GE Money Bank

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

CONTENT

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 15.9 million euro 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 21.288 million euro. At the end of 2008 Bank's assets comprised 361,1 million euro, 280.6 million euro were allocated in loans, the deposit volume was 290.8 million euro.

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 2nd pillar pension plans "Džezs" and "Blūzs", the 3rd pillar pension plans "Rumba" and "Tvists", investment funds "GE Money Eastern Europe Balanced fund", „GE Money European Bond fund" and „GE Money Eastern Europe Equity fund".

In 2008 the total assets volume grew more than two times and reached 12,9 million euro. The number of customers doubled to 24,000. The 2nd 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, 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 it 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 it's 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 42,7 million euro 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 singing 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

INFORMATION ON THE BANK'S MANAGEMENT

Council members as of the date of signing these financial statements

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

Board members as of the date of signing these financial statements

Name	Position	Last election date	Resignation date
Dmitrij Cimber	Member of the Board	10.12.2008.	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	24,604	24,604	23,386	23,386
Interest expense	19	(13,237)	(13,253)	(9,002)	(9,009)
Net interest income		**11,367**	**11,351**	**14,384**	**14,377**
Commissions and fee income	20	5,933	5,800	7,218	7,151
Commissions and fee expense	20	(1,439)	(1,436)	(1,484)	(1,481)
Net commission income		**4,494**	**4,364**	**5,734**	**5,670**
Realised net profit from available-for-sale financial assets		6	6	71	71
Net profit from held for trading financial assets		(360)	(360)	125	125
Gain from foreign exchange		2,417	2,420	3,448	3,448
Dividends		120	120	-	-
Other operating income	21	2,277	2,277	1,187	1,187
Net operating income		**20,321**	**20,178**	**24,949**	**24,878**
Administrative expenses	22	(22,978)	(22,863)	(16,753)	(16,664)
Depreciation, amortization and loss on sale of intangible assets and property, plant and equipment	9	(2,048)	(2,046)	(1,854)	(1,853)
Other operating expenses	21	(270)	(270)	(325)	(325)
Net impairment allowance expense	23	(16,965)	(16,965)	(986)	(986)
Profit/ (loss) before corporate income tax		**(21,940)**	**(21,966)**	**5,031**	**5,050**
Corporate income tax	24	**678**	**678**	**(874)**	**(874)**
Profit/ (loss) for the period		**(21,262)**	**(21,288)**	**4,157**	**4,176**
Basic earnings per share (LVL)	35	**-**	**-**	**13.32**	**13.38**

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 Group**	**31.12.2008 Bank**	**31.12.2007 Group**	**31.12.2007 Bank**
Cash and due from central bank	3	23,853	23,853	36,976	36,976
Due from credit institutions	5	32,834	32,834	79,184	79,161
Held for trading financial assets	4	1,205	2,002	2,142	2,808
Fixed-income securities		*989*	*-*	*1,357*	*119*
Shares and other non-fixed income securities		*175*	*1,984*	*411*	*2,315*
Derivatives	7	*41*	*18*	*374*	*374*
Loans	6	280,726	280,726	251,789	251,789
Available-for-sale financial assets	4	4,210	4,210	6,081	6,081
Fixed-income securities		*4,210*	*4,210*	*6,081*	*6,081*
Held-to-maturity investments	4	2,786	2,786	2,785	2,785
Investments in subsidiaries	8	-	354	-	283
Intangible assets	9	687	687	1,089	1,086
Property, plant and equipment	9	10,780	10,780	11,421	11,421
Deferred expense and accrued income		404	387	329	319
Other assets	10	2,491	2,487	2,786	2,786
Total assets		***359,976***	***361,106***	***394,582***	***395,495***

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

	Notes	31.12.2008 Group	31.12.2008 Bank	31.12.2007 Group	31.12.2007 Bank
LIABILITIES					
Due to central bank	11	6,901	6,901	-	-
Due to credit institutions	11	11,665	11,665	1,433	1,433
Financial liabilities held for trading		46	46	479	479
Derivatives	7	*46*	*46*	*479*	*479*
Financial liabilities at amortised cost		311,225	312,340	340,206	341,080
Deposits	12	*289,865*	*290,809*	*329,940*	*330,643*
Debt securities	13	*7,197*	*7,197*	*7,147*	*7,147*
Subordinated debt	15	*14,163*	*14,334*	*3,119*	*3,290*
Deferred income and accrued expense		2,325	2,312	1,806	1,791
Tax liabilities	16	985	985	985	985
Deferred tax liabilities		*985*	*985*	*985*	*985*
Other liabilities	14	514	514	765	765
Total liabilities		**333,661**	**334,763**	**345,674**	**346,533**
Capital and reserves					
Share capital	17	*22,198*	*22,198*	*22,198*	*22,198*
Share premium		*10,347*	*10,347*	*10,347*	*10,347*
Reserve capital		*4,005*	*4,005*	*4,005*	*4,005*
Property, plant and equipment revaluation reserve		*2,363*	*2,363*	*2,363*	*2,363*
Available for sale financial asset revaluation reserve		*(2,079)*	*(2,079)*	*(748)*	*(748)*
Retained earnings		*(10,519)*	*(10,491)*	*10,743*	*10,797*
Total equity		**26,315**	**26,343**	**48,908**	**48,962**
Total liabilities and equity		**359,976**	**361,106**	**394,582**	**395,495**
OFF-BALANCE SHEET ITEMS					
Guarantees	18	*5,033*	*5,033*	*6,767*	*6,767*
Other commitments	18	*8,823*	*8,823*	*15,515*	*15,515*

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
31 December 2006	**22,198**	**10,347**	**(593)**	**2,363**	**4,005**	**6,621**	**44,941**
Available for sale financial asset revaluation	-	-	(155)	-	-	-	**(155)**
Profit for the period	-	-	-	-	-	4,176	**4,176**
31 December 2007	**22,198**	**10,347**	**(748)**	**2,363**	**4,005**	**10,797**	**48,962**
Available for sale financial asset revaluation	-	-	(1,331)	-	-	-	**(1,331)**
Loss for the period	-	-	-	-	-	(21,288)	**(21,288)**
31 December 2008	**22,198**	**10,347**	**(2,078)**	**2,363**	**4,005**	**(10,491)**	**26,343**

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
31 December 2006	**22,198**	**10,347**	**(593)**	**2,363**	**4,005**	**6,586**	**44,906**
Available for sale financial asset revaluation reserve	-	-	(155)	-	-	-	**(155)**
Profit for the year	-	-	-	-	-	4,278	**4,157**
31 December 2007	**22,198**	**10,347**	**(748)**	**2,363**	**4,005**	**10,864**	**48,908**
Available for sale financial asset revaluation reserve	-	-	(1,331)	-	-	-	**(1,331)**
Loss for the year	-	-	-	-	-	(21,262)	**(21,262)**
31 December 2008	**22,198**	**10,347**	**(2,079)**	**2,363**	**4,005**	**(10,398)**	**26,315**

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
Cash flows from operating activities	**Group**	**Bank**	**Group**	**Bank**
Profit/ (loss) before corporate income tax	(21,940)	(21,966)	5,031	5,050
Depreciation, amortization and write-off of intangible assets and property, plant and equipment	2,009	2,008	1,807	1,807
Profit from sale of property, plant and equipment	31	31	47	46
Increase of impairment allowance	16,965	16,965	986	986
Result from revaluation of foreign currencies	33	30	(243)	(243)
Increase of cash and cash equivalents before changes in assets and liabilities	**(2,902)**	**(2,932)**	**7,628**	**7,646**
Change in due from credit institutions	724	724	4,510	4,491
Change in loans	(45,902)	(45,902)	(91,573)	(91,573)
Change in available-for-sale financial assets	(393)	(523)	14,924	14,924
Change in held for trading financial assets	1,871	1,871	1,467	1,328
Change in deferred expense and accrued income	(75)	(68)	(175)	(168)
Change in other assets	295	298	(371)	(371)
Change in due to credit institutions	1,942	1,935	(15,972)	(15,972)
Change in deposits	(40,073)	(39,826)	82,194	82,520
Change in held for trading financial liabilities	(434)	(434)	438	438
Change in deferred income and accrued expense	520	521	709	703
Change in other liabilities	(158)	(158)	(386)	(383)
Income tax paid	678	678	(2,094)	(2,094)
Net cash used in operating activities	**(83,907)**	**(83,816)**	**1,299**	**1,489**

(to be continued)

	2008 Group	2008 Bank	2007 Group	2007 Bank
Cash flows from investing activities				
Purchase of property, plant and equipment, and intangibles	(1,006)	(1,006)	(2,385)	(2,385)
Sale of property, plant and equipment	7	7	21	23
Purchase of held-to-maturity investments	-	-	5,657	5,657
Investments in subsidiaries	-	(71)	-	(64)
Net cash from investing activities	**(999)**	**(1,070)**	**3,293**	**3,231**
Cash flows from financing activities				
Mortgage bonds (repaid)	-	-	(14,098)	(14,249)
Proceeds from issue of subordinated liabilities	11,000	11,000	-	-
Net cash from financing activities	**11,000**	**11,000**	**(14,098)**	**(14,249)**
Net (decrease)/increase of cash and cash equivalents	**(73,906)**	**(73,886)**	**(9,506)**	**(9,529)**
Opening balance of cash and cash equivalents	111,923	111,900	121,186	121,186
Results from exchange rate differences	(33)	(30)	243	243
Closing balance of cash and its equivalents	**37,984**	**37,984**	**111,923**	**111,900**

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	23,853	23,853	36,976	36,976
Due from credit institutions including term deposits due in less than three months	30,041	30,041	75,667	75,644
Due to credit institutions including term deposits due in less than three months	(15,910)	(15,910)	(720)	(720)
Total	**37,984**	**37,984**	**111,923**	**111,900**

Chairman of the Board _________________________ Dmitrij 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 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. Earning per share is obtained by dividing net profit for the reporting year by the number of weighted average number of ordinary shares outstanding for the respective period.

