TRASTA KOMERCBANKA

JSC "TRASTA KOMERCBANKA"

FINANCIAL STATEMENTS AND

CONSOLIDATED FINANCIAL STATEMENTS

**PREPARED IN ACCORDANCE WITH
INTERNATIONAL FINANCIAL REPORTING
STANDARDS AS ADOPTED BY EU
FOR THE YEARS ENDED
31 DECEMBER 2008 AND
INDEPENDENT AUDITORS' REPORT**

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MANAGEMENT REPORT OF THE BANK (GROUP HOLDING COMPANY)

In the second half of 2008 the economy of Latvia saw a rapid „cooling-off" and signs of stagnation in the financial market, which caused the government of Latvia to ask assistance from the International Monetary Fund.

The quick estimates of the gross domestic product published by the Bank of Latvia show that in Quarter 4 the real GDP changes achieved -10.5%, which is a very fast contraction. Therefore, the overall fall in GDP over 2008 was 4.6%. The results of survey of business conditions as well as current data on the development of industries provide evidence of further decline in the economic activity.

The internal processes – fall in consumption, decrease in investments and deterioration in confidence, and unfavourable tendencies of external environment and high degree of uncertainty both have induced the economy forecasts to be revised. At the moment the baseline scenario of macroeconomic forecast rests on the GDP contraction of 5% (10.5% in the nominal terms).

It ought to be noted, that the continuing global financial crisis which began in the US real estate market caused far-reaching consequences in the world financial sector. All the above mentioned factors were thoroughly analised by the Bank and all contingent risks were diversified to the utmost. However, it cannot be denied that the said factors had impact on the activity of Bank customers which consequently affected Bank's performance, particularly in the second half of 2008 when the Bank's attention was basically focused on weakening the influence of these factors.

The Bank management is aware that the global credit and liquidity crisis has affected performance of the Bank in 2008. It is expected that in 2009 the crisis will exert influence on all businesses including the activity of credit institutions not only in Latvia but in the whole world. The Bank management is absolutely confident that the present situation will not affect the Bank more than on any other Latvian credit institution of a similar profile. Therefore, the Bank management is certain that in the foreseeable future the Bank will fully manage to ensure fulfillment of obligations and to realise its assets in the course of its usual commercial activity.

In the last quarter of 2008, the liquidity of the Bank saw a short-term decrease. It was due to the outflow of customer deposits caused by justified uncertainty about the economy of the country and ability of supervising authorities to handle a nonstandard situation, as well as the problems with nationalisation of the largest private bank of Latvia. The liquidity ratio of the Bank at the end of 2008 was 42.43%, which is above the minimal level of 30% set by FCMC. It should be noted that in November 2008 the Bank repaid its syndicated loan of 16 million Euros to seven European banks. The loan was contracted in 2007; its organiser was the Austrian bank *Raiffeisen Zentralbank Osterreich AG*. Therefore, the Bank has settled all its syndicate liabilities. The Bank plans the measures for maintaining of sufficient liquidity level on a regular basis. These measures are described in detail in Section 4 of Note 45 of this financial report. The Bank management's forecasts which are made on the basis of moderate growth of customer deposits and considerably lower loan repayment volume testify that the Bank is able to continue its operation and maintain a sufficient level of liquidity. Another evidence of this fact is the amount of deposits with the Bank which increased by approximately 19 million lats from the end of the reporting year till the end of February 2009.

Despite the existing problems, the results achieved in 2008 makes it possible to conclude that the Bank has been quite well positioned so that the economic situation of the country and in the world would not have a material effect on its financial standing. In 2008, the Bank managed to retain its leading position in terms of return on equity (ROE), which was 20.64%, and in terms of ROA – 3.28%.

The amount of Bank's assets as at 31 December 2008 reached 217.1 million lats, which is by 73 million lats less than in 2007. The amount of attracted deposits in 2008 amounted to 159.6 million lats, which is also by 73.1 million lats less as compared to 2007. In implementing the approved business plan for 2008 the Bank restructured its assets, investing its cash resources in profit bearing assets thus increasing the Bank's loan portfolio to 118.7 million lats. In this connection it should be noted that in the second half of 2008 the growth of loan portfolio was halted and the main focus was made on maintaining of its quality.

As at 31 December 2008, the Bank's capital and reserves amounted to 34.5 million lats. The Bank's profit in 2008 was 7.1 million lats. The Bank has decided not to distribute the profit of 2008, but include the entire profit in the calculation of Bank's capital adequacy. This will allow increasing of stability and activities of the Bank on financial markets.

MANAGEMENT REPORT OF THE BANK (GROUP HOLDING COMPANY) (continued)

In April 2008, the Bank acquired 9,0055% of ″*Misto Bank*″ (Ukraine, Odessa) shares and 100% of the shares in the foreign investment company *Rolvenden Standart*, the assets of which include 41.2945% of *Misto Bank* shares. By acquiring the controlling stake in *Misto Bank*, *TKB* planed to strengthen its positions in the Ukrainian market and to provide more service options for its customers in this region. However, taking into account the above described situation in the world, at the end of 2008 the Bank decided to reclassify this investment into the category "financial assets held for sale" and initiated the process of searching a purchaser.

Year 2008 was quite satisfactory for *TKB Līzings* Ltd., a subsidiary of the Bank; despite the fact that the targeted results were not achieved due to the above mentioned crisis. The assets of *TKB Līzings* Ltd. as at the end of the year amounted to 6.1 million lats. The profit of *TKB Līzings* Ltd. for the reporting year reached 102 thousand lats and it will be used to offset the losses incurred over the previous years.

The results shown by TKB *Nekustamie īpašumi* Ltd., the second subsidiary of the Bank, in 2008 are also viewed positively. The profit of TKB *Nekustamie īpašumi* Ltd. amounted to 4.8 thousand lats, which is intended to be invested in further development of the company, and its assets reached 58 thousand lats.

Therefore, the Bank's profit in 2008 was 5.2 million lats, and the volume of assets as at the end of the reporting year amounted to 278.9 million lats.

In 2008, the Bank continued to expand the scope of its services and to develop financial products. The Bank increased the capacity of its information systems, with a special focus made on the functionality of the Trast.Net internet banking system by adding new functions to it and continued to develop projects related to the use of advanced information technologies. Thus, a new international security service - MasterCard SecureCode, which was developed by MasterCard to guarantee extra security for payment cards when making transactions online, now is available to customers of the Bank. Besides; the Bank has concluded an agreement on introduction of the accounting and financial management system Microsoft Dynamics NAVISION.

The reporting year saw continued successful operation of the Bank within the framework of the international factoring association Factors Chain International (FCI). In the annual assessment of FCI for 2008 the rating of the Bank as an Export Factor was raised to "Good", and the Bank therefore ranked in 100th position among 244 participants.

In the Communication Seminar of FCI which took place in Germany, February 2008, participants' knowledge and skills were tested in the application of FCI systems and regulations to the operation of the Two-Factor system. In this Seminar Edgars Niedra, a senior specialist of the Trade Finance Division in a team with a representative from the USA Company *GMAC* achieved the best result among 82 participants from 50 companies and 26 countries. Their score was the highest ever in the history of such seminars and they were accordingly awarded a prize of FCI.

In 2008, the Bank yet again received the annual prize *Deutsche Bank's 2007 STP Excellence Award*, which testifies to the excellent quality of Bank's transfers and high qualification of Bank specialists.

MANAGEMENT REPORT OF THE BANK (GROUP HOLDING COMPANY) (continued)

By ensuring strict compliance with the provisions of the Law on the Prevention of Laundering the Proceeds from Criminal Activity, the Financial and Capital Market Commission Regulations "On the Development of an Internal Control System to Prevent the Laundering of Proceeds From Crime and the Financing of Terrorism", as well as observing international requirements for banking operation and best general practice, the Bank continued in 2008 to streamline its internal control procedures with the aim to reduce to a minimum the possibility of cooperation with such customers that might be involved in the laundering of proceeds from crime. Training of the Bank employees was set as a priority in 2008 to ensure that they obtain the knowledge required for the issues referred to above. In 2008, the Bank employees regularly participated in the training programmes on the prevention of money laundering, organised by the Association of Commercial Banks of Latvia, they passed relevant tests and obtained certificates. There are a total of 36 employees at the Bank issued with this certificate.

Besides, in 2008, special attention was paid to improving the Bank information systems and technologies to provide for timely and efficient supervision and analysis of the Bank customers and their transactions, by making the process automated to the utmost. In order to even stricter comply with the provisions of the law on the Prevention of Laundering the Proceeds from Criminal Activity, in 2009, the Bank is planning to introduce the automated transaction monitoring system ERASE (NetEconomy), which will enable to maintain transparently and together all the data and information obtained in the course of supervision. The Bank Board analyses the efficiency of the internal control system on a regular basis and is confident that the system operates efficiently and that the risk of compliance and reputation is managed adequately.

In addition to the information of these financial statements the Bank management has prepared The Corporate Governance Report for 2008, which incorporates a complex of measures for achievement of goals of the Bank, for control of compliance function and assessment and management of relevant risks. This Corporate Governance Report is freely available on the internetpage of the Bank at www.tkb.eu.

We would like to thank our customers, shareholders and employees on behalf of the Bank management for the trust shown and support given over these years.

These financial statements were approved by the Board of the Bank on 16 March 2009 and by the Council of the Bank on 31 March 2009. According to the legislation of the Republic of Latvia the financial report of the Bank is subject to approval at a meeting of shareholders.

On behalf of the Bank's management:

I. Buimisters

Igors Buimisters
Chairman of the Council

Gundars Grieze
Chairman of the Board

Riga, Latvia
31 March 2009

STATEMENT OF RESPONSIBILITY OF THE MANAGEMENT OF THE BANK (GROUP HOLDING COMPANY)

Bank’s management (Group’s holding company) is responsible for preparation of consolidated financial statements and the separate financial statements, which fairly and truly present the Groups’ and the Bank’s financial standing as at the end of the financial year and the results of its activity and cash flow for that year, respectively, according International Financial Reporting Standards (IFRS) as adopted by the European Union.

The management confirms that the consolidated financial statements and the separate financial statements set out on pages 9 to 95 for the period from 1 January 2008 to 31 December 2008 have been prepared consistently applying relevant accounting methods and the management’s judgments and estimates in relation to preparation of these statements are reasonable and prudent. The management confirms that the applicable International Financial Reporting Standards have been used in the preparation of the financial statements and that these financial statements have been prepared based on a going concern concept basis. The Management Report on pages 3 to 5 presents an explicit account on the development of the Group and Bank’s activities and performance results.

