS**

Due to credit institutions are comprised as follows:

	<b>31.12.2008</b>	<b>31.12.2008</b>	<b>31.12.2007</b>	<b>31.12.2007</b>
	<b>Group</b>	<b>Bank</b>	<b>Group</b>	<b>Bank</b>
<b>Demand</b>				
Latvian credit institution	4,850	4,850	435	435
Residents of OECD countries	3,332	3,332	-	-
World Bank's transit funds	444	444	501	501
Residents of non-OECD countries	-	-	71	71
<b>Total demand</b>	<b>8,626</b>	<b>8,626</b>	<b>1,007</b>	<b>1,007</b>
<b>Term in Latvian credit institution</b>	<b>4,422</b>	<b>4,422</b>	<b>-</b>	<b>-</b>
<b>Total</b>	<b>13,048</b>	<b>13,048</b>	<b>1,007</b>	<b>1,007</b>

**12. DEPOSITS**

Due to clients are comprised as follows:

	<b>31.12.2008</b>	<b>31.12.2008</b>	<b>31.12.2007</b>	<b>31.12.2007</b>
	<b>Group</b>	<b>Bank</b>	<b>Group</b>	<b>Bank</b>
Latvian residents	120,254	120,917	136,974	137,468
Residents of OECD countries	80,987	80,987	79,705	79,705
Residents of non-OECD countries	2,478	2,478	15,204	15,204
<b>Total</b>	<b>203,719</b>	<b>204,382</b>	<b>231,883</b>	<b>232,377</b>

Demand and term deposits are comprised as follows:

	31.12.2008	31.12.2008	31.12.2007	31.12.2007
	Group	Bank	Group	Bank
<b>Demand deposits</b>				
Central governments	144	144	1,538	1,538
Local governments	6,797	6,797	12,320	12,320
Financial agencies	868	1,274	1,345	1,706
State companies	934	934	6,090	6,090
Private companies	20,782	20,782	51,606	51,606
Individuals	25,809	25,809	38,685	38,685
Other	769	769	975	975
<b>Total demand deposits</b>	<b>56,103</b>	<b>56,509</b>	<b>112,559</b>	<b>112,920</b>
<b>Term deposits</b>				
State companies	180	180	-	-
Local governments	1,102	1,102	473	473
Financial agencies	91,067	91,324	71,930	72,063
Private companies	9,253	9,253	8,669	8,669
Individuals	46,011	46,011	38,240	38,240
Other	3	3	12	12
<b>Total term deposits</b>	<b>147,616</b>	<b>147,873</b>	<b>119,324</b>	<b>119,457</b>
<b>Total demand and term deposits</b>	<b>203,719</b>	<b>204,382</b>	<b>231,883</b>	<b>232,377</b>

In 2008 the average interest rates paid by the Bank for demand and term deposits were as follows: for demand deposits – 0.41%, for term deposits – 6.16%

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

### 13. DEBT SECURITIES

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

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

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

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

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

In 2008 repayment of the mortgage bonds did not happen. In 2007 Bank repaid mortgage bonds early of 3 million LVL, 3 million USD and 3 million EUR, and repaid mortgage bonds for 3 million LVL at maturity.

Total amount of the debt securities issued by the Bank as at 31 December 2008 consist of mortgage bonds in circulation for total nominal value (excluding accrued interest) of 4,999 thousand LVL (as of 31 December 2007: 4,966 thousand LVL).

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

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

\* floating coupon interest rate (6 month USD LIBOR plus 1,25%), which is changed five business days before the 1 June and the 1 December.

\*\* floating coupon interest rate (6 month EUR LIBOR plus 0,80%), which is changed five business days before the 01 April and the 01 October.

#### (b) Structure of mortgage bonds coverage

Mortgage bonds in circulation are secured by assets included in the Mortgage Bond Cover Register which as of 31 December 2008 amounted to 5,644 thousand LVL (as of 31 December 2007 - 6,243 thousand LVL). Assets included in the Mortgage Bond Cover Register consisted of mortgage loans amounting to 5,644 thousand LVL (as of 31 December 2007 mortgage loans amounting to 6,243 thousand LVL). All transactions with the bonds are administered by the Riga Stock Exchange, and the bonds are filed in the exchange.

As at 31 December 2008 the amount of assets included in the Mortgage Bond Cover Register exceeded the amount of mortgage bonds in circulation by 12% (as of 31 December 2007 - 26%) of the amount of weighted assets included in the Mortgage Bond Cover Register (minimum statutory requirement: 10%).

#### 14. OTHER LIABILITIES

Other liabilities are as follows:

	31.12.2008	31.12.2008	31.12.2007	31.12.2007
	Group	Bank	Group	Bank
Money in transit	19	19	67	67
Foreign currency exchange (spot) contracts	16	16	33	33
Other short-term liabilities	326	326	438	438
<b>Total</b>	<b>361</b>	<b>361</b>	<b>538</b>	<b>538</b>

#### 15. SUBORDINATED DEBT

As at 31 December 2008 the total book value of issued subordinated bonds was 2,301 thousand LVL (2007 - 2,312 thousand LVL). Subordinated bonds are recognized at their amortized cost and mature on 10<sup>th</sup> January 2011. Subordinated bonds have floating coupon interest rate - 6 months LVL RIGIBOR plus 2.00%, which on the 31<sup>st</sup> December 2008 was 9% (as at 31 December 2007 - 10.125%) These bonds are listed at Riga Stock exchange. Subordinated debt reported by the Group excludes debt held by related parties of 120 thousand LVL (2007 - 120 thousand LVL).

In 2008 subordinated capital of 11 million EUR was attracted from a General Electric group company. Subordinated capital is repayable in 2015, interest rate on subordinated capital: 6 m EURIBOR plus 3%, at the year end the total APR was 8.928%.