Employee benefits

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 entireties and accepts assessable and manageable loans with the maximum maturity term for loans repayment of 25 years. The credit policy sets the types of collateral and principles of loan granting procedures. The Bank credits only those clients that are creditworthy, and, when evaluating client's credit ability, pays most attention to credit risk analysis to evaluate the client's financial condition or the ability to fulfill liabilities under the agreement, business potential and credit guarantee as precise as possible. Collateral is used only for additional risk mitigation purposes. The Credit Policy stipulates the basic principles of loans issuing, collateral types and maximum acceptance values for various type of collateral. The Bank accepts several items as potential collateral – mortgage, commercial and financial pledge, guarantee or credit risk insurance. Additionally the Bank uses regular macroeconomic situation stress tests to evaluate the changes in the macroeconomic situation and its impact on the Bank's activities.

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 trough 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

	Group	Bank
31.12.2008		
USD	(4)	(4)
EUR	23	23

RUB	4	4
GBP	4	4
31.12.2007		
USD	(8)	(8)
EUR	(9)	(9)
RUB	6	6
GBP	1	1

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**
31.12.2008				
Bank	(124)	(162)	124	162
Group	(156)	(162)	156	162
31.12.2007				
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	11,246	11,246	12,618	12,618
Correspondent account in the Bank of Latvia	12,607	12,607	24,358	24,358
Total	**23,853**	**23,853**	**36,976**	**36,976**

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 14,015 thousand EUR and 25,438 thousand EUR, 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	1,205	2,002	2,142	2,808
Available-for-sale financial assets	4,210	4,210	6,081	6,081
Held-to-maturity financial assets	2,786	2,786	2,785	2,785
	8,201	**8,998**	**11,008**	**11,674**

Financial instruments by listing:

	31.12.2008 Group	31.12.2008 Bank	31.12.2007 Group	31.12.2007 Bank
Held for trading financial assets				
Quoted securities	989	-	1,768	205
Non-quoted securities	175	1,984	-	2,229
Non-quoted derivatives (Note 7)	41	18	374	374
Total	**1,205**	**2,002**	**2,142**	**2,808**
Available-for-sale financial assets				
Quoted securities	4,210	4,210	6,081	6,081
Total	**4,210**	**4,210**	**6,081**	**6,081**
Held-to-maturity investments				
Quoted securities	2,786	2,786	2,785	2,785
Total	**2,786**	**2,786**	**2,785**	**2,785**
Total	**8,201**	**8,998**	**11,008**	**11,674**

Financial instruments by type:

	31.12.2008 Group	31.12.2008 Bank	31.12.2007 Group	31.12.2007 Bank
Fixed income government securities	7,131	6,996	9,133	8,865
Credit institution fixed-income securities	356	-	457	-
Private companies fixed-income securities	498	-	633	120
Total bonds and other fixed-income securities	**7,985**	**6,996**	**10,223**	**8,985**
Shares and other non-fixed income securities	175	1,984	411	2,315
Derivatives	41	18	374	374
Total	**8,201**	**8,998**	**11,008**	**11,674**

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 Group	31.12.2008 Bank	31.12.2007 Group	31.12.2007 Bank
Latvia	7,093	6,996	9,042	8,866
OECD countries	114	-	154	-
Other countries	778	-	1,027	120
Total	**7,985**	**6,996**	**10,223**	**8,986**

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

	31.12.2008 Group	31.12.2008 Bank	31.12.2007 Group	31.12.2007 Bank
Latvia	3	1,897	10	2,230
OECD countries	87	87	85	85
Other countries	85	-	316	-
Total	**175**	**1,984**	**411**	**2,315**

5. DUE FROM CREDIT INSTITUTIONS

Due from credit institution is comprised as follows:

	31.12.2008 Group	31.12.2008 Bank	31.12.2007 Group	31.12.2007 Bank
Demand				
Credit institutions of OECD countries	29,745	29,745	19,449	19,449
Latvian credit institutions	2,773	2,773	16,072	16,072
Credit institutions non-OECD countries	316	316	906	906
Total	**32,834**	**32,834**	**36,427**	**36,427**
Term				
Latvian credit institutions	-	-	42,757	42,734
Total	**-**	**-**	**42,757**	**42,734**
Total demand and term	**32,834**	**32,834**	**79,184**	**79,161**

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 2,792 thousand LVL are used as a collateral against client issued guarantees and letters of credit , as of 31 December 2007 – 3,517 thousand LVL.

6. LOANS

Loans by groups are comprised as follows:

	31.12.2008 Group	31.12.2008 Bank	31.12.2007 Group	31.12.2007 Bank
General government	920	920	1,071	1,071
Financial agencies	74,048	74,048	4,268	4,268
Private companies	139,554	139,554	145,897	145,897
Private individuals	71,393	71,393	90,051	90,051
State companies and municipalities	10,921	10,921	12,857	12,857
Gross loans	**296,836**	**296,836**	**254,144**	**254,144**
Allowances for loan losses (Note 23)	*16,110*	*16,110*	*(2,355)*	*(2,355)*
Total	**280,726**	**280,726**	**251,789**	**251,789**

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 Group	31.12.2008 Bank	31.12.2007 Group	31.12.2007 Bank
Mortgage loans	63,411	63,411	84,011	84,011
Commercial loans	33,044	33,044	67,013	67,013
Industrial loans	178,271	178,271	59,809	59,809
Finance lease	15,075	15,075	18,494	18,494
Consumer loans	4,572	4,572	5,459	5,459
Credits for credit cards	1,082	1,082	801	801
Loans backed by claim rights (*factoring*)	171	171	131	131
Other	1,210	1,210	18,426	18,426
Gross loans	**296,836**	**296,836**	**254,144**	**254,144**
Allowances for loan losses (Note 23)	*16,110*	*16,110*	*(2,355)*	*(2,355)*
Total	**280,726**	**280,726**	**251,789**	**251,789**

Loans by industry are comprised as follows:

	31.12.2008 Group	31.12.2008 Bank	31.12.2007 Group	31.12.2007 Bank
Industry				
Manufacturing industry	33,021	33,021	35,283	35,283
Trade	19,369	19,369	14,153	14,153
Real estate, renting and other business activities	21,721	21,721	24,944	24,944
Agriculture and forestry	19,733	19,733	19,076	19,076
Transport, storage and communications	13,471	13,471	13,271	13,271
Other community, social and personal service activities	6,935	6,935	7,433	7,433
Construction	12,705	12,705	15,936	15,936
Electricity, gas and water supply	7,440	7,440	12,867	12,867
Hotels and restaurants	6,720	6,720	5,965	5,965
Fishing	2,457	2,457	2,339	2,339
Financial intermediation	78,701	78,701	8,826	8,826
Mining and quarrying	1,960	1,960	1,807	1,807
Other services	1,210	1,210	2,193	2,193
Total	**225,443**	**225,443**	**164,093**	**164,093**
Loans to private individuals	71,393	71,393	90,051	90,051
Gross loans	**296,836**	**296,836**	**254,144**	**254,144**
Allowances for loan losses (Note 23)	*16,110*	*16,110*	*(2,355)*	*(2,355)*
Total	**280,726**	**280,726**	**251,789**	**251,789**

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	295,926	251,891	(16,110)	(2,345)	279,816	249,546
OECD countries	790	1,154	-	(1)	790	1,153
Other countries	120	1,099	-	(9)	120	1,090
Total	**296,836**	**254,144**	**(16,110)**	**(2,355)**	**280,726**	**251,789**