The Bank's management is responsible for proper keeping of accounting records, for safeguarding of the Group's and the Bank's assets and for prevention of any fraudulent actions. They are also responsible for managing the Group and the Bank in compliance with the Credit Institution Law of the Republic of Latvia, regulatory enactments of the Bank of Latvia and the Financial and Capital Market Commission and other applicable laws and regulations of the Republic of Latvia

On behalf of the management,

Igors Buimisters	Gundars Grieze
Chairman of the Council	Chairman of the Board

Riga, Latvia
31 March 2009

MANAGEMENT OF THE BANK (GROUP HOLDING COMPANY)

Supervisory Council

Name, surname	Positions	Date of appointment
Igors Buimisters	Chairman of the Council	24.03.2006, reappointed 19.05.2006
Alfrēds Čepānis	Member of the Council	30.03.1999, reappointed 19.05.2006
Charles E.G. Treherne	Member of the Council	16.03.2001, reappointed 19.05.2006

During the current year no changes in the Supervisory Council occurred.

Management Board

Name, surname	Positions	Date of appointment
Gundars Grieze	Chairman of the Board	28.06.1999, reappointed 23.03.2006
Māris Fogelis	First vice-chairman of the Board	28.06.1999, reappointed 23.03.2006
Viktors Ziemelis	Vice-chairman of the Board	28.03.2003, reappointed 23.03.2006
Svetlana Krasovska	Member of the Board	24.10.1995, reappointed 23.03.2006
Tatjana Konnova	Member of the Board	23.03.2006.

During the current year no changes in the Management Board occurred.

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INDEPENDENT AUDITORS' REPORT

To the shareholders of AS TRASTA KOMERCBANKA

Report on the Financial Statements

We have audited 2008 consolidated financial statements of AS TRASTA KOMERCBANKA and its subsidiaries (hereinafter – the Group) and the accompanying financial statements of AS TRASTA KOMERCBANKA (hereinafter - the Bank), which are set out on pages 9 through 95 of the accompanying 2008 Consolidated Annual Report and which comprise the balance sheet as at 31 December 2008, the statements of income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

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

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

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

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

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group and the Bank as of 31 December 2008 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Without qualifying our opinion, we draw attention to Note 2 and Note 45 to the consolidated financial statements as well as to pages 3 to 5 of the Report of the Board and the Council, which discusses the preparation of the financial statements on the going concern assumption basis in the light of the current market financial and economic uncertainties in Latvia. The Bank's ability to continue its activities depends on the management's actions to maintain the level of liquid funds in line with business and regulatory requirements as further described in the accompanying financial statements.

Report on Compliance of the Management Report

Furthermore, we have read the Management Report for the year ended 31 December 2008 (included on pages 3 through 5 of the accompanying 2008 Consolidated Annual Report) and have not noted any material inconsistencies between the financial information included in it and the consolidated financial statements for the year ended 31 December 2008.

Report on Corporate Management Report

We have assured ourselves that the Bank has prepared the corporate management report for the year 2008 and verified information presented in the report according to the requirements listed in the section 56.[1] first paragraph clauses 3, 4, 6, 8 and 9 and in the section 56.[2] second paragraph clause 5 in the Law on Financial Instruments Market.

Ernst & Young Baltic SIA
License No. 17

Diāna Krišjāne
Chairwoman of the Board
Latvian Sworn Auditor
Certificate No. 124
Riga, 31 March 2009

PROFIT AND LOSS STATEMENTS AND CONSOLIDATED PROFIT AND LOSS STATEMENTS

In thousands of lats	Note	The Group 2008	The Group 2007	The Bank 2008	The Bank 2007
Interest revenue	3	15 822	16 263	15 582	16 059
Interest expense	4	(2 901)	(1 939)	(2 946)	(1 951)
Net interest income		**12 921**	**14 324**	**12 636**	**14 108**
Allowance for impairment of debts, net	11	(3 320)	(85)	(3 243)	18
Net interest income after impairment of interest-earning assets		**9 601**	**14 239**	**9 393**	**14 126**
Fee and commission revenue	5	8 143	6 580	8 141	6 577
Fee and commission expense	6	(1 415)	(1 780)	(1 415)	(1 780)
Net fee and commission income		**6 728**	**4 800**	**6 726**	**4 797**
Dividends revenue		16	19	16	19
Net losses and gains from trading financial assets	7	(4 653)	198	(4 653)	198
Gains less losses from available for sale financial assets		154	29	154	29
Gains less losses from foreign currencies	8	6 864	8 532	6 866	8 535
Other income		665	478	593	401
Other non-interest income		**3 046**	**9 256**	**2 976**	**9 182**
Salaries and benefits expenses	9	(5 617)	(5 330)	(5 505)	(5 237)
Administrative expenses	10	(3 265)	(3 437)	(3 282)	(3 467)
Tangible and intangible assets amortisation and depreciation	24	(525)	(475)	(521)	(472)
Other expenses		(150)	(159)	(133)	(116)
Other impairment and provisions expenses		(56)	21	(160)	21
Other non-interest expense		**(9 613)**	**(9 380)**	**(9 601)**	**(9 271)**
Profit before tax		**9 762**	**18 915**	**9 494**	**18 834**
Corporate income tax	12	(2 397)	(2 946)	(2 365)	(2 928)
Profit for the year from continuing operations		**7 365**	**15 969**	**7 129**	**15 906**
Profit after tax for the year from discontinued operations	19	(2 129)	-	-	-
Profit for the year		**5 236**	**15 969**	**7 129**	**15 906**
Attributable to equity holders of the Bank		6 292	15 964	7 129	15 906
Attributable to minority interest		(1 056)	5	-	-
Earnings per share (basic and diluted) in lats	35	**49.64**	**139.25**	**-**	**-**

BALANCE SHEETS AND CONSOLIDATED BALANCE SHEETS

In thousands of lats	Note	The Group		The Bank	
		2008	2007	2008	2007
ASSETS					
Cash and balances due from the Bank of Latvia	14	19 235	17 993	19 235	17 993
Due from credit institutions with a maturity of less than 3 months	15	47 562	150 832	47 562	150 832
On demand		*37 946*	*115 927*	*37 946*	*115 927*
Other		*9 616*	*34 905*	*9 616*	*34 905*
Held for trading financial assets		2 410	8 345	2 410	8 345
Fixed income securities	16, (1)	*1 972*	*5 918*	*1 972*	*5 918*
Equity shares and other non-fixed income securities	16, (2)	*360*	*2 380*	*360*	*2 380*
Derivatives	17	*78*	*47*	*78*	*47*
Available for sale financial assets		255	6 257	255	6 257
Fixed income securities	18, (1)	*206*	*6 192*	*206*	*6 192*
Equity shares and other non-fixed income securities	18, (2)	*49*	*65*	*49*	*65*
Due from credit institutions with a maturity of more than 3 months	20	8 755	6 432	8 755	6 432
Loans	21	118 033	91 561	118 731	92 290
Accrued income and deferred expenses	22	132	268	133	257
Long-term projects costs	23	2 282	2 217	2 282	2 217
Property and equipment	24	3 953	2 148	3 932	2 142
Intangible assets	24	222	205	222	205
Investments in share capital of subsidiary	25	-	-	52	2
Corporate income tax assets	12, (3)	671	-	668	-
Deferred tax assets	12, (4)	14	24	14	25
Other assets	26	1 856	3 218	1 659	3 130
Assets of disposal group classified as held for sale	19	73 536	-	11 225	-
TOTAL ASSETS		**278 916**	**289 500**	**217 135**	**290 127**

BALANCE SHEETS AND CONSOLIDATED BALANCE SHEETS (continued)

In thousands of lats	Note	The Group 2008	The Group 2007	The Bank 2008	The Bank 2007
LIABILITIES					
Due to credit institutions	27	10 562	16 561	10 562	16 561
On demand		*10 512*	*4 850*	*10 512*	*4 850*
Term deposits		*50*	*11 711*	*50*	*11 711*
Held for trading financial liabilities		-	2	-	2
Derivatives	17	*-*	*2*	*-*	*2*
Due to customers	28	159 595	232 651	159 599	232 697
On demand		*131 311*	*204 764*	*131 315*	*204 810*
Term deposits		*28 284*	*27 887*	*28 284*	*27 887*
Debt securities issued	29	2 814	2 812	3 520	3 518
Accrued expenses and deferred income	30	603	711	591	698
Provisions	36	54	-	209	-
Corporate income tax liabilities	12, (3)	20	779	5	766
Other liabilities	31	2 962	3 393	2 928	3 360
Liabilities directly associated with the assets classified as held for sale	19	63 786	-	-	-
Liabilities before subordinated liabilities		**240 396**	**256 909**	**177 414**	**257 602**
Subordinated liabilities	32	5 172	1 208	5 172	1 208
Total liabilities		**245 568**	**258 117**	**182 586**	**258 810**

BALANCE SHEETS AND CONSOLIDATED BALANCE SHEETS (continued)

In thousands of lats	Note	The Group 2008	The Group 2007	The Bank 2008	The Bank 2007
EQUITY AND RESERVES					
Share capital	33, (1)	6 337	6 337	6 337	6 337
Share premium		111	111	111	111
Reserve capital and other reserves	33, (2)	3 804	3 804	3 804	3 804
Available for sale financial assets revaluation reserves	18	(80)	17	(80)	17
Foreign exchange translation reserve	33, (2)	(3 412)	-	-	-
Retained earnings		23 594	21 102	24 377	21 048
Equity and reserves attributable to shareholders of the Bank		**30 354**	**31 371**	**34 549**	**31 317**
Minority shareholder interest		2 994	12	-	-
Total equity and reserves		**33 348**	**31 383**	**34 549**	**31 317**
TOTAL LIABILITIES AND EQUITY AND RESERVES		**278 916**	**289 500**	**217 135**	**290 127**