**16. TAX LIABILITIES**

Tax liabilities are as follows:

	31.12.2008	31.12.2008	31.12.2007	31.12.2007
	Group	Bank	Group	Bank
Deferred tax liabilities	692	692	692	692
<b>Total</b>	<b>692</b>	<b>692</b>	<b>692</b>	<b>692</b>

**Deferred tax liabilities**

	31.12.2008	31.12.2008	31.12.2007	31.12.2007
	Group	Bank	Group	Bank
Deferred tax liabilities:				
temporary difference due to accelerated tax depreciation	692	692	692	692
<b>Net deferred tax liabilities</b>	<b>692</b>	<b>692</b>	<b>692</b>	<b>692</b>
Deferred tax liabilities at the beginning of the year	692	692	647	647
Deferred tax charged to profit or loss	-	-	45	45
Deferred tax liabilities at the end the year	<b>692</b>	<b>692</b>	<b>692</b>	<b>692</b>

**17. SHARE CAPITAL**

Issued share capital is as follows:

	Par value per share (LVL)	31.12.2008	31.12.2007
Ordinary shares	50	15,601	15,601
<b>Total</b>		<b>15,601</b>	<b>15,601</b>
<b>Number of shares</b>		<b>312,025</b>	<b>312,025</b>

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

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

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

Board and council members have no shares at 31.12.2007 and 31.12.2008.

The main shareholder is the following:

**31.12.2008**

Name	Number of shares	Total amount	Investment in share capital, %
SIA "Finstar Baltic Investments"	311,927	15,596	99.97
<b>Total</b>	<b>311,927</b>	<b>15,596</b>	<b>99.97</b>

**31.12.2007**

Name	Number of shares	Total amount	Investment in share capital, %
SIA "Finstar Baltic Investments"	311,210	15,560	99.74
<b>Total</b>	<b>311,210</b>	<b>15,560</b>	<b>99.74</b>

The ultimate shareholder of the Group and Bank is US corporation General Electric.

**18. OFF-BALANCE SHEET ITEMS**

Off-balance sheet items are follows:

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

**Commitments to extend credit, from guarantees and letters of credit**

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

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

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

**19. INTEREST INCOME AND EXPENSE**

Interest income is comprised as follows:

	31.12.2008	31.12.2008	31.12.2007	31.12.2007
	Group	Bank	Group	Bank
Interest income from loans	15,311	15,311	12,014	12,014
Interest income from interbank loans	1,722	1,722	3,879	3,879
Interest income from bonds	259	259	543	543
<i>Held to trading financial assets</i>	2	2	225	225
<i>Available-for-sale financial assets</i>	166	166	149	149
<i>Held-to-maturity investments</i>	91	91	169	169
<b>Total</b>	<b>17,292</b>	<b>17,292</b>	<b>16,436</b>	<b>16,436</b>

Interest expenses is comprised as follows:

	31.12.2008	31.12.2008	31.12.2007	31.12.2007
	Group	Bank	Group	Bank
Amortised cost of interest expenses	9,069	9,080	6,024	6,029
<i>Interest expenses on deposits</i>	8,388	8,399	4,377	4,382
<i>Interest expenses on deposits of credit institutions</i>	123	123	713	713
<i>Interest expenses on debt securities</i>	270	270	748	748
<i>Interest expenses on subordinated debt</i>	288	288	186	186
Expenses to guarantee fund	234	234	303	303
<b>Total</b>	<b>9,303</b>	<b>9,314</b>	<b>6,327</b>	<b>6,332</b>

In accordance with the regulations of Financial and capital market commission the payments into the deposit guarantee fund are considered as Bank's interest expense.

**20. COMMISSIONS AND FEE INCOME AND EXPENSE**

Commissions and fee income are comprised as follows:

	31.12.2008	31.12.2008	31.12.2007	31.12.2007
	Group	Bank	Group	Bank
Commissions from opening and servicing customers' accounts	1,952	1,858	2,965	2,918
Commissions from payment cards	1,096	1,096	967	967
Commissions from loan account servicing	3	3	118	118
Commissions for settlement of utilities payments	561	561	590	590
Commissions from cash withdrawal	422	422	275	275
Commissions from guaranties	54	54	68	68
Other commissions	82	82	90	90
<b>Total</b>	<b>4,170</b>	<b>4,076</b>	<b>5,073</b>	<b>5,026</b>

Expenses are following:

	31.12.2008	31.12.2008	31.12.2007	31.12.2007
	Group	Bank	Group	Bank
Expenses from operations with payment cards	720	720	610	610
Expenses for services of correspondent banks	250	250	369	369
Commission expense for other services	41	39	64	62
<b>Total</b>	<b>1,011</b>	<b>1,009</b>	<b>1,043</b>	<b>1,041</b>

## 21. OTHER OPERATING INCOME AND EXPENSES

Other income is comprised as follows:

	31.12.2008	31.12.2008	31.12.2007	31.12.2007
	Group	Bank	Group	Bank
Income from encashment services	427	427	388	388
Penalties, contractual penalties and delay charges received	665	665	361	361
Income from non-current assets held for sale and rental income	65	65	75	75
Earnings from sale of other assets	4	4	-	-
Income from provision of services to GE Money	401	401	-	-
Other income	38	38	10	10
<b>Total</b>	<b>1,600</b>	<b>1,600</b>	<b>834</b>	<b>834</b>

Other expenses are comprised as follows:

	31.12.2008	31.12.2008	31.12.2007	31.12.2007
	Group	Bank	Group	Bank
Expenses for credit cards production	114	114	74	74
Other expenses related to customer services	9	9	15	15
Other expenses	67	67	139	139
<b>Total</b>	<b>190</b>	<b>190</b>	<b>228</b>	<b>228</b>

**22. ADMINISTRATIVE EXPENSES**

Administrative expenses are comprised as follows:

	31.12.2008	31.12.2008	31.12.2007	31.12.2007
	Group	Bank	Group	Bank
Salaries, bonuses and allowances	7,527	7,474	4,729	4,691
Remuneration to the Supervisory Council and Management Board	112	112	285	285
<b>Total salaries, bonuses and allowances</b>	<b>7,639</b>	<b>7,586</b>	<b>5,014</b>	<b>4,976</b>
Social tax	1,636	1,624	1,080	1,071
Rental expenses	891	891	716	716
Post, telegraph and other communication expenses related to customer servicing	580	580	579	579
Maintenance and rent of vehicles	461	461	375	375
Advertisement expenses	958	958	131	131
Software maintenance	412	412	258	258
Expenses for utility services	306	306	233	233
Repairs of buildings and equipment	220	220	330	330
Security expenses	203	203	172	172
Office expenses	198	196	162	162
Legal expenses	201	200	118	118
Professional services	61	50	75	64
Business trips expenses	70	70	66	66
Representation expenses	106	106	52	52
Training of personnel	62	62	89	88
Real estate tax and other taxes	35	35	39	39
Insurance expenses	42	42	51	51
Purchase of low cost inventory	15	15	19	19
Management and consultation fees	1,710	1,710	1,841	1,841
Other administrative expenses	344	341	374	371
<b>Total</b>	<b>16,150</b>	<b>16,068</b>	<b>11,774</b>	<b>11,712</b>



**23. ALLOWANCE FOR DOUBTFUL LOANS AND OTHER ASSETS**

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

Impairment Allowance

	<b>Group</b>	<b>Bank</b>
<b>Balance as of 31 December 2006</b>	<b>1,075</b>	<b>1,126</b>
Additional allowance	856	856
Decrease of allowance	(177)	(177)
<i>written-off</i>	(14)	(14)
<i>decrease in allowance</i>	(163)	(163)
Exchange rate differences	(25)	(25)
<b>Balance as of 31 December 2007</b>	<b>1,729</b>	<b>1,780</b>
Additional allowance	12,349	12,349
Decrease of allowance	(2,788)	(2,788)
<i>written-off</i>	(2,362)	(2,362)
<i>decrease in allowance</i>	(426)	(426)
Exchange rate differences	30	30
<b>Balance as of 31 December 2008</b>	<b>11,320</b>	<b>11,371</b>

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

	<b>31.12.2008</b>	<b>31.12.2008</b>	<b>31.12.2007</b>	<b>31.12.2007</b>
	<b>Group</b>	<b>Bank</b>	<b>Group</b>	<b>Bank</b>
Loans (Note 6)	11,320	11,320	1,655	1,655
Other assets	-	-	74	74
Investments in subsidiaries	-	51	-	51
<b>Total</b>	<b>11,320</b>	<b>11,371</b>	<b>1,729</b>	<b>1,780</b>

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

**24 TAX EXPENSES AND TAXES PAID**

	<b>31.12.2008</b>	<b>31.12.2008</b>	<b>31.12.2007</b>	<b>31.12.2007</b>
	<b>Group</b>	<b>Bank</b>	<b>Group</b>	<b>Bank</b>
Deferred tax charge	-	-	(45)	(45)
Corporate income tax for 2007	-	-	(514)	(514)
Income from transfer of losses within Tax group for 2007	477	477	-	-
Under provided corporate income tax for 2006	-	-	(55)	(55)
<b>Total</b>	<b>477</b>	<b>477</b>	<b>(614)</b>	<b>(614)</b>

	31.12.2008	31.12.2008	31.12.2007	31.12.2007
	Group	Bank	Group	Bank
Profit/ (loss) before tax	(15,420)	(15,438)	3,536	3,549
Expected tax charge, applying current tax rate of (average 15%)	-	-	530	532
Tax effect of:				
Prior year correction	-	-	55	55
Non-deductible expenses	-	-	29	27
<b>Corporate income tax charge</b>	<b>-</b>	<b>-</b>	<b>614</b>	<b>614</b>

The Bank has paid the following taxes:

	31.12.2008	31.12.2007
Social security payments	1,896	1,466
Personal income tax	1,460	1,584
Corporate income tax	409	1,472
Value added tax	415	245
Real estate tax	35	39
Income tax from non-residents	3	6
<b>Total</b>	<b>4,218</b>	<b>4,812</b>

## 25. MATURITY STRUCTURE OF ASSETS AND LIABILITIES

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

Item	up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	Over 1 year	Other	Total
<b>ASSETS</b>							
Cash and demand deposits with central banks	16,764	-	-	-	-	-	16,764
Due from credit institutions and central banks	21,113	-	-	-	1,963	-	23,076
Loans and receivables	5,117	12,643	57,151	22,976	94,523	4,885	197,295
Held for trading financial assets	770	16	-	-	61	-	847
Available-for-sale financial assets	2,947	-	-	12	-	-	2,959
Held-to-maturity investments	-	-	68	-	1,890	-	1,958
Intangible assets	-	-	-	-	483	-	483
Property, plant and equipment	-	-	-	-	7,576	-	7,576
Deferred expenses and accrued income	284	-	-	-	-	-	284
Other assets	1,751	-	-	-	-	-	1,751
<b>Total assets</b>	<b>48,746</b>	<b>12,659</b>	<b>57,219</b>	<b>22,988</b>	<b>106,496</b>	<b>4,885</b>	<b>252,993</b>
<b>LIABILITIES, EQUITY AND OFF – BALANCE SHEET ITEMS</b>							
Balances due to central bank	4,850	-	-	-	-	-	4,850
Balances due to credit institutions	6,332	-	955	533	378	-	8,198
Financial liabilities at fair value through profit or loss	32	-	-	-	-	-	32
Financial liabilities at amortised cost	84,091	7,601	62,205	17,804	47,030	-	218,731
Deferred income and accrued expenses	1,631	-	-	-	-	3	1,634
Tax liabilities	-	-	-	-	692	-	692
Other liabilities	361	-	-	-	-	-	361
Capital and reserves	-	-	-	-	18,495	-	18,495
<b>Total liabilities and equity</b>	<b>97,297</b>	<b>7,601</b>	<b>63,160</b>	<b>18,337</b>	<b>66,595</b>	<b>3</b>	<b>252,993</b>
Off-balance sheet items (liabilities)	2,187	1,050	1,670	3,059	1,652	120	9,738
<i>Guarantees</i>	175	133	773	987	1,349	120	3,537
<i>Other commitments</i>	2,012	917	897	2,072	303	-	6,201
<b>Total liabilities, equity and off-balance sheet items</b>	<b>99,484</b>	<b>8,651</b>	<b>64,830</b>	<b>21,396</b>	<b>68,247</b>	<b>123</b>	<b>262,731</b>
Net position of liquidity	(50,738)	4,008	(7,611)	1,592	38,249	4,762	(9,738)