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	295,926	251,891	(16,110)	(2,345)	279,816	249,546
OECD countries	790	1,154	-	(1)	790	1,153
Other countries	120	1,099	-	(9)	120	1,090
Total	**296,836**	**254,144**	**(16,110)**	**(2,355)**	**280,726**	**251,789**

Loans by classification and grouped:

	31.12.2008 Group	31.12.2008 Bank	31.12.2007 Group	31.12.2007 Bank
Loans assessed on individual basis	**238,670**	**238,670**	**17,049**	**17,049**
Standard	202,061	202,061	13,884	13,884
Watch-list	26,575	26,575	1,665	1,665
Substandard	7,465	7,465	17	17
Doubtful	1,891	1,891	231	231
Bad	678	678	1,252	1,252
Allowances	(10,622)	(10,622)	(2,012)	(2,012)
Net loans assessed on individual basis	**228,048**	**228,048**	**15,037**	**15,037**
Assessed grouped loans	**58,166**	**58,166**	**237,095**	**237,095**
Allowances	(5,488)	(5,488)	(343)	(343)
Net assessed grouped loans	**52,678**	**52,678**	**236,752**	**236,752**
Net loans, Total	**280,726**	**280,726**	**251,789**	**251,789**

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 Group	31.12.2008 Bank	31.12.2007 Group	31.12.2007 Bank
Loans to legal persons with collateral				
Loans with no impairment allowance:	174,768	174,768	141,487	141,487
Loans without delinquency	*155,603*	*155,603*	*137,457*	*137,457*
Loans with delinquency	*19,165*	*19,165*	*4,030*	*4,030*
Loans with an impairment allowance	30,428	30,428	4,442	4,442
Loans without delinquency	*12,578*	*12,578*	*2,269*	*2,269*
Loans with delinquency	*17,850*	*17,850*	*2,173*	*2,173*
Impairment allowance	(6,714)	(6,714)	(1,138)	(1,138)
Net loans to legal persons with collateral	**198,482**	**198,482**	**144,791**	**144,791**
Financial lease				
Loans with no impairment allowance:	11,770	11,770	18,234	18,234
Loans without delinquency	*8,598*	*8,598*	*17,220*	*17,220*
Loans with delinquency	*3,172*	*3,172*	*1,014*	*1,014*
Loans with an impairment allowance	3,305	3,305	249	249
Loans without delinquency	*95*	*95*	*26*	*26*
Loans with delinquency	*3,210*	*3,210*	*223*	*223*
Impairment allowance	(1,238)	(1,238)	(160)	(160)
Total financial lease	**13,837**	**13,837**	**18,323**	**18,323**
Mortgage loans				
Loans with no impairment allowance:	45,537	45,537	64,972	64,972
Loans without delinquency	*35,111*	*35,111*	*58,763*	*58,763*
Loans with delinquency	*10,426*	*10,426*	*6,209*	*6,209*
Loans with an impairment allowance	17,874	17,874	4,464	4,464
Loans without delinquency	*251*	*251*	*931*	*931*
Loans with delinquency	*17,623*	*17,623*	*3,533*	*3,533*
Impairment allowance	(6,883)	(6,883)	(415)	(415)
Total mortgage loans	**56,528**	**56,528**	**69,021**	**69,021**
Loans to private persons with other collateral				
Loans with no impairment allowance:	1,787	1,787	12,453	12,453
Loans without delinquency	*1,211*	*1,211*	*12,180*	*12,180*
Loans with delinquency	*576*	*576*	*273*	*273*
Loans with an impairment allowance	349	349	84	84
Loans without delinquency	*3*	*3*	*7*	*7*
Loans with delinquency	*346*	*346*	*77*	*77*
Impairment allowance	(173)	(173)	(33)	(33)
Total loans to private persons with other collateral	**1,963**	**1,963**	**12,504**	**12,504**

	31.12.2008 Group	31.12.2008 Bank	31.12.2007 Group	31.12.2007 Bank
Card, overdraft and consumer loans without collateral				
Loans with no impairment allowance:	9,606	9,606	7,144	7,144
Loans without delinquency	*9,298*	*9,298*	*6,633*	*6,633*
Loans with delinquency	*308*	*308*	*511*	*511*
Loans with an impairment allowance	1,412	1,412	615	615
Loans without delinquency	*753*	*753*	*9*	*9*
Loans with delinquency	*659*	*659*	*606*	*606*
Impairment allowance	(1,102)	(1,102)	(609)	(609)
Total card, overdraft and consumer loans without collateral	**9,916**	**9,916**	**7,150**	**7,150**
Total	**280,726**	**280,726**	**251,789**	**251,789**

Loans quality by delinquency periods:

	31.12.2008 Group	31.12.2008 Bank	31.12.2007 Group	31.12.2007 Bank
Loans with no impairment allowance	**243,450**	**243,450**	**244,290**	**244,290**
Loans without delinquency	209,781	209,781	232,253	232,253
Delinquent loans	33,669	33,669	12,037	12,037
Delinquent up to 30 days	*20,498*	*20,498*	*5,709*	*5,709*
Delinquent 30-60 days	*6,330*	*6,330*	*3,376*	*3,376*
Delinquent 60-90 days	*5,168*	*5,168*	*977*	*977*
Delinquent over 90 days	*1,673*	*1,673*	*1,975*	*1,975*
Loans with an impairment allowance	**53,386**	**53,386**	**9,854**	**9,854**
Loans without delinquency	13,670	13,670	3,242	3,242
Delinquent loans	39,716	39,716	6,612	6,612
Delinquent up to 30 days	***1,251***	***1,251***	***33***	***33***
Delinquent 30-60 days	*606*	*606*	*995*	*995*
Delinquent 60-90 days	***5,854***	***5,854***	***842***	***842***
Delinquent over 90 days	*32,005*	*32,005*	*4,742*	*4,742*
Loans, total	**296,836**	**296,836**	**254,144**	**254,144**
Impairment allowance	*(16,110)*	*(16,110)*	*(2,355)*	*(2,355)*
Net loans, total	**280,726**	**280,726**	**251,789**	**251,789**

7. DERIVATIVE ASSETS AND LIABILITIES

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

	31.12.2008 Assets	31.12.2008 Liabilities	31.12.2007 Assets	31.12.2007 Liabilities
Foreign currency interchange deals (swap)				
Notional value	12,960	(12,988)	104,207	(104,312)
Fair value	**18**	**(46)**	**374**	**(479)**

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	213	-	213	100
JSC „GE Money Atklātais pensiju fonds"	Latvia	Financial services	213	(72)	141	100
Total			**426**	**(72)**	**354**	

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	213	-	213	100
JSC „GE Money Atklātais pensiju fonds"**	Latvia	Financial services	142	(72)	70	100
Total			**355**	**(72)**	**283**	

* 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 improve-ments	Vehicles	Office equipment	Other land and buildings	Intangible assets	Total
Historical cost							
As of 31.12.2006	**6,117**	**1,699**	**456**	**6,944**	**192**	**3,112**	**18,520**
Purchases	162	17	47	1,867		292	2,385
Disposals	-	(11)	(20)	(2,143)	(23)	-	(2,197)
As of 31.12.2007	**6,279**	**1,705**	**483**	**6,668**	**169**	**3,404**	**18,708**
Purchases	-	105	24	796	-	81	1,006
Disposals	-	(114)	-	(198)	-	-	(312)
As of 31.12.2008	**6,279**	**1,696**	**507**	**7,266**	**169**	**3485**	**19,402**
Accumulated depreciation							
As of 31.12.2006	**95**	**599**	**226**	**3,745**	**-**	**1,854**	**6,519**
Charge for the year	97	129	70	1,050	-	461	1,807
Depreciation on disposals	-	(11)	(16)	(2,101)	-	-	(2,128)
As of 31.12.2007	**192**	**717**	**280**	**2,694**	**-**	**2,315**	**6,198**
Charge for the year	102	137	73	1,215	-	483	2,010
Depreciation on disposals	-	(114)	-	(159)	-	-	(273)
As of 31.12.2008	**294**	**740**	**353**	**3,750**	**-**	**2,798**	**7,935**
Net book value							
As of 31.12.2006	**6,022**	**1,100**	**230**	**3,199**	**192**	**1,258**	**12,001**
As of 31.12.2007	**6,087**	**988**	**203**	**3,974**	**169**	**1,089**	**12,510**
As of 31.12.2008	**5,985**	**956**	**154**	**3,516**	**169**	**687**	**11,467**