STATEMENTS OF CHANGES IN EQUITY AND RESERVES

(1) The Group

In thousands of lats	Share capital	Share premium	Reserve capital and other reserves	Available for sale financial asset revaluation reserves	Foreign exchange transalation reserve	Retained earnings	Total	Minority shareholder interest	Total equity and reserves
BALANCE AS AT 31 DECEMBER 2006	**5 537**	**111**	**3 804**	**103**	**-**	**10 138**	**19 693**	**7**	**19 700**
Changes due to change in available for sale financial assets fair value	-	-	-	*(86)*	-	-	*(86)*	-	*(86)*
Total income recognized directly in equity	-	-	-	(86)	-	-	(86)	-	(86)
Net profit for the year	-	-	-	-	-	*15 964*	*15 964*	*5*	*15 969*
Total recognized income for the year	-		-	(86)	-	15 964	15 878	5	15 883
Individuals, residents	*648*	-	-	-	-	-	*648*	-	*648*
Individuals, non-residents	*152*	-	-	-	-	-	*152*	-	*152*
Issue of share capital	800	-	-	-	-	-	800	-	800
Dividends paid	-	-	-	-	-	(5 000)	(5 000)	-	(5 000)
BALANCE AS AT 31 DECEMBER 2007	**6 337**	**111**	**3 804**	**17**	**-**	**21 102**	**31 371**	**12**	**31 383**
Changes due to change in available for sale financial assets fair value	-	-	-	*(97)*	-	-	*(97)*	-	(97)
Foreign currency translation	-	-	-	-	(3 412)	-	(3 412)	-	(3 412)
Total income recognized directly in equity	-	-	-	(97)	(3 412)	-	(3 509)	-	(3 509)
Net profit for the year	-	-	-	-	-	*6 292*	*6 292*	*(1 056)*	*5 236*
Total recognized income for the year	-		-	(97)	(3 412)	6 292	2 783	(1 056)	1 727
Purchase of subsidiary	-	-	-	-	-	-	-	4 038	4 038
Dividends paid	-	-	-	-	-	(3 800)	(3 800)	-	(3 800)
BALANCE AS AT 31 DECEMBER 2008	**6 337**	**111**	**3 804**	**(80)**	**(3 412)**	**23 594**	**30 354**	**2 994**	**33 348**

STATEMENTS OF CHANGES IN EQUITY AND RESERVES (continued)

(2) The Bank

In thousands of lats	Share capital	Share premium	Reserve capital and other reserves	Available for sale financial asset revaluation reserves	Retained earnings	Total equity and reserves
BALANCE AS AT 31 DECEMBER 2006	**5 537**	**111**	**3 804**	**103**	**10 142**	**19 697**
Changes due to change in available for sale financial assets fair value	-	-	-	*(86)*	-	*(86)*
Total income recognized directly in equity	-	-	-	(86)	-	(86)
Net profit for the year	-	-	-	-	*15 906*	*15 906*
Total recognized income for the year	-		-	(86)	15 906	15 820
Individuals, residents	*648*	-	-	-	-	*648*
Individuals, non-residents	*152*	-	-	-	-	*152*
Issue of share capital	800	-	-	-	-	800
Dividends paid	-	-	-	-	(5 000)	(5 000)
BALANCE AS AT 31 DECEMBER 2007	**6 337**	**111**	**3 804**	**17**	**21 048**	**31 317**
Changes due to change in available for sale financial assets fair value	-	-	-	*(97)*	-	*(97)*
Total income recognized directly in equity	-	-	-	(97)	-	(97)
Net profit for the year	-	-	-	-	*7 129*	*7 129*
Total recognized income for the year	-		-	(97)	7 129	7 032
Dividends paid	-	-	-	-	(3 800)	(3 800)
BALANCE AS AT 31 DECEMBER 2008	**6 337**	**111**	**3 804**	**(80)**	**24 377**	**34 549**

STATEMENTS OF CASH FLOWS AND CONSOLIDATED STATEMENTS OF CASH FLOWS

In thousands of lats	Note	The Group 2008	The Group 2007	The Bank 2008	The Bank 2007
Cash flows arising from operations:					
Profit before corporate income tax		9 762	18 910	9 494	18 834
Profit before tax for the year from discontinued operations		(2 129)	-	-	-
Amortisation and depreciation		525	475	521	472
(Decrease)/increase in allowance for impairment of debts		3 387	(30)	3 306	(132)
Change in provisions for investments in share capital of subsidiary		-	-	(50)	-
Foreign currency revaluation loss/(profit)		1 279	(292)	1 277	(312)
Loss on revaluation of financial assets		3 276	465	3 276	465
Increase in cash and cash equivalents from operating activities before changes in assets and liabilities		**16 100**	**19 528**	**17 824**	**19 327**
Decrease/(increase) in trading assets, net		2 565	(3 681)	2 565	(3 681)
(Increase)/decrease in due from credit institutions		(2 323)	2 137	(2 323)	2 137
Increase in loans		(29 859)	(48 038)	(29 747)	(48 678)
Decrease/(increase) in accrued income and deferred expense		136	(61)	124	(50)
Decrease/(increase) in other assets		1 269	(202)	1 378	(113)
Increase/(decrease) in due to credit institutions		1	(97)	1	(97)
(Decrease)/increase in deposits		(73 056)	7 324	(73 098)	7 338
Decrease in trading liabilities		-	(1)	-	(1)
(Decrease)/increase in accrued expenses and deferred income		(108)	262	(107)	245
Increase/(decrease) in other liabilities		(153)	(6 728)	1	(6 721)
		(85 428)	**(29 557)**	**(83 382)**	**(30 294)**
Corporate income tax paid		(3 817)	(3 068)	(3 783)	(3 059)
Decrease in cash and cash equivalents from operating activities		**(89 245)**	**(32 625)**	**(87 165)**	**(33 353)**
Cash flows arising to investing activities:					
Purchase of tangible and intangible fixed assets, net		(2 347)	(1 373)	(2 328)	(1 371)
Decrease/(increase) in available for sale financial assets		5 905	(2 642)	5 905	(2 642)
Purchase of net assets of disposal group classified as available for sale		(12 898)	-	(11 225)	-
Net cash flows of disposal group classified as available for sale		3 774	-	-	-
Costs of long-term projects		(65)	(44)	(65)	(44)
Sale of long-term projects		-	2 531	-	2 531
(Decrease)/increase in cash and cash equivalents from investing activities		**(5 631)**	**(1 528)**	**(7 713)**	**(1 526)**

STATEMENTS OF CASH FLOWS AND CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)

In thousands of lats	Note	The Group 2008	The Group 2007	The Bank 2008	The Bank 2007
Cash flows arising from financing activities:					
Issue of debt securities		-	2 812	-	3 518
Share issue		-	800	-	800
Proceeds from syndicated loan		-	11 162	-	11 162
Repayment of syndicated loan		(11 162)	-	(11 162)	-
Subordinated debt issue		3 927	-	3 927	-
Dividend payments		(3 800)	(5 000)	(3 800)	(5 000)
(Decrease)/increase in cash and cash equivalents from financing activities		**(11 035)**	**9 774**	**(11 035)**	**10 480**
Decrease in cash and cash equivalents		**(105 911)**	**(24 379)**	**(105 913)**	**(24 399)**
Cash and cash equivalents at the beginning of the year		**163 475**	**187 562**	**163 475**	**187 562**
Foreign exchange differences		**(1 279)**	**292**	**(1 277)**	**312**
Cash and cash equivalents at the end of the year	**39**	**56 285**	**163 475**	**56 285**	**163 475**

Amounts of interest income and (expense) received/(paid) are as follows:

In thousands of lats	The Group 2008	The Group 2007	The Bank 2008	The Bank 2007
Interest received during the year	15 382	15 425	15 221	15 314
Interest paid during the year	(2 867)	(1 947)	(2 910)	(1 947)

NOTES TO THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

1 GENERAL INFORMATION

AS "Trasta Komercbanka" has been registered as a joint stock company, in the Latvian Register of Companies with the identification No. LV40003029667, and operates under the legislation of the Republic of Latvia and Credit institution license No.8 issued by the Bank of Latvia. The head office of the Bank is located in Miesnieku street 9, Riga, Latvia, LV-1050. The Bank provides full scope of banking services, however, the priority of the Bank is exclusive banking services for private individuals and companies.

The Bank has five representative offices outside Latvia, i.e. in Canada, Kazakhstan, Ukraine, Belarus and Bulgaria. Their mission is to represent interests of the Bank in the respective countries, maintain relations with the Bank customers and provide them with necessary information. The Bank has a foreign branch in Cyprus and two branches in Latvia – in Liepaja and Daugavpils. Their functions incorporate provision of financial services to customers of the Bank.

The Bank has founded two subsidiaries, i.e "TKB LĪZINGS", Ltd, and "TKB NEKUSTAMIE ĪPAŠUMI", Ltd, thus increasing the scope of services offered by the Bank.

In April 2008, the Bank acquired 9,0055% of the Ukrainian commercial bank *"Misto Bank"* (registration number 20966466) shares. Besides, the Bank acquired 100% of the shares in the subsidiary company with foreign investment *Rolvenden Standart* (Ukrainian Enterprise Register unified registration number 31069036), which holds 41,2945% of Misto Bank shares.

This financial statement was approved by the Board of the Bank on 16 March 2009 and by the Council of the Bank on 31 March 2009. According to the legislation of the Republic of Latvia the financial statement of the Bank is subject to approval of the meeting of shareholders.

2 ACCOUNTING POLICIES

(1) General principles

The accompanying financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union.

The Bank is subject to the Law on Credit Institutions of the Republic of Latvia and the regulatory requirements of the Bank of Latvia, Financial and Capital Market Commission, and other regulations of the Republic of Latvia applicable to credit institutions. These regulations govern, among other things, capital adequacy, liquidity and the Bank's open foreign currency position.

The Bank maintains its accounting records in compliance with "The Law on Accounting" of the Republic of Latvia and instructions provided by the Financial and Capital Market Commission that comply with the legislation of the Republic of Latvia.

The consolidated and separate financial statements have been prepared on a historical cost basis, except for financial assets and financial liabilities held for trading and available-for-sale investments that have been measured at fair value.

NOTES TO THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

2 ACCOUNTING POLICIES (continued)

(2) Adoption of new and/or changed IFRS and IFRIC interpretations

The Group has adopted the following new and amended IFRS and IFRIC interpretations during the year:

Amendments to IAS 39 Financial Instruments: Recognition and Measurement and IFRS 7 Financial Instruments: Disclosures – Reclassification of Financial Assets;

IFRIC 11 IFRS 2 – Group and Treasury Share Transactions.

The principal effects of these changes are as follows:

Amendments to IAS 39 and IFRS 7 – Reclassification of Financial Assets

Through these amendments the IASB implemented additional options for reclassification of certain financial instruments categorised as held-for-trading or available-for-sale under specified circumstances. Related disclosures were added to IFRS 7. The Group did not have financial instruments impacted by these amendments.

IFRIC 11 IFRS 2 – Group and Treasury Share Transactions

The interpretation provides guidance on classification of transactions as equity-settled or as cash-settled and also gives guidance on how to account for share-based payment arrangements that involve two or more entities within the same group in the individual financial statements of each group entity. The Group has not issued instruments impacted by this interpretation.

Standards issued but not yet effective

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

Amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards* and IAS 27 *Consolidated and Separate Financial Statements* (effective for financial years beginning on or after 1 January 2009 once adopted by the EU).

The amendment to IFRS 1 allows an entity to determine the 'cost' of investments in subsidiaries, jointly controlled entities or associates in its opening IFRS financial statements in accordance with IAS 27 or using a deemed cost. The amendment to IAS 27 requires all dividends from a subsidiary, jointly controlled entity or associate to be recognised in the income statement in the separate financial statements. The new requirements affect only the parent's separate financial statements and do not have an impact on the consolidated financial statements.