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

Item	up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	Over 1 year	Other	Total
<b>ASSETS</b>							
Cash and demand deposits with central banks	25,987	-	-	-	-	-	25,987
Due from credit institutions and central banks	43,161	10,018	-	-	2,472	-	55,651
Loans and receivables	3,491	11,730	14,114	27,354	119,531	738	176,958
Held for trading financial assets	1,422	23	1	-	60	-	1,506
Available-for-sale financial assets	4,260	-	14	-	-	-	4,274
Held-to-maturity investments	-	-	-	68	1,889	-	1,957
Intangible assets	-	-	-	-	765	-	765
Property, plant and equipment	-	-	-	-	8,027	-	8,027
Deferred expenses and accrued income	31	2	-	-	-	198	231
Other assets	1,440	-	-	518	-	-	1,958
<b>Total assets</b>	<b>79,792</b>	<b>21,773</b>	<b>14,129</b>	<b>27,940</b>	<b>132,744</b>	<b>936</b>	<b>277,314</b>
<b>LIABILITIES, EQUITY AND OFF – BALANCE SHEET ITEMS</b>							
Balances due to credit institutions	506	-	33	30	438	-	1,007
Financial liabilities at fair value through profit or loss	337	-	-	-	-	-	337
Financial liabilities at amortised cost	127,216	7,152	13,102	9,963	81,665	-	239,098
Deferred income and accrued expenses	1,110	42	47	70	-	-	1,269
Tax liabilities	-	-	-	-	692	-	692
Other liabilities	538	-	-	-	-	-	538
Capital and reserves	-	-	-	-	34,373	-	34,373
<b>Total liabilities and equity</b>	<b>129,707</b>	<b>7,194</b>	<b>13,182</b>	<b>10,063</b>	<b>117,168</b>	<b>-</b>	<b>277,314</b>
Off-balance sheet items (liabilities)	1,568	760	2,708	4,564	1,971	55	11,626
Guarantees	356	50	1,143	1,960	817	55	4,381
Other commitments	1,212	710	1,565	2,604	1,154	-	7,245
<b>Total liabilities, equity and off-balance sheet items</b>	<b>131,275</b>	<b>7,954</b>	<b>15,890</b>	<b>14,627</b>	<b>119,139</b>	<b>55</b>	<b>288,940</b>
Net position of liquidity	(51,483)	13,819	(1,761)	13,313	13,605	881	(11,626)

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

Item	up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	Over 1 year	Other	Total
<b>ASSETS</b>							
Cash and demand deposits with central banks	16,764	-	-	-	-	-	16,764
Due from credit institutions and central banks	21,113	-	-	-	1,963	-	23,076
Loans and receivables	5,117	12,643	57,151	22,976	94,523	4,885	197,295
Held for trading financial assets	1,346	-	-	-	61	-	1,407
Available-for-sale financial assets	2,947	-	-	12	-	-	2,959
Held-to-maturity investments	-	-	68	-	1,890	-	1,958
Investments in subsidiaries	-	-	-	-	249	-	249
Intangible assets	-	-	-	-	483	-	483
Property, plant and equipment	-	-	-	-	7,576	-	7,576
Deferred expenses and accrued income	272	-	-	-	-	-	272
Other assets	1,748	-	-	-	-	-	1,748
<b>Total assets</b>	<b>49,307</b>	<b>12,643</b>	<b>57,219</b>	<b>22,988</b>	<b>106,745</b>	<b>4,885</b>	<b>253,787</b>
<b>LIABILITIES, EQUITY AND OFF - BALANCE SHEET ITEMS</b>							
Balances due to central bank	4,850	-	-	-	-	-	4,850
Balances due to credit institutions	6,332	-	955	533	378	-	8,198
Financial liabilities at fair value through profit or loss	32	-	-	-	-	-	32
Financial liabilities at amortised cost	84,589	7,621	62,205	17,889	47,210	-	219,514
Deferred income and accrued expenses	1,625	-	-	-	-	-	1,625
Tax liabilities	-	-	-	-	692	-	692
Other liabilities	361	-	-	-	-	-	361
Capital and reserves	-	-	-	-	18,515	-	18,515
<b>Total liabilities and equity</b>	<b>97,789</b>	<b>7,621</b>	<b>63,160</b>	<b>18,422</b>	<b>66,795</b>	<b>-</b>	<b>253,787</b>
Off-balance sheet items (liabilities)	2,187	1,050	1,670	3,059	1,652	120	9,738
<i>Guarantees</i>	175	133	773	987	1,349	120	3,537
<i>Other commitments</i>	2,012	917	897	2,072	303	-	6,201
<b>Total liabilities, equity and off-balance sheet items</b>	<b>99,976</b>	<b>8,671</b>	<b>64,830</b>	<b>21,481</b>	<b>68,447</b>	<b>120</b>	<b>263,525</b>
Net position of liquidity	(50,669)	3,972	(7,611)	1,507	38,298	4,765	(9,738)