Bank's property, plant, equipment and intangible assets

	Land and buildings	Leasehold improve-ments	Vehicles	Office equipment	Other land and buildings	Intangible assets	Total
Historical cost							
As of 31.12.2006	**6,117**	**1,699**	**456**	**6,944**	**192**	**3,106**	**18,514**
Purchases	162	17	47	1,867	-	292	2,385
Disposals	-	(11)	(20)	(2,143)	(23)	-	(2,197)
As of 31.12.2007	**6,279**	**1,705**	**483**	**6,668**	**169**	**3,398**	**18,702**
Purchases	-	105	24	796	-	81	1,006
Disposals	-	(114)	-	(198)	-	-	(312)
As of 31.12.2008	**6,279**	**1,696**	**507**	**7,266**	**169**	**3,479**	**19,396**
Accumulated depreciation							
As of 31.12.2006	**95**	**599**	**226**	**3,745**	**-**	**1,851**	**6,516**
Charge for the year	97	129	70	1,050	-	461	1,807
Depreciation on disposals	-	(11)	(16)	(2,101)	-	-	(2,128)
As of 31.12.2007	**192**	**717**	**280**	**2,694**	**-**	**2,312**	**6,195**
Charge for the year	102	137	73	1,215	-	480	2,007
Depreciation on disposals	-	(114)	-	(159)	-	-	(273)
As of 31.12.2008	**294**	**740**	**353**	**3,750**	**-**	**2,792**	**7,929**
Net book value							
As of 31.12.2006	**6,022**	**1,100**	**230**	**3,199**	**192**	**1,255**	**11,998**
As of 31.12.2007	**6,087**	**988**	**203**	**3,974**	**169**	**1,086**	**12,507**
As of 31.12.2008	**5,985**	**956**	**154**	**3,516**	**169**	**687**	**11,467**

	Group		Bank	
Depreciation, amortisation and loss on disposal of property, plant and equipment and intangible assets	**31.12.2008**	**31.12.2007**	**31.12.2008**	**31.12.2007**
Amortisation of intangible assets and depreciation of property, plant and equipment	2,011	1,807	2,007	1,807
Loss on disposal of property, plant and equipment	39	47	39	46
Total	**2,048**	**1,854**	**2,046**	**1,853**

Fully depreciated property, plant and equipment and intangible assets have a historical cost as of 31.12.2008 of 1,939 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:

	31.12.2008 Group	31.12.2008 Bank	31.12.2007 Group	31.12.2007 Bank
Money in transit	407	403	1,750	1,750
Accounts receivables	42	42	55	55
Traveller checks	1	1	2	2
Foreign currency exchange (spot) contracts	448	448	10	10
Corporate income tax receivable	1,261	1,261	737	737
Other assets	332	332	232	232
Total	**2,491**	**2,487**	**2,786**	**2,786**

11. DUE TO CREDIT INSTITUTIONS

Due to credit institutions are comprised as follows:

Demand	31.12.2008 Group	31.12.2008 Bank	31.12.2007 Group	31.12.2007 Bank
Latvian credit institution	6,901	6,901	-	-
Residents of OECD countries	4,741	4,741	619	619
World Bank's transit funds	632	632	713	713
Residents of non-OECD countries	-	-	101	101
Total demand	**12,274**	**12,274**	**1,433**	**1,433**
Term in Latvian credit institution	**6,292**	**6,292**	**-**	**-**
Total	**18,566**	**18,566**	**1,433**	**1,433**

12. DEPOSITS

Due to clients are comprised as follows:

	31.12.2008 Group	31.12.2008 Bank	31.12.2007 Group	31.12.2007 Bank
Latvian residents	171,106	172,050	194,897	195,600
Residents of OECD countries	115,234	115,234	113,410	113,410
Residents of non-OECD countries	3,525	3,525	21,633	21,633
Total	**289,865**	**290,809**	**329,940**	**330,643**

Demand and term deposits are comprised as follows:

	31.12.2008 Group	31.12.2008 Bank	31.12.2007 Group	31.12.2007 Bank
Demand deposits				
Central governments	205	205	2,188	2,188
Local governments	9,671	9,671	17,530	17,530
Financial agencies	1,235	1,813	1,914	2,427
State companies	1,329	1,329	8,665	8,665
Private companies	29,570	29,570	73,429	73,429
Individuals	36,723	36,723	55,044	55,044
Other	1,094	1,094	1,387	1,387
Total demand deposits	**79,827**	**80,405**	**160,157**	**160,670**
Term deposits				
State companies	256	256	-	-
Local governments	1,568	1,568	673	673
Financial agencies	129,576	129,942	102,347	102,537
Private companies	13,166	13,166	12,335	12,335
Individuals	65,468	65,468	54,411	54,411
Other	4	4	17	17
Total term deposits	**210,038**	**210,404**	**169,783**	**169,973**
Total demand and term deposits	**289,865**	**290,809**	**329,940**	**330,643**

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 7,113 thousand EUR (as of 31 December 2007: 7,066 thousand EUR).

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

ISIN	Issue	Amount	Nominal value	Registered volume	Coupon rate	Maturity date	Amount in circulation	2008 Carrying value	2007 Carrying value

LV0000800225	5YR USD	30,000	100	3,000 USD	3.75%*	01.12.2009	2,113	2,113	2,066
LV0000800373	BTB 5YR EUR C02	50,000	100	5,000 EUR	6.25%**	01.10.2011	5,000	5,000	5,000
Accrued expenses								84	81
Total								**7,197**	**7,147**

* 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 8,031 thousand EUR (as of 31 December 2007 - 8,883 thousand EUR). Assets included in the Mortgage Bond Cover Register consisted of mortgage loans amounting to 8,031 thousand EUR (as of 31 December 2007 mortgage loans amounting to 8,883 thousand EUR). 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 Group	31.12.2008 Bank	31.12.2007 Group	31.12.2007 Bank
Money in transit	27	27	95	95
Foreign currency exchange (spot) contracts	23	23	47	47
Other short-term liabilities	464	464	623	623
Total	**514**	**514**	**765**	**765**

15. SUBORDINATED DEBT

As at 31 December 2008 the total book value of issued subordinated bonds was 3,274 thousand EUR (2007 - 3,290 thousand EUR). Subordinated bonds are recognized at their amortized cost and mature on 10th January 2011. Subordinated bonds have floating coupon interest rate – 6 months LVL RIGIBOR plus 2.00%, which on the 31st 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 171 thousand EUR (2007 – 171 thousand EUR).

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 Group	31.12.2008 Bank	31.12.2007 Group	31.12.2007 Bank
Deferred tax liabilities	985	985	985	985
Total	**985**	**985**	**985**	**985**

Deferred tax liabilities

	31.12.2008 Group	31.12.2008 Bank	31.12.2007 Group	31.12.2007 Bank
Deferred tax liabilities:				
temporary difference due to accelerated tax depreciation	985	985	985	985
Net deferred tax liabilities	**985**	**985**	**985**	**985**
Deferred tax liabilities at the beginning of the year	985	985	921	921
Deferred tax charged to profit or loss	-	-	64	64
Deferred tax liabilities at the end the year	**985**	**985**	**985**	**985**

17. SHARE CAPITAL

Issued share capital is as follows:

	Par value per share (LVL)	31.12.2008	31.12.2007
Ordinary shares	71	22,198	22,198
Total		**22,198**	**22,198**

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

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

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

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

Board and council members have no shares at 31.12.2007 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	22,140	99.97
Total	**311,927**	**22,140**	**99.97**

31.12.2007

Name	**Number of shares**	**Total amount**	**Investment in share capital, %**
SIA "Finstar Baltic Investments"	311,210	22,140	99,74
Total	**311,210**	**22,140**	**99.74**

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 Group	**31.12.2008 Bank**	**31.12.2007 Group**	**31.12.2007 Bank**
Issued guarantees	5,033	5,033	6,234	6,234
Total issued guarantees	5,033	5,033	6,234	6,234
Other commitments				
Unused credit lines	8,823	8,823	10,243	10,243
Letters of credit	-	-	66	66
Total other commitments	**8,823**	**8,823**	**10,309**	**10,309**
Total off-balance sheet items	**13,856**	**13,856**	**16,543**	**16,543**

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 Group	31.12.2008 Bank	31.12.2007 Group	31.12.2007 Bank
Interest income from loans	21,786	21,786	17,094	17,094
Interest income from interbank loans	2,450	2,450	5,519	5,519
Interest income from bonds	368	368	773	773
Held to trading financial assets	*3*	*3*	*320*	*320*
Available-for-sale financial assets	*236*	*236*	*212*	*212*
Held-to-maturity investments	*129*	*129*	*241*	*241*
Total	**24,604**	**24,604**	**23,386**	**23,386**

Interest expenses is comprised as follows:

	31.12.2008 Group	31.12.2008 Bank	31.12.2007 Group	31.12.2007 Bank
Amortised cost of interest expenses	12,904	12,920	8,571	8,578
Interest expenses on deposits	*11,935*	*11,951*	*6,228*	*6,235*
Interest expenses on deposits of credit institutions	*175*	*175*	*1,014*	*1,014*
Interest expenses on debt securities	*384*	*384*	*1,064*	*1,064*
Interest expenses on subordinated debt	*410*	*410*	*265*	*265*
Expenses to guarantee fund	333	333	431	431
Total	**13,237**	**13,253**	**9,002**	**9,009**