Besides, a new version of IFRS 1 was issued in November 2008. It retains the substance of the previous version, but within a changed structure and replaces the previous version of IFRS 1 (effective for financial years beginning on or after 1 July 2009 once adopted by the EU).

Amendment to IFRS 2 Share-based Payment (effective for financial years beginning on or after 1 January 2009).

The amendment clarifies the definition of a vesting condition and prescribes the treatment for an award that is effectively cancelled. The amendment will have no impact on the financial position or performance of the Group, as the Group does not have share-based payments.

NOTES TO THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

2 ACCOUNTING POLICIES (continued)

(2) Adoption of new and/or changed IFRS and IFRIC interpretations (continued)

Amendments to IFRS 3 Business Combinations and IAS 27 Consolidated and Separate Financial Statements (effective for financial years beginning on or after 1 July 2009 once adopted by the EU).

Revised IFRS 3 (IFRS 3R) introduces a number of changes in the accounting for business combinations that will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results. IAS 27R requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as an equity transaction. Therefore, such transactions will no longer give rise to goodwill, nor will it give rise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. Other consequential amendments were made to IAS 7 *Statement of Cash Flows*, IAS 12 *Income Taxes*, IAS 21 *The Effects of Changes in Foreign Exchange Rates*, IAS 28 *Investment in Associates* and IAS 31 *Interests in Joint Ventures*. In accordance with the transitional requirements of these amendments, the Group will adopt them as a prospective change. Accordingly, assets and liabilities arising from business combinations prior to the date of application of the revised standards will not be restated.

Amendments to IFRS 7 Financial Instruments: Disclosures (effective for financial years beginning on or after 1 January 2009 once adopted by the EU).

The amendments improve disclosure requirements about fair value measurement and enhance existing principles for disclosures about liquidity risk associated with financial instruments. The amendments will have no impact on the financial position or performance of the Group. The Group is still evaluating whether additional disclosures will be needed.

Amendment to IAS 1 Presentation of Financial Statements (effective for financial years beginning on or after 1 January 2009).

This amendment introduces a number of changes, including introduction of a new terminology, revised presentation of equity transactions and introduction of a new statement of comprehensive income as well as amended requirements related to the presentation of the financial statements when they are restated retrospectively. The Group is still evaluating whether it will present all items of recognised income and expense in one single statement or in two linked statements.

Amendment to IAS 23 Borrowing Costs (effective for annual periods beginning on or after 1 January 2009).

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

Amendments to IAS 32 Financial Instruments: Presentation and IAS 1 Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation (effective for financial years beginning on or after 1 January 2009 once adopted by the EU).

The revisions provide a limited scope exception for puttable instruments to be classified as equity if they fulfil a number of specified features. The amendments to the standards will have no impact on the financial position or performance of the Group, as the Group has not issued such instruments.

NOTES TO THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

2 ACCOUNTING POLICIES (continued)

(2) Adoption of new and/or changed IFRS and IFRIC interpretations (continued)

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

Improvements to IFRS

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

The Group expects that the adoption of the pronouncements listed above will not have a significant impact on the Group's financial statements in the period of initial application, except for IAS 1 *Presentation of Financial Statements – Revised*.

IAS 1 Presentation of Financial Statements – Revised

This standard sets out new requirements on the presentation of the statement of changes in equity and introduces a new statement of comprehensive income that combines all items of income and expense recognized in profit or loss together with "other comprehensive income" and requires a separate disclosure of all items reclassified from other comprehensive income to profit and loss as well as disclosure of the income tax relating to each component of other comprehensive income. Also, requirements related to the presentation of the financial statements in a case of their retrospective restatement are amended and new terminology, replacing "balance sheet" with "statement of financial position" and "cash flow statement" with "statement of cash flows", although the titles are not obligatory, is introduced.

NOTES TO THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

2 ACCOUNTING POLICIES (continued)

(3) Consolidation principles

The Bank has consolidated its subsidiaries in the consolidated financial statements in accordance with International Accounting Standard 27. The data on subsidiaries of the Bank is reflected in Note 25. The consolidation was based on control over the subsidiaries, which resulted from the majority of rights to vote in the subsidiaries.

When preparing the consolidated financial statements, their items were evaluated in accordance with the uniform accounting policies, which are used by the Group consistently from year to year in conformity with the Financial and Capital Market Commission regulations on preparation of Bank's financial statements and International Financial Reporting Standards. If any of the accounting policies used by the subsidiaries differ from those applied by the Bank, the financial statements of the subsidiaries are adjusted for consolidation purposes. The financial statements of the subsidiaries were included in the Group's consolidated financial statements applying the method of full consolidation.

Minority interest is the interest in subsidiaries not held, directly or indirectly, by the Bank. Minority interest at the balance sheet date represents the minority shareholders' portion of the fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary at the acquisition date and the minorities' portion of movements in equity since the date of the combination. Minority interest is presented within equity.

The Bank' and the Group's annual financial statements are reported in the currency of the Republic of Latvia **– the Lat**. All amounts in the financial statements are specified in **thousands of Lats** unless otherwised stated.

All information in Bank's and Group's financial statements contains comparatives with previous year. Should the difference between information about the Group and respective information about the Bank be insignificant, such information about the Group is not separately presented.

NOTES TO THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

2 ACCOUNTING POLICIES (continued)

(4) Foreign currency translation

Non-monetary items that are measured at fair value in a foreign currency, such as investments in equity instruments, are translated using the exchange rates at the date, when the fair value was determined. Monetary assets and liabilities denominated in foreign currencies are translated into lats using the official Bank of Latvia exchange rates at the period end. Transactions denominated in foreign currencies are translated into the functional currency (Latvian lat) using the official Bank of Latvia exchange rate on the date of the transaction. Gains and losses from currency exchange rate revaluation are included in the profit and loss statement for the period. The exchange rates applied at the period end for the principal currencies are as follows:

		31.12.2008	31.12.2007
LVL 1 =	USD	2.020	2.066
	EUR	1.423	1.423
	GBP	1.374	1.038
	RUB	58.479	50.761

(5) Income and expense recognition

The accounting procedure of the Group’s income and expense is based on the accrual and prudence principles.

Interest revenue and expense is recognised using the effective interest method.

Dividends are recognized in the profit and loss statement when the Bank or the Group obtain the right to receive them, namely, it has been assigned the right as a shareholder to receive dividends.

Commission revenue and expenses are recognized in the profit and loss statement as services are provided or on the execution of a significant act, as applicable.

Gains and losses on Available-for-Sale Financial Assets 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 the profit and loss statement. Interest calculated using the effective interest method is recognized in the profit and loss statement. Dividends on an available-for-sale equity instrument are recognized in the profit and loss statement when the right to receive payment is established.

Income gained from disposal of other assets is recognized provided that the following conditions are met:

- ✓ the Bank or the Group has transferred to the buyer all significant risks and rewards of ownership of the goods ;
- ✓ the Bank or the Group retains neither continuing managerial involvement to the degree
- ✓ usually associated with ownership nor effective control over the goods sold;
- ✓ the amount of revenue can be estimated reliably;
- ✓ it is probable that the Bank or the Group will receive the economic benefits related to the transaction;
- ✓ expenses, which have been or will be incurred, can be measured reliably.

NOTES TO THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

2 ACCOUNTING POLICIES (continued)

(6) Recognition and derecognition of financial assets and liabilities

Recognition of financial assets and financial liabilities

Generally, the Group and the Bank recognize financial instruments on the balance sheet when the Group and the Bank become a party to the contractual provisions of the instrument, except for:

- loan commitments, which are recognized on drawdown; and
- financial guarantees and letters of credit, which are recognized when the related fee received as consideration is recognized.

Derecognition of financial asset

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized where:

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

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

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's and the Bank's continuing involvement is the amount of the transferred asset that the Group and the Bank may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the Group's and the Bank's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Derecognition of financial liabilities

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

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

2 ACCOUNTING POLICIES (continued)

(7) Classification of financial assets

Financial assets are classified into the following categories: *financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial assets.*

Financial assets at fair value through profit or loss – are financial assets classified as held for trading because they are:

- acquired principally for the purpose of selling them in the near term;
- part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking; or
- a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument). Financial assets classified as held for trading are not reclassified into another category.

Loans and receivables – are financial assets, created by the Group through its lending activities, sale of assets or the provision of services directly to creditors or participation in credit advanced by other lenders, and are not financial assets created for the purpose of immediate of short-term sale.

Held-to-maturity investments – are non-derivative financial assets with fixed or determinable payments and a fixed term, which the Group and the Bank has decided to keep till expiry and is capable of doing so, except those that meet the definition of loans and receivables. In case the Group and the Bank has no longer the positive intent or ability to hold the investment to maturity, the investment is reclassified into available-for-sale financial assets and measured at fair value.

Available-for-sale financial assets – are non-derivative financial assets, which are designated as available-for-sale or are not classified into the above-mentioned categories.

(8) Investments in subsidiaries in the separate financial statements of the Bank

Investments in subsidiaries are stated in the Bank's separate financial statements at cost, including transaction costs. In the event that the investment's carrying amount exceeds its recoverable amount it is reduced to its recoverable amount. That reduction is recognized as an impairment loss in the profit and loss statement.

The dividends received from those investments are included in the Bank's profit and loss statement.

(9) Derivatives

Derivative financial instruments are contracts whose fair values change in response to changes in variables underlying the derivative instruments such as foreign exchange rates, interest rates or a primary financial instruments (base asset).

All derivatives are measured at fair value and carried as assets when their fair value is positive and as liabilities when their fair value is negative.

The fair value changes resulting from remeasuring derivative instruments at fair value are included in the profit and loss statement.

NOTES TO THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

2 ACCOUNTING POLICIES (continued)

(10) Allowances for impairment of financial assets

If there is objective evidence that an impairment loss on financial assets has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced through use of an allowance account. The loss is recognized in profit or loss.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in the profit and loss statement, to the extent that the carrying value of the asset does not exceed what its amortized cost would have been at the reversal date absent the impairment.

If an asset is considered as not recoverable, it is written off within a month.

(11) Property, equipment and intangible fixed assets

Fixed assets are stated at historical cost, less accumulated depreciation. Depreciation is calculated on a straight-line method, taking into account expected usage of the assets. The following depreciation rates have been applied:

Fixed assets:	
Buildings	2-5% annually
Furniture and equipment	10% annually
Computer hardware and office equipment	25% annually
Transport vehicles	20% annually
Other fixed assets	20-50% annually
Intangible assets:	
Patents, licences and trademark	20% annually
Software	20% annually
Concession	10% annually
Other intangible fixed assets	20% annually
Leasehold improvements	over the shorter of useful life and period of lease

NOTES TO THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

2 ACCOUNTING POLICIES (continued)

(11) Property, equipment and and intangible fixed assets (continued)

Subsequent costs are included in the asset's carrying amount or are recognised as separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the Group and the cost of the item can be measured reliably.