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

Item	up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	Over 1 year	Other	Total
<b>ASSETS</b>							
Cash and demand deposits with central banks	25,987	-	-	-	-	-	25,987
Due from credit institutions and central banks	43,145	10,018	-	-	2,472	-	55,635
Loans and receivables	3,491	11,730	14,114	27,354	119,531	738	176,958
Held for trading financial assets	1,890	23	1	-	60	-	1,974
Available-for-sale financial assets	4,260	-	14	-	-	-	4,274
Held-to-maturity investments	-	-	-	68	1,889	-	1,957
Investments in subsidiaries	-	-	-	-	199	-	199
Intangible assets	-	-	-	-	763	-	763
Property, plant and equipment	-	-	-	-	8,027	-	8,027
Deferred expenses and accrued income	26	-	-	-	-	198	224
Other assets	1,440	-	-	518	-	-	1,958
<b>Total assets</b>	<b>80,239</b>	<b>21,771</b>	<b>14,129</b>	<b>27,940</b>	<b>132,941</b>	<b>936</b>	<b>277,956</b>
<b>LIABILITIES, EQUITY AND OFF – BALANCE SHEET ITEMS</b>							
Balances due to credit institutions	506	-	33	30	438	-	1,007
Financial liabilities at fair value through profit or loss	337	-	-	-	-	-	337
Financial liabilities at amortised cost	127,710	7,152	13,102	9,963	81,785	-	239,712
Deferred income and accrued expenses	1,110	32	47	70	-	-	1,259
Tax liabilities	-	-	-	-	692	-	692
Other liabilities	538	-	-	-	-	-	538
Capital and reserves	-	-	-	-	34,411	-	34,411
<b>Total liabilities and equity</b>	<b>130,201</b>	<b>7,184</b>	<b>13,182</b>	<b>10,063</b>	<b>117,326</b>	<b>-</b>	<b>277,956</b>
Off-balance sheet items (liabilities)	1,568	760	2,708	4,564	1,971	55	11,626
Guarantees	356	50	1,143	1,960	817	55	4,381
Other commitments	1,212	710	1,565	2,604	1,154	-	7,245
<b>total liabilities, equity and off-balance sheet items</b>	<b>131,769</b>	<b>7,944</b>	<b>15,890</b>	<b>14,627</b>	<b>119,297</b>	<b>55</b>	<b>289,582</b>
Net position of liquidity	(51,530)	13,827	(1,761)	13,313	13,644	881	(11,626)

**26. INTEREST RATE REPRICING**

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

Item	up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	Over 1 year	Non-interest bearing	Other	Total
<b>ASSETS</b>								
Cash and demand deposits with central banks	8,860	-	-	-	-	7,904	-	16,764
Due from credit institutions and central banks	23,076	-	-	-	-	-	-	23,076
Loans and receivables	4,743	70,024	94,789	4,427	2,244	21,068	-	197,295
Held for trading financial assets	-	-	-	-	757	90	-	847
Available-for-sale financial assets	-	-	-	-	2,947	12	-	2,959
Held-to-maturity investments	-	-	-	-	1,890	68	-	1,958
Intangible assets	-	-	-	-	-	483	-	483
Property, plant and equipment	-	-	-	-	-	7,576	-	7,576
Deferred expenses and accrued income	-	-	-	-	-	284	-	284
Other assets	-	-	-	-	-	1,751	-	1,751
<b>Total assets</b>	<b>36,679</b>	<b>70,024</b>	<b>94,789</b>	<b>4,427</b>	<b>7,838</b>	<b>39,236</b>	<b>-</b>	<b>252,993</b>
<b>LIABILITIES, EQUITY AND OFF – BALANCE SHEET ITEMS</b>								
Balances due to central banks	4,850	-	-	-	-	-	-	4,850
Balances due to credit institutions	6,332	-	930	521	378	37	-	8,198
Financial liabilities at fair value through profit or loss	-	-	-	-	-	32	-	32
Financial liabilities at amortised cost	83,010	7,343	103,239	16,023	4,506	4,610	-	218,731
Deferred income and accrued expenses	-	-	-	-	-	1,634	-	1,634
Tax liabilities	-	-	-	-	-	692	-	692
Other liabilities	-	-	-	-	-	361	-	361
Capital and reserves	-	-	-	-	-	-	18,495	18,495
<b>Total liabilities and equity</b>	<b>94,192</b>	<b>7,343</b>	<b>104,169</b>	<b>16,544</b>	<b>4,884</b>	<b>7,366</b>	<b>18,495</b>	<b>252,993</b>
Off-balance sheet items (liabilities)	2,012	917	3,272	-	-	3,537	-	9,738
Guarantees	-	-	-	-	-	3,537	-	3,537
Other future liabilities	2,012	917	3,272	-	-	-	-	6,201
<b>Total liabilities, equity and off-balance sheet items</b>	<b>96,204</b>	<b>8,260</b>	<b>107,441</b>	<b>16,544</b>	<b>4,884</b>	<b>10,903</b>	<b>18,495</b>	<b>262,731</b>
Interest rate repricing net position	(59,525)	61,764	(12,652)	(12,117)	2,954	28,333	(18,495)	(9,738)

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

Item	up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	Over 1 year	Non-interest bearing	Other	Total
<b>ASSETS</b>								
Cash and demand deposits with central banks	17,119	-	-	-	-	8,868	-	25,987
Due from credit institutions and central banks	55,651	-	-	-	-	-	-	55,651
Loans and receivables	2,708	94,168	65,618	3,307	8,221	2,936	-	176,958
Held for trading financial assets	-	-	-	-	1,506	-	-	1,506
Available-for-sale financial assets	-	-	-	-	4,274	-	-	4,274
Held-to-maturity investments	-	-	-	-	1,957	-	-	1,957
Intangible assets	-	-	-	-	-	765	-	765
Property, plant and equipment	-	-	-	-	-	8,027	-	8,027
Deferred expenses and accrued income	-	-	-	-	-	231	-	231
Other assets	-	-	-	-	-	1,958	-	1,958
<b>Total assets</b>	<b>75,478</b>	<b>94,168</b>	<b>65,618</b>	<b>3,307</b>	<b>15,958</b>	<b>22,785</b>	<b>-</b>	<b>277,314</b>
<b>LIABILITIES, EQUITY AND OFF – BALANCE SHEET ITEMS</b>								
Balances due to credit institutions	506	-	501	-	-	-	-	1,007
Financial liabilities at fair value through profit or loss	337	-	-	-	-	-	-	337
Financial liabilities at amortised cost	127,216	7,152	90,941	9,963	3,826	-	-	239,098
Deferred income and accrued expenses	-	-	-	-	-	1,269	-	1,269
Tax liabilities	-	-	-	-	-	692	-	692
Other liabilities	-	-	-	-	-	538	-	538
Capital and reserves	-	-	-	-	-	-	34,373	34,373
<b>Total liabilities and equity</b>	<b>128,059</b>	<b>7,152</b>	<b>91,442</b>	<b>9,963</b>	<b>3,826</b>	<b>2,499</b>	<b>34,373</b>	<b>277,314</b>
Off-balance sheet items (liabilities)	1,212	710	5,323	-	-	4,381	-	11,626
Guarantees	-	-	-	-	-	4,381	-	4,381
Other future liabilities	1,212	710	5,323	-	-	-	-	7,245
<b>Total liabilities, equity and off-balance sheet items</b>	<b>129,271</b>	<b>7,862</b>	<b>96,765</b>	<b>9,963</b>	<b>3,826</b>	<b>6,880</b>	<b>34,373</b>	<b>288,940</b>
Interest rate repricing net position	(53,793)	86,306	(31,147)	(6,656)	12,132	15,905	(34,373)	(11,626)