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 Group	31.12.2008 Bank	31.12.2007 Group	31.12.2007 Bank
Commissions from opening and servicing customers' accounts	2,777	2,644	4,219	4,152
Commissions from payment cards	1,560	1,560	1,376	1,376
Commissions from loan account servicing	4	4	168	168
Commissions for settlement of utilities payments	798	798	839	839
Commissions from cash withdrawal	600	600	391	391
Commissions from guaranties	77	77	97	97
Other commissions	117	117	128	128
Total	**5,933**	**5,800**	**7,218**	**7,151**

Expenses are following:

	31.12.2008 Group	31.12.2008 Bank	31.12.2007 Group	31.12.2007 Bank
Expenses from operations with payment cards	1,024	1,024	868	868
Expenses for services of correspondent banks	356	356	525	525
Commission expense for other services	59	56	91	88
Total	**1,439**	**1,436**	**1,484**	**1,481**

21. OTHER OPERATING INCOME AND EXPENSES

Other income is comprised as follows:

	31.12.2008 Group	31.12.2008 Bank	31.12.2007 Group	31.12.2007 Bank
Income from encashment services	608	608	552	552
Penalties, contractual penalties and delay charges received	946	946	514	514
Income from non-current assets held for sale and rental income	92	92	107	107
Earnings from sale of other assets	6	6	-	-
Income from provision of services to GE Money	571	571	-	-
Other income	54	54	14	14
Total	**2,277**	**2,277**	**1,187**	**1,187**

Other expenses are comprised as follows:

	31.12.2008 Group	31.12.2008 Bank	31.12.2007 Group	31.12.2007 Bank
Expenses for credit cards production	162	162	105	105
Other expenses related to customer services	13	13	22	22
Other expenses	95	95	198	198
Total	**270**	**270**	**325**	**325**

22. ADMINISTRATIVE EXPENSES

Administrative expenses are comprised as follows:

	31.12.2008 Group	31.12.2008 Bank	31.12.2007 Group	31.12.2007 Bank
Salaries, bonuses and allowances	10,710	10,635	6,729	6,675
Remuneration to the Supervisory Council and Management Board	159	159	405	405
Total salaries, bonuses and allowances	**10,869**	**10,794**	**7,134**	**7,080**
Social tax	2,328	2,311	1,537	1,524
Rental expenses	1,268	1,268	1,019	1,019
Post, telegraph and other communication expenses related to customer servicing	825	825	824	824
Maintenance and rent of vehicles	656	656	533	533
Advertisement expenses	1,363	1,363	186	186
Software maintenance	586	586	367	367
Expenses for utility services	435	435	332	332
Repairs of buildings and equipment	313	313	469	469
Security expenses	289	289	245	245
Office expenses	281	279	231	231
Legal expenses	286	285	168	168
Professional services	87	71	107	91
Business trips expenses	100	100	94	94
Representation expenses	151	151	74	74
Training of personnel	88	88	126	125
Real estate tax and other taxes	50	50	55	55
Insurance expenses	60	60	73	73
Purchase of low cost inventory	21	21	27	27
Management and consultation fees	2,433	2,433	2,620	2,620
Other administrative expenses	489	485	532	527
Total	**22,978**	**22,863**	**16,753**	**16,664**

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

	Group	Bank
Balance as of 31 December 2006	**1,530**	**1,602**
Additional allowance	1,218	1,218
Decrease of allowance	(252)	(252)
written-off	*(20)*	*(20)*
decrease in allowance	*(232)*	*(232)*
Exchange rate differences	(36)	(36)
Balance as of 31 December 2007	**2,460**	**2,533**
Additional allowance	17,571	17,571
Decrease of allowance	(3,967)	(3,967)
written-off	*(3,361)*	*(3,361)*
decrease in allowance	*(606)*	*(606)*
Exchange rate differences	46	46
Balance as of 31 December 2008	**16,107**	**16,183**

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

	31.12.2008 Group	**31.12.2008 Bank**	**31.12.2007 Group**	**31.12.2007 Bank**
Loans (Note 6)	16,110	16,183	2,355	2,355
Other assets	-	-	105	105
Investments in subsidiaries	-	73	-	73
Total	**16,110**	**16,253**	**2,460**	**2,533**

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

	31.12.2008 Group	**31.12.2008 Bank**	**31.12.2007 Group**	**31.12.2007 Bank**
Deferred tax charge	-	-	(64)	(64)
Corporate income tax for 2007	-	-	(732)	(732)
Income from transfer of losses within Tax group for 2007	678	678	-	-
Under provided corporate income tax for 2006	-	-	(78)	(78)
Total	**678**	**678**	**(874)**	**(874)**

	31.12.2008	**31.12.2008**	**31.12.2007**	**31.12.2007**
	Group	**Bank**	**Group**	**Bank**
Profit/ (loss) before tax	(21,940)	(21,966)	5,031	5,050
Expected tax charge, applying current tax rate of (average 15%)	-	-	755	758
Tax effect of:				
Prior year correction	-	-	78	78
Non-deductible expenses	-	-	41	41
Corporate income tax charge	**-**	**-**	**874**	**874**

The Bank has paid the following taxes:

	31.12.2008	**31.12.2007**
Social security payments	2,698	1,466
Personal income tax	2,077	1,584
Corporate income tax	582	1,472
Value added tax	590	245
Real estate tax	50	39
Income tax from non-residents	4	6
Total	**6,001**	**4,812**

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
ASSETS							
Cash and demand deposits with central banks	23,853	-	-	-	-	-	23,853
Due from credit institutions and central banks	30,041	-	-	-	2,793	-	32,834
Loans and receivables	7,281	17,990	81,318	32,692	134,494	6,951	280,726
Held for trading financial assets	1,096	23	-	-	86	-	1,205
Available-for-sale financial assets	4,193	-	-	17	-	-	4,210
Held-to-maturity investments	-	-	97	-	2,689	-	2,786
Intangible assets	-	-	-	-	687	-	687
Property, plant and equipment	-	-	-	-	10,780	-	10,780
Deferred expenses and accrued income	404	-	-	-	-	-	404
Other assets	2,491	-	-	-	-	-	2,491
Total assets	**69,359**	**18,013**	**81,415**	**32,709**	**151,529**	**6,951**	**359,976**

Item	up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	Over 1 year	Other	Total
LIABILITIES, EQUITY AND OFF – BALANCE SHEET ITEMS							
Balances due to central bank	6,901	-	-	-	-	-	6,901
Balances due to credit institutions	9,010	-	1,359	758	538	-	11,665
Financial liabilities at fair value trough profit or loss	46	-	-	-	-	-	46
Financial liabilities at amortised cost	119,650	10,815	88,510	25,333	66,917	-	311,225
Deferred income and accrued expenses	2,321	-	-	-	-	4	2,325
Tax liabilities	-	-	-	-	985	-	985
Other liabilities	514	-	-	-	-	-	514
Capital and reserves	-	-	-	-	26,315	-	26,315
Total liabilities and equity	**138,442**	**10,815**	**89,869**	**26,091**	**94,755**	**4**	**359,976**
Off-balance sheet items (liabilities)	3,112	1,494	2,376	4,352	2,351	171	13,856
Guarantees	249	189	1,100	1,404	1,920	171	5,033
Other commitments	2,863	1,305	1,276	2,948	431	-	8,823
Total liabilities, equity and off-balance sheet items	**141,554**	**12,309**	**92,245**	**30,443**	**97,106**	**175**	**373,832**
Net position of liquidity	(72,195)	5,704	(10,830)	2,266	54,423	6,776	(13,856)

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
ASSETS							
Cash and demand deposits with central banks	36,976	-	-	-	-	-	36,976
Due from credit institutions and central banks	61,413	14,254	-	-	3,517	-	79,184
Loans and receivables	4,968	16,690	20,082	38,921	170,078	1,050	251,789
Held for trading financial assets	2,023	33	1	-	85	-	2,142
Available-for-sale financial assets	6,061	-	20	-	-	-	6,081
Held-to-maturity investments	-	-	-	97	2,688	-	2,785
Intangible assets	-	-	-	-	1,089	-	1,089
Property, plant and equipment	-	-	-	-	11,421	-	11,421
Deferred expenses and accrued income	44	3	-	-	-	282	329
Other assets	2,049	-	-	737	-	-	2,786
Total assets	**113,534**	**30,980**	**20,103**	**39,755**	**188,878**	**1,332**	**394,582**