Leasehold improvements are capitalized and depreciated over the shorter of their useful life and the remaining lease contract period on a straight-line basis, if the lease agreement of fixed assets does not foresee their compensation.

Gains and losses on disposal of fixed assets are recognized in the profit and loss account in the year of disposal.

(12) Long-term project costs

Long-term project costs are stated at the lower of cost and net realizable value.

(13) Debt securities issued

Debt securities issued are stated in the Bank's and the Group's balance sheet at amortized cost using the effective interest method. Incremental transaction costs directly related to issue or sale of debt securities are deducted from the fair value of the debt securities issued on initial recognition and amortized to the profit and loss statement using the effective interest method. In case where debt securities issued are sold at a discount or premium, the difference is amortized before the maturity date of the debt applying the effective interest method and recognized in the Bank's profit and loss statement as interest expense or as decrease in interest expense.

(14) Off-balance sheet financial instruments

The daily operating activities of the Group involve off-balance sheet financial transactions related to the issuance of loans, guarantees and the registration of letters of credit.

(15) Fair value measurement

Fair value represents the amount at which an asset could be exchanged or a liability settled between knowledgeable, willing parties on an arm's length basis. To estimate the fair value of a financial instrument the Group uses quoted market prices, or applicable valuation models. If a quoted market price is not available, the fair value of the financial instrument is estimated using alternative pricing methods taking into account that the fair value is not an amount, which the Group would receive or pay in case of a forced transaction, involuntary liquidation or a distress sale. Such models are based on discounted cash flow method, where the associated cash flows from relevant financial assets are estimated and discounted by interest rate, which is based on discount rates applicable for certain type of assets.

NOTES TO THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

2 ACCOUNTING POLICIES (continued)

(15) Fair value measurement (continued)

Held for Trading Financial Instruments are initially recognized in the balance sheet at fair value. To recognize financial instruments included in the trading portfolio the Bank uses settlement date accounting, i.e., assets are recognized in the balance sheet only when transferred/supplied to the Bank. Any change in fair value between trade date and settlement date are recognized in the profit and loss statement. After initial recognition the financial instruments included in the trading portfolio are measured at fair value. Fair value is estimated:

- for a financial instrument with a published price quotation in an active securities market using such quotes;
- for a debt instrument with credit rating assigned by an independent rating agency using discounted cash flow analysis;
- for a financial instrument, which has an appropriate valuation model using such a model.

If the financial instrument market is not active, i.e., transactions in the market are not frequent, published price quotations are adjusted in order to get reliable measurement of fair value. If a quoted market price is not available, the fair value of the financial instrument is estimated using alternative pricing methods taking into account, that the fair value is not an amount which the Bank would receive or pay in case of a forced transaction, involuntary liquidation or distress sale. Changes in fair value of financial instruments included in the trading portfolio, which are related to their valuation at fair value, are recognized in the Bank's profit and loss statement in the period in which they occur.

Loans and receivables are stated *at amortized cost*.. Lending commitments before the loan issuance (drawdown) date are disclosed as off-balance sheet items as a balance (limit) of undisbursed loan amount. Where objective evidence of impairment indicates that the Bank and the Group will not be able to collect all amounts that are due to it (principal and interest) specific impairment allowance is created. Gains or losses are recognized in the profit and loss statement when the financial asset is derecognized or impaired, and through the amortization process.

Held-to-maturity investments are initially stated at fair value. Incremental transaction costs directly related to the acquisition of a financial asset are included in the initial carrying amount of the financial instrument. Held-to-maturity investments are recognized applying settlement date accounting. Any change in fair value between trade date and settlement date is not recognised. After initial recognition the held-to-maturity investments are measured in the balance sheet *at amortized cost*. Where objective evidence of impairment indicates that the Bank and the Group will not be able to collect all amounts that are due to it (principal and interest) it makes special provisions equal to the amount of impairment. Gains or losses are recognized in the profit and loss statement when the financial asset is derecognized or impaired, and through the amortization process.

NOTES TO THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

2 ACCOUNTING POLICIES (continued)

(15) Fair value measurement (continued)

Available–for-sale financial assets are initially stated at fair value, including incremental transaction costs which are directly related to acquisition of financial assets. Available–for-sale financial assets are recognized applying settlement date accounting. Any change in the fair value between trade date and settlement date is recognized directly in equity. After initial recognition the available-for-sale financial assets are stated at fair value. The methods applied to measure fair value of available-for-sale financial assets correspond to the methods applied to measure fair value of financial instruments of the trading portfolio. Profit or loss of available-for-sale financial assets due to changes in fair value is included directly in equity as revaluation reserve of available-for-sale financial assets in the period in which it occurs. When available-for-sale financial assets are purchased with a coupon, discount or premium, the difference is amortized before the investment maturity date using the effective interest method and included in the Bank's profit and loss statement as interest income or decrease in interest income - in case of a premium. If there is objective evidence that available-for-sale financial assets are impaired, the impairment loss of available-for-sale financial assets is removed from the revaluation reserve and recognized in the profit and loss statement.

(16) Assets and liabilities under management

Managed assets and managed liabilities are assets and liabilities held by the Bank and the Group on behalf of clients and registered in the name of the Group. The Group does not carry credit, interest rate or any other risk in respect of these managed assets. Accordingly, these assets and liabilities are not included in the Bank's or the Group's balance sheet.

(17) Cash and cash equivalents

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

(18) Taxation

Corporate income tax at a rate of 15% is calculated in accordance with Latvian tax regulations and is based on the taxable profit reported for the taxation period, as adjusted for deferred taxation.

Deferred taxation is provided for all temporary differences arising between the carrying amount of assets and liabilities and their tax bases according to tax legislation. The deferred tax asset or liability is calculated based on the tax rates that are expected to apply when the temporary differences reverse. The principal temporary differences arise from the differing rates of amortization or depreciation on intangible and tangible fixed assets, and from tax losses carried forward. Where an overall deferred taxation asset arises, this is only recognized in the financial statements where its recoverability is probable.

NOTES TO THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

2 ACCOUNTING POLICIES (continued)

(19) Use of estimates in the preparation of financial statements

The preparation of financial statements in conformity with International Financial Reporting Standards, as published by the International Accounting Standards Board, requires management of the Bank and the Group to make estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses and disclosure of contingencies. The significant areas of estimation used in the preparation of the financial statements relate to depreciation and evaluation of impairment for loan losses, provisions for loan commitments and stand-by facilities .

In 2008, the Group made estimates of collective impairment allowances for possible loan losses which were based on the Group's assumptions that a part of the loans issued may result in losses which at the end of the reporting year may not be attributed to separate loans yet. The volume of these collective impairment at the end of 2008 amounted to 466 thousand lats (2007: none).

Below are presented key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

The Group regularly reviews its loans and receivables to assess impairment. The Group uses its experienced judgment to estimate the amount of any impairment loss in cases where a borrower is in financial difficulties and there are few available historical data relating to similar borrowers. Similarly, the Group estimates changes in future cash flows based on the observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. The Group Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the group of loans and receivables when scheduling its future cash flows. The Group uses its experienced judgment to adjust observable data for a group of loans or receivables to reflect current circumstances.

Employee entitlements to regular vacations are recognised when they accrue to employees. A provision is made for the estimated liability of employee vacation pay based on unused vacations by employees up to the balance sheet date.

Future events may occur which will cause the assumptions used in arriving at the estimates to change. The effect of any changes in estimates will be recorded in the financial statements, when determinable.

(20) Events after the reporting date

Post-year-end events that provide additional information about the Group's position at the balance sheet date (adjusting events) are reflected in the financial statements. Post-year-end events that are not adjusting events are disclosed in the notes when material.

NOTES TO THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

2 ACCOUNTING POLICIES (continued)

(21) Procedure of correction of material errors

The Group shall correct accounting period errors discovered in this period or after the end of it prior to financial statements authorisation for issue. The Group shall retroactively correct prior period material errors in the first set of financial statements authorised for issue after their discovery. Comparative indices for periods in which the error occurred are corrected by applying retrospective correction or, if the error occurred before the earliest prior period presented, opening balances of assets and liabilities, as well as of capital and reserves for the earliest prior period presented are corrected.

(22) Display principles of accounting policy changes

To register uniform transactions, facts and events the Group applies methods of consequent accounting. The Group changes its policy only if it is stipulated by external normative acts (standards and interpretations) or if change of accounting policy allows drawing up financial statements that provide credible and corresponding information regarding the influence of transactions, facts and events on the financial condition, activity results and cash flow of the Group.

Change of accounting policy is applied retrospectively, i.e. every equity capital item balance affected is corrected in prior periods presented in all financial statements, as well as other comparative indices for all prior periods presented are corrected as if the new accounting policy has always been applied.

(23) Going concern

The global crisis factors described in the Management Report may exert direct influence on the development of banking sector and the stability at large, including the development of the Bank. In 2009, the core task for ensuring of ongoing development is to maintain a sufficient level of capital and liquid assets.

The main Bank's source of attracted resources consists of deposits from private persons and companies, whose share in the total volume of all attracted deposits is 87.41**%.** Thereby the deposit attraction policy of the Bank is to be aimed at maintaining of a steady deposit volume.

The Bank has made assessment of the cash flow scenarios for 2009 and has determined the measures to be taken to improve the liquidity. The planned amount of Bank's capital will have to ensure an optimal ratio between the risk and maintaining of profitability.

On the grounds of the mentioned above, the decisions taken and the estimates made by the management are reasonable and prudent and they are aimed at continuation of activities of the Group and the Bank in 2009 and onwards. Thus, these consolidated Group's and separate Bank's financial statements have been prepared consistently applying the Financial Reporting Standards as adopted by the European Union based on a going concern concept.

(24) Non-current assets held for sale and discontinued operations

Non-current assets and disposal groups classified as held for sale are measured at lower of carrying amount and fair value less cost to sell. Non-current assets and disposal groups are classified as held for sale if their carrying amounts will be recovered through sales transaction rather than continuing use. This condition is regarded as met only when the sale is highly probable and the assets or disposal group is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sales within one year from date of classification.