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

Item	up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	Over 1 year	Non-interest bearing	Other	Total
<b>ASSETS</b>								
Cash and demand deposits with central banks	8,860	-	-	-	-	7,904	-	16,764
Due from credit institutions and central banks	23,076	-	-	-	-	-	-	23,076
Loans and receivables	4,743	70,024	94,789	4,427	2,244	21,068	-	197,295
Held for trading financial assets	-	-	-	-	-	1,407	-	1,407
Available-for-sale financial assets	-	-	-	-	2,947	12	-	2,959
Held-to-maturity investments	-	-	-	-	1,890	68	-	1,958
Investments in subsidiaries	-	-	-	-	-	249	-	249
Intangible assets	-	-	-	-	-	483	-	483
Property, plant and equipment	-	-	-	-	-	7,576	-	7,576
Deferred expenses and accrued income	-	-	-	-	-	272	-	272
Other assets	-	-	-	-	-	1,748	-	1,748
<b>Total assets</b>	<b>36,679</b>	<b>70,024</b>	<b>94,789</b>	<b>4,427</b>	<b>7,081</b>	<b>40,787</b>	<b>-</b>	<b>253,787</b>

Item	up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	Over 1 year	Non-interest bearing	Other	Total
<b>LIABILITIES, EQUITY AND OFF – BALANCE SHEET ITEMS</b>								
Balances due to central banks	4,850	-	-	-	-	-	-	4,850
Balances due to credit institutions	6,332	-	930	521	378	37	-	8,198
Financial liabilities at fair value through profit or loss	-	-	-	-	-	32	-	32
Financial liabilities at amortised cost	83,508	7,363	103,359	16,108	4,566	4,610	-	219,514
Deferred income and accrued expenses	-	-	-	-	-	1,625	-	1,625
Tax liabilities	-	-	-	-	-	692	-	692
Other liabilities	-	-	-	-	-	361	-	361
Capital and reserves	-	-	-	-	-	-	18,515	18,515
<b>Total liabilities and equity</b>	<b>94,690</b>	<b>7,363</b>	<b>104,289</b>	<b>16,629</b>	<b>4,944</b>	<b>7,357</b>	<b>18,515</b>	<b>253,787</b>
Off-balance sheet items (liabilities)	2,012	917	3,272	-	-	3,537	-	9,738
Guarantees	-	-	-	-	-	3,537	-	3,537
Other future liabilities	2,012	917	3,272	-	-	-	-	6,201
<b>Total liabilities, equity and off-balance sheet items</b>	<b>96,702</b>	<b>8,280</b>	<b>107,561</b>	<b>16,629</b>	<b>4,944</b>	<b>10,894</b>	<b>18,515</b>	<b>263,525</b>
Interest rate repricing net position	(60,023)	61,744	(12,772)	(12,202)	2,137	29,893	(18,515)	(9,738)

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

Item	up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	Over 1 year	Non-interest bearing	Other	Total
<b>ASSETS</b>								
Cash and demand deposits with central banks	17,119	-	-	-	-	8,868	-	25,987

Due from credit institutions and central banks	55,635	-	-	-	-	-	-	55,635
Loans and receivables	2,708	94,168	65,618	3,307	8,221	2,936	-	176,958
Held for trading financial assets	-	-	-	-	1,974	-	-	1,974
Available-for-sale financial assets	-	-	-	-	4,274	-	-	4,274
Held-to-maturity investments	-	-	-	-	1,957	-	-	1,957
Investments in subsidiaries	-	-	-	-	-	199	-	199
Intangible assets	-	-	-	-	-	763	-	763
Property, plant and equipment	-	-	-	-	-	8,027	-	8,027
Deferred expenses and accrued income	-	-	-	-	-	224	-	224
Other assets	-	-	-	-	-	1,958	-	1,958
<b>Total assets</b>	<b>75,462</b>	<b>94,168</b>	<b>65,618</b>	<b>3,307</b>	<b>16,426</b>	<b>22,975</b>	<b>-</b>	<b>277,956</b>

Item	up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	Over 1 year	Non-interest bearing	Other	Total
<b>LIABILITIES, EQUITY AND OFF – BALANCE SHEET ITEMS</b>								
Balances due to credit institutions	506	-	501	-	-	-	-	1,007
Financial liabilities at fair value through profit or loss	337	-	-	-	-	-	-	337
Financial liabilities at amortised cost	127,710	7,152	91,061	9,963	3,826	-	-	239,712
Deferred income and accrued expenses	-	-	-	-	-	1,259	-	1,259
Tax liabilities	-	-	-	-	-	692	-	692
Other liabilities	-	-	-	-	-	538	-	538
Capital and reserves	-	-	-	-	-	-	34,411	34,411
<b>Total liabilities and equity</b>	<b>128,553</b>	<b>7,152</b>	<b>91,562</b>	<b>9,963</b>	<b>3,826</b>	<b>2,489</b>	<b>34,411</b>	<b>277,956</b>
Off-balance sheet items (liabilities)	1,212	710	5,323	-	-	4,381	-	11,626
Guarantees	-	-	-	-	-	4,381	-	4,381
Other future liabilities	1,212	710	5,323	-	-	-	-	7,245
<b>Total liabilities, equity and off-balance sheet items</b>	<b>129,765</b>	<b>7,862</b>	<b>96,885</b>	<b>9,963</b>	<b>3,826</b>	<b>6,870</b>	<b>34,411</b>	<b>289,582</b>
Interest rate repricing net position	(54,303)	86,306	(31,267)	(6,656)	12,600	16,105	(34,411)	(11,626)