Item	up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	Over 1 year	Other	Total
LIABILITIES, EQUITY AND OFF – BALANCE SHEET ITEMS							
Balances due to credit institutions	720	-	47	43	623	-	1,433
Financial liabilities at fair value trough profit or loss	479	-	-	-	-	-	479
Financial liabilities at amortised cost	181,013	10,176	18,642	14,176	116,199	-	340,206
Deferred income and accrued expenses	1,579	60	67	100	-	-	1,806
Tax liabilities	-	-	-	-	985	-	985
Other liabilities	765	-	-	-	-	-	765
Capital and reserves	-	-	-	-	48,908	-	48,908
Total liabilities and equity	**184,556**	**10,236**	**18,756**	**14,319**	**166,715**	**-**	**394,582**
Off-balance sheet items (liabilities)	2,231	1,081	3,854	6,494	2,805	78	16,543
Guarantees	506	71	1,627	2,789	1,163	78	6,234
Other commitments	1,725	1,010	2,227	3,705	1,642	-	10,309
tal liabilities, equity and off-balance sheet items	**186,787**	**11,317**	**22,610**	**20,813**	**169,520**	**78**	**411,125**
Net position of liquidity	(73,253)	19,663	(2,507)	18,942	19,358	1,254	(16,543)

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
ASSETS							
Cash and demand deposits with central banks	23,853	-	-	-	-	-	23,853
Due from credit institutions and central banks	30,041	-	-	-	2,793	-	32,834
Loans and receivables	7,281	17,990	81,318	32,692	134,494	6,951	280,726
Held for trading financial assets	1,915	-	-	-	87	-	2,002
Available-for-sale financial assets	4,193	-	-	17	-	-	4,210
Held-to-maturity investments	-	-	97	-	2,689	-	2,786
Investments in subsidiaries	-	-	-	-	354	-	354
Intangible assets	-	-	-	-	687	-	687
Property, plant and equipment	-	-	-	-	10,780	-	10,780
Deferred expenses and accrued income	387	-	-	-	-	-	387
Other assets	2,487						2,487
Total assets	**70,157**	**17,990**	**81,415**	**32,709**	**151,884**	**6,951**	**361,106**

Item	up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	Over 1 year	Other	Total
LIABILITIES, EQUITY AND OFF – BALANCE SHEET ITEMS							
Balances due to central bank	6,901	-	-	-	-	-	6,901
Balances due to credit institutions	9,010	-	1,359	758	538	-	11,655
Financial liabilities at fair value trough profit or loss	46	-	-	-	-	-	46
Financial liabilities at amortised cost	120,358	10,844	88,510	25,454	67,174	-	312,340
Deferred income and accrued expenses	2,312	-	-	-	-	-	2,312
Tax liabilities	985	-	-	-	-	-	985
Other liabilities	514	-	-	-	-	-	514
Capital and reserves	-	-	-	-	26,343	-	26,343
Total liabilities and equity	**140,126**	**10,844**	**89,869**	**26,212**	**94,055**	**-**	**361,106**
Off-balance sheet items (liabilities)	3,112	1,494	2,376	4,352	2,351	171	13,856
Guarantees	249	189	1,100	1,404	1,920	171	5,033
Other commitments	2,863	1,305	1,276	2,948	431	-	8,823
Total liabilities, equity and off-balance sheet items	**143,238**	**12,338**	**92,245**	**30,564**	**96,406**	**171**	**374,962**
Net position of liquidity	(73,081)	5,652	(10,830)	2,145	55,478	6,780	(13,856)

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
ASSETS							
Cash and demand deposits with central banks	36,976	-	-	-	-	-	36,976
Due from credit institutions and central banks	61,390	14,254	-	-	3,517	-	79,161
Loans and receivables	4,968	16,690	20,082	38,921	170,078	1,050	251,789
Held for trading financial assets	2,688	33	2	-	85	-	2,808
Available-for-sale financial assets	6,061	-	20	-	-	-	6,081
Held-to-maturity investments	-	-	-	97	2,688	-	2,785
Investments in subsidiaries	-	-	-	-	283	-	283
Intangible assets	-	-	-	-	1,086	-	1,086
Property, plant and equipment	-	-	-	-	11,421	-	11,421
Deferred expenses and accrued income	38	-	-	-	-	281	319
Other assets	2,049	-	-	737	-	-	2,786
Total assets	**114,170**	**30,977**	**20,104**	**39,755**	**189,158**	**1,331**	**395,495**

Item	up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	Over 1 year	Other	Total
LIABILITIES, EQUITY AND OFF – BALANCE SHEET ITEMS							
Balances due to credit institutions	720	-	47	43	623	-	1,433
Financial liabilities at fair value trough profit or loss	479	-	-	-	-	-	479
Financial liabilities at amortised cost	181,715	10,177	18,642	14,176	116,370	-	341,080
Deferred income and accrued expenses	1,579	45	67	100	-	-	1,791
Tax liabilities	-	-	-	-	985	-	985
Other liabilities	765	-	-	-	-	-	765
Capital and reserves	-	-	-	-	48,962	-	48,962
Total liabilities and equity	**185,258**	**10,222**	**18,756**	**14,319**	**166,940**	**-**	**395,495**
Off-balance sheet items (liabilities)	2,232	1,081	3,853	6,494	2,805	78	16,543
Guarantees	507	71	1,626	2,789	1,163	78	6,234
Other commitments	1,725	1,010	2,227	3,705	1,642	-	10,309
tal liabilities, equity and off-balance sheet items	**187,490**	**11,303**	**22,609**	**20,813**	**169,745**	**78**	**412,038**
Net position of liquidity	(73,320)	19,674	(2,505)	18,942	19,413	1,253	(16,543)

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
ASSETS								
Cash and demand deposits with central banks	23,853	-	-	-	-	-	-	23,853
Due from credit institutions and central banks	32,834	-	-	-	-	-	-	32,834
Loans and receivables	6,749	99,635	134,873	6,299	3,193	29,977	-	280,726
Held for trading financial assets	-	-	-	-	1,077	128	-	1,205
Available-for-sale financial assets	-	-	-	-	4,193	17	-	4,210
Held-to-maturity investments	-	-	-	-	2,689	97	-	2,786
Intangible assets	-	-	-	-	-	687	-	687
Property, plant and equipment	-	-	-	-	-	10,780	-	10,780
Deferred expenses and accrued income	-	-	-	-	-	404	-	404
Other assets	-	-	-	-	-	2,491	-	2,491
Total assets	**63,436**	**99,635**	**134,873**	**6,299**	**11,152**	**44,581**	**-**	**359,976**

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
LIABILITIES, EQUITY AND OFF – BALANCE SHEET ITEMS								
Balances due to central banks	6,901	-	-	-	-	-	-	6,901
Balances due to credit institutions	9,010	-	1,323	741	538	53	-	11,665
Financial liabilities at fair value trough profit or loss	-	-	-	-	-	46	-	46
Financial liabilities at amortised cost	118,112	10,448	146,896	22,799	6,411	6,559	-	311,225
Deferred income and accrued expenses	-	-	-	-	-	2,325	-	2,325
Tax liabilities	-	-	-	-	-	985	-	985
Other liabilities	-	-	-	-	-	514	-	514
Capital and reserves	-	-	-	-	-	-	26,315	26,315
Total liabilities and equity	**134,023**	**10,448**	**148,219**	**23,540**	**6,949**	**10,482**	**26,315**	**359,976**
Off-balance sheet items (liabilities)	2.863	1,305	4.655	-	-	5,033	-	13,856
Guarantees	-	-	-	-	-	*5,033*	-	5,033
Other future liabilities	*2,863*	*1,305*	*4,655*	-	-	-	-	8,823
Total liabilities, equity and off-balance sheet items	**136,886**	**11,753**	**152,874**	**23,540**	**6,949**	**15,515**	**26,315**	**373,832**
Interest rate reprising net position	(73,450)	87,882	(18,001)	(17,241)	4,203	29,066	(26,315)	(13,856)

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
ASSETS								
Cash and demand deposits	24,358	-	-	-	-	12,618	-	36,976

with central banks								
Due from credit institutions and central banks	79,184	-	-	-	-	-	-	79,184
Loans and receivables	3,853	133,989	93,366	4,705	11,698	4,178	-	251,789
Held for trading financial assets	-	-	-	-	2,142	-	-	2,142
Available-for-sale financial assets	-	-	-	-	6,081	-	-	6,081
Held-to-maturity investments	-	-	-	-	2,785	-	-	2,785
Intangible assets	-	-	-	-	-	1,089	-	1,089
Property, plant and equipment	-	-	-	-	-	11,421	-	11,421
Deferred expenses and accrued income	-	-	-	-	-	329	-	329
Other assets	-	-	-	-	-	2,786	-	2,786
Total assets	**107,395**	**133,989**	**93,366**	**4,705**	**22,706**	**32,421**	**-**	**394,582**