NOTES TO THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

In thousands of lats	The Group		The Bank	
	2008	2007	2008	2007

3 INTEREST REVENUE

Due from other credit institutions	4 232	9 206	4 232	9 206
Loans to customers	10 703	5 993	10 463	5 789
Incl. impaired loans to customers	*208*	*78*	*199*	*78*
Debt and other fixed income securities	750	782	750	782
Incl. trading debt securities	*553*	*498*	*553*	*498*
Incl. available-for sale debt securities	*197*	*284*	*197*	*284*
Other interest income	137	282	137	282
	15 822	**16 263**	**15 582**	**16 059**

4 INTEREST EXPENSE

Customer deposits	(1 244)	(995)	(1 244)	(995)
Payments in deposit guarantee fund	(405)	(499)	(405)	(499)
Due to other credit institutions	(824)	(233)	(824)	(233)
Subordinated debt	(236)	(90)	(236)	(90)
Debt securities issued	(172)	(79)	(214)	(91)
Other interest expense	(20)	(43)	(23)	(43)
	(2 901)	**(1 939)**	**(2 946)**	**(1 951)**

5 FEE AND COMMISSION REVENUE

Money transfers	6 856	5 580	6 856	5 580
Management (trust) operations	187	537	187	537
Travelers cheques and credit cards	197	213	197	213
Current account servicing	90	59	90	59
Cash operations	48	51	48	51
Letters of credit	651	44	651	44
Guarantees	13	32	13	32
Other commission income	101	64	99	61
	8 143	**6 580**	**8 141**	**6 577**

6 FEE AND COMMISSION EXPENSE

Money transfers	(1 249)	(1 650)	(1 249)	(1 650)
Credit cards	(61)	(59)	(61)	(59)
Cash operations	(49)	(43)	(49)	(43)
Other commission expense	(56)	(28)	(56)	(28)
	(1 415)	**(1 780)**	**(1 415)**	**(1 780)**

NOTES TO THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

In thousands of lats	The Group 2008	The Group 2007	The Bank 2008	The Bank 2007
7 NET LOSSES AND GAINS FROM TRADING FINANCIAL ASSETS				
Profit from trading, net	(1 263)	710	(1 263)	710
Loss from revaluation, net	(3 390)	(512)	(3 390)	(512)
	(4 653)	**198**	**(4 653)**	**198**

This Note states the result gained from disposal of held-for-trading equity and debt securities and from changes in fair value of securities stated in Note 16. Total net losses and gains from equity instruments during the year was loss 2 642 (2007: gains 500) thousand lats and from debt securities loss 2 011 (2007: loss 302) thousand lats.

8 GAINS LESS LOSSES FROM FOREIGN CURRENCIES

	The Group 2008	The Group 2007	The Bank 2008	The Bank 2007
Profit from trading, net	8 143	8 240	8 143	8 223
(Loss)/gain from foreign currency revaluation, net	(1 279)	292	(1 277)	312
incl. spot revaluation, net	*301*	*11*	*301*	*11*
incl. forward revaluation, net	*33*	*48*	*33*	*48*
	6 864	**8 532**	**6 866**	**8 535**

The result gained from foreign currency trading transactions, revaluation of assets and liabilities denominated in foreign currency, as well as changes in fair value of *spot* and *forward* transactions is included in gain/(loss) from foreign currency revaluation.

Profit from trading principally consists of sales and purchase of currency on behalf of the customers.

NOTES TO THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

In thousands of lats	The Group 2008	The Group 2007	The Bank 2008	The Bank 2007
9 SALARIES AND BENEFITS EXPENSES				
Wages and salaries	(4 692)	(4 488)	(4 604)	(4 412)
Council	*(186)*	*(90)*	*(186)*	*(90)*
Board	*(739)*	*(1 170)*	*(700)*	*(1 136)*
Other	*(3 767)*	*(3 228)*	*(3 718)*	*(3 186)*
Social security contributions	(863)	(676)	(842)	(657)
Council	*(20)*	*(12)*	*(20)*	*(12)*
Board	*(45)*	*(38)*	*(36)*	*(29)*
Other	*(798)*	*(626)*	*(786)*	*(616)*
Provisions for unused annual holidays	(62)	(166)	(59)	(168)
Board	*(42)*	*(44)*	*(41)*	*(44)*
Other	*(20)*	*(122)*	*(18)*	*(124)*
	(5 617)	**(5 330)**	**(5 505)**	**(5 237)**
Council	***(206)***	***(102)***	***(206)***	***(102)***
Board	***(826)***	***(1 252)***	***(777)***	***(1 209)***
Other	***(4 585)***	***(3 976)***	***(4 522)***	***(3 926)***
Average number of employees in the reporting period	**237**	**223**	**224**	**210**
Employee category				
Managers	54	50	50	47
Other	183	173	174	163
	237	**223**	**224**	**210**

10 ADMINISTRATIVE EXPENSES

	The Group 2008	The Group 2007	The Bank 2008	The Bank 2007
Professional services	(305)	(643)	(303)	(643)
Audit services	(55)	(38)	(51)	(34)
Rent	(516)	(341)	(516)	(341)
Communications	(320)	(321)	(319)	(320)
Representative offices maintenance fees	(93)	(287)	-	(196)
Advertising and presentation	(236)	(280)	(236)	(280)
Non-deductible value added tax	(180)	(261)	(176)	(261)
Sponsorship	(239)	(235)	(239)	(235)
Maintenance expenses	(311)	(218)	(311)	(218)
Travel and entertainment	(245)	(135)	(245)	(135)
Insurance	(88)	(68)	(88)	(68)
Low - value inventory	(20)	(17)	(19)	(16)
Security	(9)	(8)	(9)	(8)
Other administrative expenses	(648)	(585)	(770)	(712)
	(3 265)	**(3 437)**	**(3 282)**	**(3 467)**

NOTES TO THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

In thousands of lats	The Group 2008	The Group 2007	The Bank 2008	The Bank 2007

11 ALLOWANCE FOR IMPAIRMENT OF DEBTS

Allowance for loans, assessed individually	(2 957)	(163)	(2 840)	(111)
Allowance for loans, assessed collectively	(466)	-	(466)	-
Release of individual allowance	103	78	63	129
	(3 320)	**(85)**	**(3 243)**	**18**

The following breakdown shows changes in allowance for impairment of loans during the reporting period:

Allowance as of 1 January	**1 576**	**1 606**	**1 472**	**1 604**
Additional individual allowance	2 957	163	2 840	111
Additional collective allowance	466	-	466	-
Release of allowances	(103)	(78)	(63)	(129)
Writte-off of loans	-	(30)	-	(30)
Effect of the foreign exchange	67	(85)	63	(84)
Allowance as of 31 December (Note 21)	**4 963**	**1 576**	**4 778**	**1 472**

The amount of impairment allowance for related persons is disclosed in Note 40.

12 CORPORATE INCOME TAX

(1) Corporate income tax expense

Corporate income tax of the reporting year	(2 202)	(2 865)	(2 171)	(2 847)
Income tax paid abroad	(266)	(148)	(266)	(148)
Adjustments to the corporate income tax for previous years	83	27	83	27
Change in deferred tax	(12)	40	(11)	40
Total	**(2 397)**	**(2 946)**	**(2 365)**	**(2 928)**

(2) Reconciliation of accounting profit to tax charge

Profit before taxation	**9 762**	**18 915**	**9 494**	**18 834**
Current tax rate	15%	15%	15%	15%
Expected tax charge	1 464	2 837	1 424	2 825
Non deductable expenses	933	109	941	103
incl. securities revaluation and trading effects	*692*	*15*	*692*	*15*
Total	**2 397**	**2 946**	**2 365**	**2 928**

Effective tax rate	**24.55%**	**15.57%**	**24.91%**	**15.55%**

In thousands of lats	The Group 2008	The Group 2007	The Bank 2008	The Bank 2007

12 CORPORATE INCOME TAX (continued)

(3) Movement of corporate income tax liability

Corporate income tax liabilities as of 1 January	**779**	**834**	**766**	**830**
Corporate income tax paid for previous years	(874)	(902)	(861)	(898)
Adjustments to the corporate income tax for previous years	(83)	(27)	(83)	(27)
Corporate income tax of the reporting year	2 202	2 865	2 171	2 847
Corporate income tax of the reporting year paid in advance	(2 675)	(1 991)	(2 656)	(1 986)
Corporate income tax (assets)/liabilities as of 31 December	**(651)**	**779**	**(663)**	**766**
incl. tax assets	*(671)*	*-*	*(668)*	*-*
incl. tax liabilities	*20*	*779*	*5*	*766*

The net value of claims of the Bank's corporate income tax includes the corporate income tax liabilities of the Bank's Cyprus branch to the state budget of Cyprus in the amount of 5 thousand lats. Accordingly, the net value of claims of the Group's corporate income tax includes the income tax liabilities of the Bank's subsidiaries in the amount of 20 thousand lats.

(4) The Bank's deferred tax calculation

The management of the Bank manages deferred tax separately for each Bank's subsidiary. Therefore the below table summarizes the Bank's tax analysis. The Group's tax analysis is not materially different from Bank's deferred tax analysis.

In thousands of lats	2008 Temporary differences	2008 Tax effect	2007 Temporary differences	2007 Tax effect
Deferred tax assets				
Accumulated deductible taxable loss [1]	-	-	253	38
Deferred income	184	28	489	73
Collective impairment allowance	466	70	-	-
Provisions for unused annual holidays	355	53	345	52
Deferred tax assets	**1 005**	**151**	**1 087**	**163**
Deferred tax liabilities				
Accelerated tax depreciation	79	12	877	132
Recoverable special impairment	-	-	24	4
Accumulated taxable income [1]	832	125	16	2
Deferred tax liabilities	**911**	**137**	**917**	**138**
DEFERRED TAX ASSETS, NET VALUE	**94**	**14**	**170**	**25**

[1] The accumulated deductible taxable loss/income includes the loss/ income related to revaluation of currency transactions of the future (*spot* and *forward* transactions). Next year, when this loss is realized, it will reduce/increase the basis of taxable income.

NOTES TO THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

In thousands of lats	The Group 2008	The Group 2007	The Bank 2008	The Bank 2007

13 OTHER PAID TAXES AND FEES

Personal income tax of employees	1 034	998	1 017	964
Employer state social insurance obligatory payments (Note 9)	863	676	842	657
Non-deductible value added tax (Note 10)	180	261	176	261
Employees state social insurance obligatory payments	324	246	317	239
Taxes paid abroad (Note 12)	266	148	266	148
	2 667	**2 329**	**2 618**	**2 269**

The rest of the taxes and dues are included in positions of the current annual report according to their type and meaning.

As for the reporting years 2008 and 2007 the Bank had not received any tax relief and had not estimated or paid any penalty fines for delayed payments.