## Residual contractual maturities of financial liabilities:

## Bank

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

## Group

	Carrying amount	Gross nominal (outflow)	<1 month	1-3 months	3-12 months	1-5 years
<b>31.12.2008</b>						
Deposits from banks	13,048	(13,212)	(11,195)	-	(1,571)	(446)
Deposits from customers	203,719	(206,476)	(84,060)	(7,714)	(80,036)	(34,666)
Debt securities issued	5,058	(5,377)	-	-	(1,597)	(3,779)
Subordinated liabilities	9,954	(14,980)	(94)	-	(42)	(14,844)
<b>Total</b>	<b>231,779</b>	<b>(240,045)</b>	<b>(95,349)</b>	<b>(7,714)</b>	<b>(83,246)</b>	<b>(53,736)</b>
<b>31.12.2007</b>						
Deposits from banks	1,007	(1,292)	(506)	-	(93)	(693)
Deposits from customers	231,883	(262,532)	(127,462)	(7,552)	(24,685)	(102,833)
Debt securities issued	5,023	(5,829)	-	-	(288)	(5,541)
Subordinated liabilities	2,192	(2,852)	-	-	(228)	(2,624)
<b>Total</b>	<b>240,105</b>	<b>(272,505)</b>	<b>(127,968)</b>	<b>(7,552)</b>	<b>(25,294)</b>	<b>(111,691)</b>

## 27. ASSETS AND LIABILITIES BREAKDOWN BY FOREIGN CURRENCIES

The Group's assets and liabilities as of 31 December 2008 per currencies are as follows:

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

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

Shareholders' equity has been calculated according to the regulations of the Financial and capital market commission, see note 30.

The Group's assets and liabilities as of 31 December 2007 per currencies are as follows:

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

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

Shareholders' equity has been calculated according to the regulations of the Financial and capital market commission, see note 30.

The Bank's assets and liabilities as of 31 December 2008 per currencies are as follows:

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

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

Shareholders' equity has been calculated according to the regulations of the Financial and capital market commission, see note 30.

The Bank's assets and liabilities as of 31 December 2007 per currencies are as follows:

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

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

Shareholders' equity has been calculated according to the regulations of the Financial and capital market commission, see note 30.

**28. RELATED PARTY TRANSACTIONS**

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

<b>Related party 31.12.2008</b>	<b>Loans and off-balance sheet liabilities</b>	<b>Total risk transactions (excluding impairment)</b>	<b>Risk transactions to shareholders' equity (excluding impairment) %</b>
Private individuals	20	20	0.09
Private companies	52,042	3,042	12.33
<b>Total</b>	<b>52,062</b>	<b>3,062</b>	<b>12.42</b>

<b>Related party 31.12.2007</b>	<b>Loans and off-balance sheet liabilities</b>	<b>Total risk transactions (excluding impairment)</b>	<b>Risk transactions to shareholders' equity (excluding impairment) %</b>
Private individuals	29	29	0.10
Private companies	3,000	3,000	9.94
<b>Total</b>	<b>3,029</b>	<b>3,029</b>	<b>10.04</b>

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

<b>Related party 31.12.2008</b>	<b>Loans and off-balance sheet liabilities</b>	<b>Total risk transactions (excluding impairment)</b>	<b>Risk transactions to shareholders' equity (excluding impairment) %</b>
Private individuals	20	20	0.09
Private companies	52,042	3,042	12.33
<b>Total</b>	<b>52,062</b>	<b>3,062</b>	<b>12.42</b>

<b>Related party 31.12.2007</b>	<b>Loans and off-balance sheet liabilities</b>	<b>Total risk transactions (excluding impairment)</b>	<b>Risk transactions to shareholders' equity (excluding impairment) %</b>
Private individuals	29	29	0.10
Private companies	3,000	3,000	9.94
<b>Total</b>	<b>3,029</b>	<b>3,029</b>	<b>10.04</b>

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

Bank's related party deposits are as follows:

	31.12.2008	31.12.2007
	81,420	72,269
<b>Total</b>	<b>81,420</b>	<b>72,269</b>

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

See Note 22 for information of management compensation.

## 29. TRUST ASSETS AND LIABILITIES

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

Type of assets	Country	31.12.2008	31.12.2007
Pension plans	Latvia	337	187
<b>Total</b>		<b>337</b>	<b>187</b>

  

Type of liability	Country	31.12.2008	31.12.2007
Private persons	Latvia	337	187
<b>Total</b>		<b>337</b>	<b>187</b>