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
LIABILITIES, EQUITY AND OFF – BALANCE SHEET ITEMS								
Balances due to credit institutions	720	-	713	-	-	-	-	1,433
Financial liabilities at fair value trough profit or loss	479	-	-	-	-	-	-	479
Financial liabilities at amortised cost	181,012	10,177	129,397	14,176	5,444	-	-	340,206
Deferred income and accrued expenses	-	-	-	-	-	1,806	-	1,806
Tax liabilities	-	-	-	-	-	985	-	985
Other liabilities	-	-	-	-	-	765	-	765
Capital and reserves	-	-	-	-	-	-	48,908	48,908
Total liabilities and equity	**182,211**	**10,177**	**130,110**	**14,176**	**5,444**	**3,556**	**48,908**	**394,582**
Off-balance sheet items (liabilities)	1,725	1,010	7,574	-	-	6,234	-	16,543
Guarantees	-	-	-	-	-	*6,234*	-	*6,234*
Other future liabilities	*1,725*	*1,010*	*7,574*	-	-	-	-	*10,309*
Total liabilities, equity and off-balance sheet items	**183,936**	**11,187**	**137,684**	**14,176**	**5,444**	**9,790**	**48,908**	**411,125**
Interest rate repricing net position	(76,541)	122,802	(44,318)	(9,471)	17,262	22,631	(48,908)	(16,543)

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
ASSETS								
Cash and demand deposits with central banks	23,853	-	-	-	-	-	-	23,853
Due from credit institutions and central banks	32,834	-	-	-	-	-	-	32,834
Loans and receivables	6,749	99,635	134,873	6,299	3,193	29,977	-	280,726
Held for trading financial assets	-	-	-	-	-	2,002	-	2,002
Available-for-sale financial assets	-	-	-	-	4,193	17	-	4,210
Held-to-maturity investments	-	-	-	-	2,689	97	-	2,786
Investments in subsidiaries	-	-	-	-	-	354	-	354
Intangible assets	-	-	-	-	-	687	-	687
Property, plant and equipment	-	-	-	-	-	10,780	-	10,780
Deferred expenses and accrued income	-	-	-	-	-	387	-	387
Other assets						2,487		2,487
Total assets	**63,436**	**99,635**	**134,873**	**6,299**	**10,075**	**46,788**	**-**	**361,106**

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
LIABILITIES, EQUITY AND OFF – BALANCE SHEET ITEMS								
Balances due to central banks	6,901	-	-	-	-	-	-	6,901
Balances due to credit institutions	9,010	-	1,323	741	538	53	-	11,655
Financial liabilities at fair value trough profit or loss	-	-	-	-	-	46	-	46
Financial liabilities at amortised cost	118,821	10,476	147,067	22,920	6,497	6,559	-	312,340
Deferred income and accrued expenses	-	-	-	-	-	2,312	-	2,312
Tax liabilities	-	-	-	-	-	985	-	985
Other liabilities	-	-	-	-	-	514	-	514
Capital and reserves	-	-	-	-	-	-	26,343	26,343
Total liabilities and equity	**134,732**	**10,476**	**148,390**	**23,661**	**7,035**	**10,469**	**26,343**	**361,106**
Off-balance sheet items (liabilities)	2.863	1,305	4.655	-	-	5,033	-	13,856
Guarantees	-	-	-	-	-	*5,033*	-	5,033
Other future liabilities	*2,863*	*1,305*	*4,655*	-	-	-	-	8,823
Total liabilities, equity and off-balance sheet items	**137,595**	**11,781**	**153,045**	**23,661**	**7,035**	**15,502**	**26,343**	**374,962**
Interest rate repricing net position	(74,159)	87,854	(18,172)	(17,362)	3,040	31,286	(26,343)	(13,856)

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
ASSETS								
Cash and demand deposits with central banks	24,358	-	-	-	-	12,618	-	36,976
Due from credit institutions and central banks	79,161	-	-	-	-	-	-	79,161
Loans and receivables	3,854	133,989	93,366	4,705	11,697	4,178	-	251,789
Held for trading financial assets	-	-	-	-	2,808	-	-	2,808
Available-for-sale financial assets	-	-	-	-	6,081	-	-	6,081
Held-to-maturity investments	-	-	-	-	2,785	-	-	2,785
Investments in subsidiaries	-	-	-	-	-	283	-	283
Intangible assets	-	-	-	-	-	1,086	-	1,086
Property, plant and equipment	-	-	-	-	-	11,421	-	11,421
Deferred expenses and accrued income	-	-	-	-	-	319	-	319
Other assets	-	-	-	-	-	2,786	-	2,786
Total assets	**107,373**	**133,989**	**93,366**	**4,705**	**23,371**	**32,691**	**-**	**395,495**

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
LIABILITIES, EQUITY AND OFF – BALANCE SHEET ITEMS								
Balances due to credit institutions	720	-	713	-	-	-	-	1,433
Financial liabilities at fair value trough profit or loss	479	-	-	-	-	-	-	479
Financial liabilities at amortised cost	181,717	10,176	129,568	14,176	5,443	-	-	341,080
Deferred income and accrued expenses	-	-	-	-	-	1,791	-	1,791
Tax liabilities	-	-	-	-	-	985	-	985
Other liabilities	-	-	-	-	-	765	-	765
Capital and reserves	-	-	-	-	-	-	48,962	48,962
Total liabilities and equity	**182,916**	**10,176**	**130,281**	**14,176**	**5,443**	**3,541**	**48,962**	**395,495**
Off-balance sheet items (liabilities)	1,724	1,011	7,574	-	-	6,234	-	16,543
Guarantees	-	-	-	-	-	*6,234*	-	*6,234*
Other future liabilities	*1,724*	*1,011*	*7,574*	-	-	-	-	*10,309*
Total liabilities, equity and off-balance sheet items	**184,640**	**11,187**	**137,855**	**14,176**	**5,443**	**9,775**	**48,962**	**412,038**
Interest rate repricing net position	(77,267)	122,802	(44,489)	(9,471)	17,928	22,916	(48,962)	(16,543)

Residual contractual maturities of financial liabilities:

Bank

	Carrying amount	Gross nominal (outflow)	<1 month	1-3 months	3-12 months	1-5 years
31.12.2008						
Deposits from banks	18,566	(18,799)	(15,929)	-	(2,235)	(635)
Deposits from customers	290,809	(294,759)	(120,315)	(11,004)	(114,009)	(49,431)
Debt securities issued	7,197	(7,650)	-	-	(2,273)	(5,377)
Subordinated liabilities	14,334	(21,517)	(134)	-	(60)	(21,323)
Total	**330,906**	**(342,725)**	**(136,378)**	**(11,004)**	**(118,577)**	**(76,766)**
31.12.2007						
Deposits from banks	1,433	(1,838)	(720)	-	(132)	(986)
Deposits from customers	330,643	(370,802)	(178,616)	(10,746)	(35,123)	(146,317)
Debt securities issued	7,147	(8,294)	-	-	(410)	(7,884)
Subordinated liabilities	3,290	(4,263)	-	-	(324)	(3,939)
Total	**342,513**	**(385,197)**	**(179,336)**	**(10,746)**	**(35,989)**	**(159,126)**

Group

	Carrying amount	Gross nominal (outflow)	<1 month	1-3 months	3-12 months	1-5 years
31.12.2008						
Deposits from banks	18,566	(18,799)	(15,929)	-	(2,235)	(635)
Deposits from customers	289,865	(293,789)	(119,607)	(10,976)	(113,881)	(49,325)
Debt securities issued	7,197	(7,650)	-	-	(2,273)	(5,377)
Subordinated liabilities	14,163	(21,315)	(134)	-	(60)	(21,121)
Total	**329,791**	**(341,553)**	**(135,670)**	**(10,976)**	**(118,449)**	**(76,458)**
31.12.2007						
Deposits from banks	1,433	(1,838)	(720)	-	(132)	(986)
Deposits from customers	329,940	(370,100)	(177,914)	(10,746)	(35,123)	(146,317)
Debt securities issued	7,147	(8,294)	-	-	(410)	(7,884)
Subordinated liabilities	3,119	(4,058)	-	-	(324)	(3,734)
Total	**237,681**	**(384,290)**	**(178,634)**	**(10,746)**	**(35,989)**	**(158,921)**

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	Liabilities	Open position	Position equivalent	Position to equity %
	'000	'000	'000	'000, LVL	
In foreign currency					
EUR	180,518	180,191	327	327	0.94
GBP	650	600	50	51	0.15
RUB	3,454	902	2,552	63	0.18
USD	22,944	23,027	(83)	(58)	(0.17)
Other, long				147	0.4
Other, short				(16)	(0.05)
			Total long position* (+)%	261	0.75
			Total short position* (-)%	(74)	(0.12)
			Total position	**261**	**0.75**