14 CASH AND BALANCES DUE FROM THE BANK OF LATVIA

Balances due from the Bank of Latvia	17 886	17 168	17 886	17 168
Cash	1 349	825	1 349	825
	19 235	**17 993**	**19 235**	**17 993**

In accordance with the regulatory requirements credit institutions are required to maintain funds (mandatory reserves) on their accounts with the Bank of Latvia up to the standard of mandatory reserves. Their volume depends on the funds attracted by the credit institution. By the end of the reporting period the standard of mandatory reserves ranged between 3-5% (2007: 8%). The average standard of mandatory reserve in the reporting period was 7.69%. The Bank of Latvia calculates remuneration for keeping the reserves on the reserve account with the Bank of Latvia in the amount of 512 thousands of lats (2007: 414 thousands of lats). These funds may be used without any restrictions.

15 DUE FROM CREDIT INSTITUTIONS WITH A MATURITY OF LESS THAN 3 MONTHS [1]

Due from OECD credit institutions	27 304	106 526	27 304	106 526
Due from credit institutions registered in the Republic of Latvia	14 865	21 733	14 865	21 733
Due from credit institutions of other countries	5 393	22 573	5 393	22 573
	47 562	**150 832**	**47 562**	**150 832**

[1] Demand claims that may be satisfied without previous claim, or with demand term of 24 hours or one working day, and claims with demand term of up to 3 months are disclosed under this section. The claims are disclosed according to their initial maturity pursuant to the agreements.

NOTES TO THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

In thousands of lats	The Group 2008	The Group 2007	The Bank 2008	The Bank 2007

16 HELD FOR TRADING SECURITIES

(1) Held for trading debt securities and other fixed income securities

	2008	2007	2008	2007
Investment amount of debt securities of other institutions	4 105	6 334	4 105	6 334
Revaluation losses of debt securities of other institutions, net	(2 133)	(416)	(2 133)	(416)
	1 972	**5 918**	**1 972**	**5 918**

The debt securities portfolio of other institutions includes various Russian, Kazakhstan and other countries corporate debt securities (2007: Russian, Kazakhstan and other countries corporate debt securities).

All investments in debt securities and other securities with fixed income have been made in securities quoted at stock exchanges.

(2) Held for trading equity shares and other non-fixed income securities

	2008	2007	2008	2007
Investments in equity shares and other non-fixed income securities	2 177	2 513	2 177	2 513
Changes on revaluation of equity investments, net	(1 817)	(133)	(1 817)	(133)
	360	**2 380**	**360**	**2 380**

The equity securities portfolio of other institutions includes corporate equity securities of Latvia and Russia (in 2007: Latvia, USA and Russia).

All investments in equity shares and other securities have been made in securities quoted at stock exchanges.

17 DERIVATIVES

The table below shows the fair value of forward foreign exchange contracts which is disclosed for each contract as asset or liability. The notional value of these contracts reflects the reference amount of basis currency underlying the agreement whose changes determine the cash flow of the forward exchange contracts.

Fair value of foreign currency futures

	2008	2007	2008	2007
Assets (positive fair value)	**78**	**47**	**78**	**47**
Liabilities (negative fair value)	**-**	**(2)**	**-**	**(2)**

Notional principal value of foreign currency futures

	2008	2007	2008	2007
Assets (due from)	**993**	**4 302**	**993**	**4 302**
Liabilities (due to)	**(915)**	**(4 257)**	**(915)**	**(4 257)**

All foreign currency futures are forwards concluded to secure currency trading transactions of the Group's customers. The concluded foreign currency futures are provided for purchase and sale of foreign currency in the future under the terms specified beforehand. The maximum remaining term of payments of foreign currency futures does not exceed 10 days.

NOTES TO THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

In thousands of lats	The Group 2008	The Group 2007	The Bank 2008	The Bank 2007

18 AVAILABLE FOR SALE FINANCIAL ASSETS

(1) Available for sale debt securities and other fixed income securities

Investment amount of government debt securities	-	5 690	-	5 690
Government debt securities revaluation gains, net	-	3	-	3
	-	**5 693**	**-**	**5 693**
Investment amount of debt securities of other institutions	286	500	286	500
Revaluation losses of debt securities of other institutions, net	(80)	(1)	(80)	(1)
	206	**499**	**206**	**499**
	206	**6 192**	**206**	**6 192**

The Government debt securities portfolio of 2007 includes debt securities issued by Italy, Korea, Sweden, Greece, Great Britain and other state governments. The debt securities portfolio of other institutions includes the debt securities of two Latvian credit institutions (2007: two Latvian credit institutions).

All investments in debt securities and other securities with fixed income have been made in securities quoted at stock exchanges

(2) Available for sale equity shares and other non-fixed income securities

Investments in equity shares and other non-fixed income securities	49	50	49	50
Changes on revaluation of equity investments, net	-	15	-	15
	49	**65**	**49**	**65**

By the end of the reporting year from the investments in auxiliary companies the Bank had preserved only investments in strategic investment companies, such as *SWIFT* (in 2007: *SWIFT* and *MasterCard*).

In thousands of lats

19 DISCONTINUED OPERATIONS

In April 2008, the Bank acquired 9,0055% of the Ukrainian commercial bank "*Misto Bank*" (registration number 20966466) shares. Besides, the Bank acquired 100% of the shares in the subsidiary company with foreign investment *Rolvenden Standart* (Ukrainian Enterprise and Organization Register unified registration number 31069036), which holds 41,2945% of Misto Bank shares. The control over the investment was obtained on 27 June 2008, when the changes in Supervisory board of Misto Bank were approved by National Bank of Ukraine, where two out of three representatives are from the Bank.
In case the acquisition date for business combination would had been begging of the year, the combined revenues of the Group, i.e. total interest income and total commission income would be 10 572 and 7 288 respectively, while total net profit for the Group would be 5 097.

(1) Fair values of net identifiable assets

At the moment of acquisition the Bank had estimated the fair value of the recognizable assets as set below:

	Carrying value UAH	Fair value UAH	Carrying value LVL	Fair value LVL
Cash and cash equivalents	69 908	69 908	6 830	6 830
Loans	649 632	649 632	63 469	63 469
Property, plant and equipment	101 464	101 464	9 913	9 913
Other assets	50 624	50 624	4 946	4 946
Deposits	(119 857)	(119 857)	(60 932)	(60 932)
Interbank borrowing	(623 664)	(623 664)	(11 710)	(11 710)
Other liabilities	(13 603)	(13 603)	(1 329)	(1 329)
Net identifiable assets	**114 504**	**114 504**	**11 187**	**11 187**
Share acquired	50.3%	50.3%	50.3%	50.3%
Net identifiable assets acquired	**57 595**	**57 595**	**5 627**	**5 627**

	UAH	LVL
Cash paid	(114 893)	(11 225)
Fair value of net identifiable assets	57 595	5 627
Goodwill	**(57 298)**	**(5 598)**

The Group has determined fair values of net assets acquired only provisionally and initially planned to finalize determination within 12 month period from purchase date. However, due to the reasons discussed below the Group considers such exercise impracticable, as the investment will be sold.

(2) Changes in goodwill

	UAH	LVL
Goodwill as of 30.06.2008	(57 298)	(5 598)
Goodwill as of 31.12.2008	(57 298)	(3 759)
Changes in goodwill (foreign exchange translation reserve)	**-**	**1 839**

NOTES TO THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

In thousands of lats

19 DISCONTINUED OPERATIONS (continued)

(3) Discontinuation of operations

Taking into account the crisis situation in the world, at the end of the year the Group made a decision to sell the investment in subsidiary. As a result the Group have classified investment in subsidiary in accordance with IFRS 5 requirements and reclassified this investment into the category "financial assets held for sale" and initiated the process of searching a purchaser.

Within the framework of this plan the Bank has signed a letter of intent with the Ukrainian company "Unimax" on conclusion of a purchase agreement until 30 October 2009 on selling to the company "Unimax" 9,0055% of Misto Bank shares and 100% of the subsidiary company *Rolvenden Standart*, which belong to the Bank. The amount of the projected deal is USD 30 000 000.

In the Group's consolidated financial statements the assets and liabilities of this subsidiary are disclosed separately from other Group's assets and liabilities as the assets and liabilities of disposal group classified as held for sale.

Presented below is the information about the assets and liabilities of disposal group classified as held for sale, and also results of its activity:

	2008
Net interest income	1 805
Allowance for impairment of debts, net	(3 850)
Net fee and commission income	318
Other non-interest income	993
Other non-interest expense	(1 692)
Profit before taxation	**(2 426)**
Corporate income tax	297
Profit after tax for the year from discontinued operations	**(2 129)**

ASSETS	2008
Cash and balances due from credit institutions with a maturity of less than 3 months	4 421
Held for trading financial assets	2 591
Due from credit institutions with a maturity of more than 3 months	1 768
Loans	54 192
Tangible and intangible assets	6 579
Other assets	226
Assets of disposal group classified as available for sale financial assets	**69 777**
Goodwill	3 759
Total assets of disposal group classified as available for sale financial assets	**73 536**
LIABILITIES	
Due to credit institutions	**13 179**
Due to customers	**50 187**
Other liabilities	**420**
Liabilities directly associated with the assets classified as available for sale	**63 786**
Net assets directly associated with disposal group	**9 750**

In thousands of lats

19 DISCONTINUED OPERATIONS (continued)

(3) Discontinuation of operations (continued)

LOANS

(1) Classification of loan balance by customer groups:

Loans to companies	39 388
Loans to individuals	19 204
Loans to employees	224
	58 816
Individual impairment allowance for loans	(4 624)
	54 192

(2) Classification of impairment for loans by customer groups:

Private companies	3 111
Private individuals	1 513
	4 624

Impairment allowance as of 1 July	2 884
Additional allowance	2 010
Effect of the foreign exchange	(270)
Impairment allowance as of 31 December	**4 624**

NOTES TO THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

In thousands of lats

19 DISCONTINUED OPERATIONS (continued)

(3) Discontinuation of operations (continued)

CREDIT RISK

	Assets not past due not impaired	Assets past due but not impaired	Impaired assets	Total
Cash and balances due from the Bank of Ukraine	2 723	-	-	2 723
Due from credit institutions with a maturity of less than 3 months	1 769	-	1	1 770
Held for trading financial assets	2 591	-	-	2 591
Due from credit institutions with a maturity of more than 3 months	1 289	-	-	1 289
Loans	27 620	1 122	25 450	54 192
Other assets	232	-	30	262
Total assets	**36 224**	**1 122**	**25 481**	**62 827**

Age analysis of the loans past due but not impaired by time for which they are late

	Up to 1 month	1 month to 3 months	3 months to 6 months	6 months to 1 year	1 year to 5 years	Total
Loans to						
Companies	345	127	137	-	43	652
Individuals	470	-	-	-	-	470
Total assets	**815**	**127**	**137**	**-**	**43**	**1 122**

NOTES TO THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

In thousands of lats

19 DISCONTINUED OPERATIONS (continued)

(3) Discontinuation of operations (continued)

LIQUIDITY

Analysis of the gross contractual future cash flow of the Bank's liabilities and off-balance items [1]

31 December 2008	Up to 1 month	1 month to 3 months	3 months to 6 months	6 months to 1 year	1 year to 5 years	Over 5 years	Total
LIABILITIES							
Due to credit institutions	1 154	9 798	-	2 230	-	-	13 182
Due to customers	7 822	74	1 979	21 406	18 850	133	50 264
Accrued expenses and deferred income	1 048	-	-	-	-	-	1 048
Other liabilities	80	-	-	-	-	-	80
Total liabilities	**10 104**	**9 872**	**1 979**	**23 636**	**18 850**	**133**	**64 574**
OFF-BALANCE SHEET ITEMS							
Contingent liabilities	182	-	-	-	-	-	182
Commitments to clients	12 098	-	-	-	-	-	12 098
Total off-balance sheet liabilities	**12 280**	**-**	**-**	**-**	**-**	**-**	**12 280**
Total as at 31 December 2008	**22 384**	**9 872**	**1 979**	**23 636**	**18 850**	**133**	**76 854**

[1] This analysis is based on the undiscounted liability cash flow which includes interest payments as well as the gross value of the cash flow of derivative instruments.