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

**30. CAPITAL ADEQUACY****Bank's equity calculation in accordance with the guidelines of the FCMC as of 31.12.2008**

OWN FUNDS	<b>24,155</b>
ORIGINAL OWN FUNDS	16,269
Eligible Capital	22,873
Paid up capital	15,601
Share premium	7,272
Eligible Reserves	(6,018)
Reserves (including valuation differences)	10,404
(-) Material losses of the current financial year	(14,961)
Valuation differences eligible as original own funds	(1,461)
(-) Other deductions from Original Own Funds	(586)
ADDITIONAL OWN FUNDS	8,135
(-) DEDUCTIONS FROM ORIGINAL AND ADDITIONAL OWN FUNDS	(249)
Of which: (-) From Original Own Funds	(125)
Of which: (-) From Additional Own Funds	(125)
TOTAL ORIGINAL OWN FUNDS FOR GENERAL SOLVENCY PURPOSES	16,145
TOTAL ADDITIONAL OWN FUNDS FOR GENERAL SOLVENCY PURPOSES	8,010
Gross amount of subordinated loan capital	9,938
Minimum initial capital required	3,514
CAPITAL REQUIREMENTS	16,587
TOTAL CAPITAL REQUIREMENTS FOR CREDIT, COUNTERPARTY CREDIT AND DILUTION RISKS AND FREE DELIVERIES	14,197
<b>Standardised approach (SA)</b>	<b>14,197</b>
SA exposure classes excluding securitization positions	14,197
TOTAL CAPITAL REQUIREMENTS FOR OPERATIONAL RISKS (OpR )	2,349
Surplus (+) / Deficit (-) of own funds, before other and transitional capital requirements	7,608
<b>Solvency ratio (%), before other and transitional capital requirements</b>	<b>11.68%</b>
<b>Surplus (+) / Deficit (-) of own funds</b>	<b>7,608</b>
<b>Solvency ratio (%)</b>	<b>11.68%</b>
<b>Internal assessment Surplus (+) / Deficit (-) of capital</b>	<b>4,954</b>
Internal assessment of capital	24,155
Internal assessment of capital needs	19,201



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

OWN FUNDS	<b>24,527</b>
ORIGINAL OWN FUNDS	16,351
Eligible Capital	22,873
Paid up capital	15,601
Share premium	7,272
Eligible Reserves	(6,039)
Reserves (including valuation differences)	10,365
(-) Material losses of the current financial year	(14,943)
Valuation differences eligible as original own funds	(1,461)
(-) Other deductions from Original Own Funds	(483)
ADDITIONAL OWN FUNDS	8,176
TOTAL ORIGINAL OWN FUNDS FOR GENERAL SOLVENCY PURPOSES	<b>16,351</b>
TOTAL ADDITIONAL OWN FUNDS FOR GENERAL SOLVENCY PURPOSES	8,175
Gross amount of subordinated loan capital	9,954
Minimum initial capital required	3,514
CAPITAL REQUIREMENTS	16,479
TOTAL CAPITAL REQUIREMENTS FOR CREDIT, COUNTERPARTY CREDIT AND DILUTION RISKS AND FREE DELIVERIES	14,112
<b>Standardised approach (SA)</b>	14,112
SA exposure classes excluding securitization positions	14,112
TOTAL CAPITAL REQUIREMENTS FOR OPERATIONAL RISKS (OpR)	2,367
Surplus (+) / Deficit (-) of own funds, before other and transitional capital requirements	8,047
<b>Solvency ratio (%), before other and transitional capital requirements</b>	<b>11.91%</b>
<b>Surplus (+) / Deficit (-) of own funds</b>	<b>8,047</b>
<b>Solvency ratio (%)</b>	<b>11.91%</b>
<b>Internal assessment Surplus (+) / Deficit (-) of capital</b>	<b>5,399</b>
Internal assessment of capital	24,527
Internal assessment of capital needs	19,127

**31. NUMBER OF EMPLOYEES**

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

**32. ASSETS AND LIABILITIES FAIR VALUE**

The fair value of the Group's assets and liabilities is as follows:

	31.12.2008	31.12.2008	31.12.2007	31.12.2007
	Fair value	Carrying value	Fair value	Carrying value
<b>ASSETS</b>				
Loans	196,498	197,295	176,882	176,958
Held for trading financial assets	847	847	1,506	1,506
Available-for-sale financial assets	2,959	2,959	4,274	4,274
Held-to-maturity investments	1,542	1,958	1,890	1,957
<b>Total assets</b>	<b>201,846</b>	<b>203,059</b>	<b>184,552</b>	<b>184,695</b>
	31.12.2008	31.12.2008	31.12.2007	31.12.2007
	Fair value	Carrying value	Fair value	Carrying value
<b>LIABILITIES</b>				
Financial liabilities at fair value through profit or loss	32	32	337	337
Financial liabilities at amortised cost	218,699	218,731	239,126	239,098
<i>Deposits</i>	203,689	203,719	231,859	231,883
<i>Debt securities</i>	5,057	5,058	5,052	5,023
<i>Subordinated debt</i>	9,953	9,954	2,215	2,192
<b>Total liabilities</b>	<b>218,731</b>	<b>218,763</b>	<b>239,463</b>	<b>239,435</b>

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

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

**33. EFFECTIVE INTEREST RATES**

Average effective interest rates of the Group are as follows:

	31.12.2008	31.12.2007
	%	%
<b>ASSETS</b>		
Due from credit institutions	3.23	4.31
Loans	7.79	8.06
Fixed income securities	4.44	5.17
<b>LIABILITIES</b>		
Due to credit institutions	5.04	6.65
Deposits	4.01	2.41
Debt securities	5.46	6.28
Subordinated debt	9.21	8.41

Average effective interest rates of the Bank are as follows:

	31.12.2008	31.12.2007
	%	%
<b>ASSETS</b>		
Due from credit institutions	3.23	4.32
Loans	7.79	8.06
Fixed income securities	4.44	5.17
<b>LIABILITIES</b>		
Due to credit institutions	5.04	6.65
Deposits	4.01	2.41
Debt securities	5.46	6.28
Subordinated debt	9.21	8.41

### 34. SEGMENTS

Segments of the Bank can be displayed as follows:

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

### 35. EARNINGS PER SHARE

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

	2008	2008	2007	2007
	Group	Bank	Group	Bank
Net profit attributable to the shareholders	(14,943)	(14,961)	2,922	2,935
Weighted average number of shares at 31 December	312,025	312,025	312,025	312,025
<b>Basic earnings per share (LVL per share)</b>	<b>-</b>	<b>-</b>	<b>9.36</b>	<b>9.41</b>

### 36. CONTINGENCIES

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

The shareholder has taken a decision to increase share capital of the Bank till March 6, 2009 for 7.5 million lats, which together with increase of price of share emission will increase Bank's equity capital for 30 million lats.

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