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

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

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

Foreign currency	Assets	Liabilities	Open position	Position equivalent	Position to equity %
	'000	'000	'000	'000, LVL	
In foreign currency					
EUR	162,781	162,904	(123)	(123)	(0.26)
GBP	503	498	5	7	0.01
RUB	26,145	23,344	2,801	78	0.17
USD	57,628	57,785	(157)	(108)	(0.23)
Other, long				225	0.5
Other, short				(72)	(0.15)
			Total long position* (+)%	310	0.66
			Total short position* (-)%	(180)	(0.38)
			Total position	**310**	**0.66**

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

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

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

Foreign currency	Assets	Liabilities	Open position	Position equivalent	Position to equity %
	'000	**'000**	**'000**	**'000, LVL**	
In foreign currency					
EUR	180,832	180,505	327	327	0.95
GBP	650	600	50	51	0.15
RUB	3,454	902	2,552	63	0.18
USD	22,971	23,055	(84)	(58)	(0.17)
Other, long				147	0.4
Other, short				(16)	(0.05)
		Total long position *(+)%		261	0.76
		Total short position * (-)%		(74)	(0.12)
		Total position		**261**	**0.76**

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

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

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

Foreign currency	Assets	Liabilities	Open position	Position equivalent	Position to equity %
	'000	**'000**	**'000**	**'000, LVL**	
In foreign currency					
EUR	163,014	163,137	(123)	(123)	(0.26)
GBP	503	498	5	7	0.01
RUB	26,146	23,345	2,801	78	0.17
USD	57,684	57,842	(158)	(108)	(0.23)
Other, long				225	0.5
Other, short				(73)	(0.15)
		Total long position *(+)%		310	0.66
		Total short position * (-)%		(181)	(0.38)
		Total position		**310**	**0.66**

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

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

28. RELATED PARTY TRANSACTIONS

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

Related party 31.12.2008	**Loans and off-balance sheet liabilities**	**Total risk transactions (excluding impairment)**	**Risk transactions to shareholders' equity (excluding impairment) %**
Private individuals	28	28	0.09
Private companies	74,049	4,328	12,33
Total	**74,077**	**4,356**	**12.42**

Related party 31.12.2007	**Loans and off-balance sheet liabilities**	**Total risk transactions (excluding impairment)**	**Risk transactions to shareholders' equity (excluding impairment) %**
Private individuals	41	41	0.10
Private companies	4,269	4,269	9.94
Total	**4,310**	**4,310**	**10.04**

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

Related party 31.12.2008	**Loans and off-balance sheet liabilities**	**Total risk transactions (excluding impairment)**	**Risk transactions to shareholders' equity (excluding impairment) %**
Private individuals	28	28	0.09
Private companies	74,049	4,328	12,33
Total	**74,077**	**4,356**	**12.42**

Related party 31.12.2007	**Loans and off-balance sheet liabilities**	**Total risk transactions (excluding impairment)**	**Risk transactions to shareholders' equity (excluding impairment) %**
Private individuals	41	41	0.10
Private companies	4,269	4,269	9.94
Total	**4,310**	**4,310**	**10.04**

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
	115,850	102,830
Total	**115,850**	**102,830**

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	480	266
Total		**480**	**266**

Type of liability	Country	31.12.2008	31.12.2007
Private persons	Latvia	480	266
Total		**480**	**266**

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	**34,369**
ORIGINAL OWN FUNDS	23,149
Eligible Capital	32,545
Paid up capital	22,198
Share premium	10,347
Eligible Reserves	(8,563)
Reserves (including valuation differences)	14,804
(-) Material losses of the current financial year	(21,288)
Valuation differences eligible as original own funds	(2,079)
(-) Other deductions from Original Own Funds	(834)
ADDITIONAL OWN FUNDS	11,574
(-) DEDUCTIONS FROM ORIGINAL AND ADDITIONAL OWN FUNDS	(354)
Of which: (-) From Original Own Funds	(177)
Of which: (-) From Additional Own Funds	(177)
TOTAL ORIGINAL OWN FUNDS FOR GENERAL SOLVENCY PURPOSES	22,972
TOTAL ADDITIONAL OWN FUNDS FOR GENERAL SOLVENCY PURPOSES	11,397
Gross amount of subordinated loan capital	14,141
Minimum initial capital required	5,000
CAPITAL REQUIREMENTS	23,543
TOTAL CAPITAL REQUIREMENTS FOR CREDIT, COUNTERPARTY CREDIT AND DILUTION RISKS AND FREE DELIVERIES	20,201
Standardised approach (SA)	20,201
SA exposure classes excluding securitization positions	20,201
TOTAL CAPITAL REQUIREMENTS FOR OPERATIONAL RISKS (OpR)	3,342
Surplus (+) / Deficit (-) of own funds, before other and transitional capital requirements	10,825
Solvency ratio (%), before other and transitional capital requirements	**11.68%**
Surplus (+) / Deficit (-) of own funds	**10,825**
Solvency ratio (%)	**11.68%**
Internal assessment Surplus (+) / Deficit (-) of capital	**7,048**
Internal assessment of capital	34,369
Internal assessment of capital needs	27,320

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

OWN FUNDS	**34,898**
ORIGINAL OWN FUNDS	23,265
Eligible Capital	32,545
Paid up capital	22,198
Share premium	10,347
Eligible Reserves	(8,593)
Reserves (including valuation differences)	14,478
(-) Material losses of the current financial year	(21,262)
Valuation differences eligible as original own funds	(2,079)
(-) Other deductions from Original Own Funds	(687)
ADDITIONAL OWN FUNDS	11,633
TOTAL ORIGINAL OWN FUNDS FOR GENERAL SOLVENCY PURPOSES	23,265
TOTAL ADDITIONAL OWN FUNDS FOR GENERAL SOLVENCY PURPOSES	11,633
Gross amount of subordinated loan capital	14,163
Minimum initial capital required	5,000
CAPITAL REQUIREMENTS	23,448
TOTAL CAPITAL REQUIREMENTS FOR CREDIT, COUNTERPARTY CREDIT AND DILUTION RISKS AND FREE DELIVERIES	20,080
Standardised approach (SA)	20,080
SA exposure classes excluding securitization positions	20,080
TOTAL CAPITAL REQUIREMENTS FOR OPERATIONAL RISKS (OpR)	3,368
Surplus (+) / Deficit (-) of own funds, before other and transitional capital requirements	11,451
Solvency ratio (%), before other and transitional capital requirements	**11.91%**
Surplus (+) / Deficit (-) of own funds	**11,451**
Solvency ratio (%)	**11.91%**
Internal assessment Surplus (+) / Deficit (-) of capital	**7,683**
Internal assessment of capital	34,898
Internal assessment of capital needs	27,215

31. NUMBER OF EMPLOYEES

	31.12.2008 Group	31.12.2008 Bank	31.12.2007 Group	31.12.2007 Bank
Positions				
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
Total	**765**	**762**	**656**	**652**

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
ASSETS	**Fair value**	**Carrying value**	**Fair value**	**Carrying value**
Loans	279,591	280,726	251,680	251,789
Held for trading financial assets	1,205	1,205	2,142	2,142
Available-for-sale financial assets	4,210	4,210	6,081	6,081
Held-to-maturity investments	2,194	2,786	2,689	2,785
Total assets	**287,200**	**288,927**	**262,592**	**262,797**

	31.12.2008	31.12.2008	31.12.2007	31.12.2007
LIABILITIES	**Fair value**	**Carrying value**	**Fair value**	**Carrying value**
Financial liabilities at fair value trough profit or loss	46	46	479	479
Financial liabilities at amortised cost	311,180	311,225	340,246	340,206
Deposits	*289,823*	*289,865*	*329,906*	*329,940*
Debt securities	*7,195*	*7,197*	*7,188*	*7,147*
Subordinated debt	*14,162*	*14,163*	*3,152*	*3,119*
Total liabilities	**311,226**	**311,271**	**340,725**	**340,685**

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
	%	%
ASSETS		
Due from credit institutions	*3.23*	*4.31*
Loans	*7.79*	*8.06*
Fixed income securities	*4.44*	*5.17*
LIABILITIES		
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
	%	%
ASSETS		
Due from credit institutions	*3.23*	*4.32*
Loans	*7.79*	*8.06*
Fixed income securities	*4.44*	*5.17*
LIABILITIES		
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)	70,994	88,994	224,892	162,795	295,886	251,789
Deposits	104,067	109,455	176,630	221,188	280,697	327,194
Interest income from loans	6,316	6,952	15,469	10,142	21,785	17,094
Interest expenses on deposits	3,718	3,108	8,233	3,127	11,951	6,235

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	(21,262)	(21,288)	4,157	4,176
Weighted average number of shares at 31 December	312,025	312,025	312,025	312,025
Basic earnings per share (LVL per share)	-	-	**13.32**	**13.38**

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 10,7 million euro, which together with increase of price of share emission will increase Bank's equity capital for 42,7 million euro.

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