NOTES TO THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

In thousands of lats

19 DISCONTINUED OPERATIONS (continued)

(3) Discontinuation of operations (continued)

CURRENCY

31 December 2008	UAH	USD	EUR	Other currencies	Total
ASSETS					
Total assets	**14 634**	**51 437**	**3 583**	**123**	**69 777**
LIABILITIES					
Total liabilities	**22 886**	**37 929**	**2 936**	**35**	**63 786**
Off-balance sheet commitments					
Contingent liabilities	130	46	6	-	182
Commitments	6 268	5 731	-	99	12 098
Total off-balance sheet commitments	**6 398**	**5 777**	**6**	**99**	**12 280**
Net position as at 31 December 2008	**(14 650)**	**7 731**	**641**	**(11)**	**(6 289)**

NOTES TO THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

In thousands of lats	The Group 2008	The Group 2007	The Bank 2008	The Bank 2007

20 DUE FROM CREDIT INSTITUTIONS WITH A MATURITY OF MORE THAN 3 MONTHS [1]

Due from credit institutions of other countries	8 755	5 948	8 755	5 948
Due from credit institutions registered in the Republic of Latvia	-	484	-	484
	8 755	**6 432**	**8 755**	**6 432**

[1] In this balance sheet caption, claims to credit institutions are disclosed according to their initial maturity pursuant to agreements.

21 LOANS

(1) Classification of loan balance by customer groups:

Loans to companies	96 476	68 097	91 914	62 590
Loans to individuals	23 412	22 287	23 013	21 795
Loans to employees	1 786	1 428	1 565	1 428
Loans to financial institutions	1 322	1 325	1 322	1 325
Loans to subsidiary	-	-	5 695	6 624
	122 996	**93 137**	**123 509**	**93 762**
Allowance for loans, ***assessed individually*** (Note 11)	(4 497)	(1 576)	(4 312)	(1 472)
Allowance for loans, ***assessed collectively*** (Note 11)	(466)	-	(466)	-
	118 033	**91 561**	**118 731**	**92 290**

By the end of the reporting year the total amount of the Bank's doubtful loans for which the accrual of nominal interest has been discontinued was 17 501 thousand lats (2007: 1 363 thousand lats). To determine the value of these loans the Bank applied methods used for assessment of collateral adequacy and solvency of borrowers. The total amount of written off unrecoverable debts in the reporting year is less then one thousand lats (in 2007: 30 thousand lats).

(2) Classification of impairment for loans by customer groups:

Private companies	3 552	1 397	3 432	1 350
Private individuals	945	179	880	117
Subsidiary companies	-	-	-	5
	4 497	**1 576**	**4 312**	**1 472**

The main criterion used to evaluate loan quality is the borrower's solvency. When assessing a loan the Bank takes into account the borrower's credit history, financial standing, performance and prospects of business activity and correspondence of the loan purpose to repayment sources, presence of solvent guarantors, adequacy of the borrower's current and anticipated cash flow to repay the loan, collateral value, compliance with repayment schedule, and country risk if a loan is granted to a non-resident. A collateral dependent loan is assessed based on the value of loan collateral. In 2008, the main factors that affected credit standing of borrowers were problems in the real estate market of Latvia and the world financial crisis.

NOTES TO THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

In thousands of lats	The Group 2008	The Group 2007	The Bank 2008	The Bank 2007

21 LOANS (continued)

(3) Loans principal classification by loan type:

	The Group 2008	The Group 2007	The Bank 2008	The Bank 2007
Mortgage loans [1]	47 591	37 532	47 424	37 257
Commercial loans	38 050	29 588	43 744	36 212
Industrial loans	13 591	4 647	13 591	4 647
Finance leasing	4 841	5 499	-	-
Bills of exchange	1 284	1 782	1 284	1 782
Overdrafts	1 076	1 685	1 076	1 685
Reverse REPO	75	648	75	648
Consumer loans	320	395	147	170
Factoring	818	346	818	346
Secured by deposit	327	315	327	315
Payment card loans	151	173	151	173
Other	14 872	10 527	14 872	10 527
	122 996	**93 137**	**123 509**	**93 762**
Loans which serve as collateral for debt securities issued by the Bank (Note 29) [1]	*4 368*	*5 012*	*4 368*	*5 012*

[1] Mortgage loans secured by pledge (mortgage) of real estate registered in the Republic of Latvia are disclosed together with loans which serve as collateral for debt securities issued by the Bank. The fair value of this real estate by the end of 2008 was 10 083 thousand lats (unaudited), respectively by the end of 2007 - 9 264 thousand lats. The information on debt securities issued by the Bank is described in Note 29.

(4) Analysis of loans by industry:

	The Group 2008	The Group 2007	The Bank 2008	The Bank 2007
Operations with real estate [1]	35 555	24 669	35 184	23 179
Wholesale and retail	20 861	18 171	20 578	15 406
Mortgage loans to private persons	12 646	12 374	12 621	12 199
Other loans to private persons	11 677	10 296	11 677	10 296
Transport, warehousing and communication	12 679	8 092	9 956	7 203
Financial services	5 815	4 121	11 510	10 745
Manufacturing	4 439	3 542	4 036	3 491
Construction	10 100	3 360	10 018	3 150
Extractive industry	1 860	2 105	1 860	2 105
Electricity, gas and water supply	-	1 455	-	1 455
Agriculture, hunting, wood processing and fishing	3 134	3 342	3 103	3 308
Hotels and restaurants	2 532	834	2 472	813
Consumer loans to private persons	874	638	281	324
Other	824	138	213	88
	122 996	**93 137**	**123 509**	**93 762**

[1] Operations with real estate mostly consist of loans given to real estate developers.

In thousands of lats	The Group 2008	The Group 2007	The Bank 2008	The Bank 2007

21 LOANS (continued)

(5) Analysis of collateral [1]:

Apartments, dwelling houses, land	43 855	62 527	43 609	62 105
Commercial real estate	100 921	37 283	100 921	37 283
Current and fixed assets	26 335	21 970	31 540	21 230
Vehicles	19 084	19 508	12 157	14 108
Securities and shares (book value)	9 850	17 298	9 850	17 298
Guarantees	3 536	3 622	3 536	3 622
Deposits placed in the other credit institutions	495	1 533	495	1 533
Deposits placed in the Bank (Note 27 and 28)	2 436	824	2 436	824
	206 512	**164 565**	**204 544**	**158 003**

[1] Loan collaterals also refer to the Bank's off-balance liabilities with regard to loan limits that have not been used (Note 36) and serve as factors that mitigate the risk of such liabilities (Note 47, (1)).

Real estate collaterals are disclosed at reassessed value determined according to the assessment of real estate appraisers.

(6) Grouping of Finance lease agreements by the type of leased assets:

Transport vehicles	4 302	4 927	-	-
Production equipment	538	572	-	-
Other assets	1	-	-	-
	4 841	**5 499**	**-**	**-**

(7) Analyses of finance lease receivables according to the time bands:

Present value of minimum lease payments				
Up to 1 year	1 801	1 384	-	-
Over 1 year to 5 years	2 826	3 663	-	-
Over 5 years	214	452	-	-
	4 841	**5 499**	**-**	**-**
Interest income to be received under financial leasing				
Up to 1 year	304	359	-	-
Over 1 year to 5 years	426	594	-	-
Over 5 years	7	22	-	-
	737	**975**	**-**	**-**
Future value of minimum financial leasing payments				
Up to 1 year	2 105	1 743	-	-
Over 1 year to 5 years	3 252	4 257	-	-
Over 5 years	221	474	-	-
	5 578	**6 474**	**-**	**-**

NOTES TO THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

In thousands of lats	The Group 2008	The Group 2007	The Bank 2008	The Bank 2007

22 ACCRUED INCOME AND DEFERRED EXPENSES

	2008	2007	2008	2007
Pre-paid expenses	112	125	112	123
Other accrued income	20	143	21	134
	132	**268**	**133**	**257**

23 LONG-TERM PROJECT COSTS

	2008	2007	2008	2007
Land parcels	2 218	2 217	2 218	2 217
Prepayments for construction work	64	-	64	-
	2 282	**2 217**	**2 282**	**2 217**

The land parcels mentioned in this note were purchased for the purpose of building a residential apartment house with subsequent sale of apartments. The future costs of the apartment construction are disclosed in the off-balance liabilities in the amount of the total remaining amount of the building contract (Notes 36). The finalization of this building project is expected respectively in 2009 – 2010.

NOTES TO THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

In thousands of lats

24 PROPERTY, EQUIPMENTAND INTANGIBLE FIXED ASSETS

All property, equipment and intangible fixed assets in the possession of the Bank and the Group are used for the Bank's and Group's operations, for rendering financial services and maintenance of social infrastructure.

(1) The Group

Changes in tangible and intangible fixed assets in 2008	Real estate	Vehicles	Machinery & Equipment	Leasehold improvement	Intangible assets	Total
Cost						
At 31 December 2007	**891**	**748**	**1 526**	**232**	**608**	**4 005**
Additions	-	60	514	62	90	726
Prepayments	-	-	66	1 557	4	1 627
Disposals	-	(29)	(30)	-	-	(59)
At 31 December 2008	**891**	**779**	**2 076**	**1 851**	**702**	**6 299**
Accumulated depreciation						
At 31 December 2007	**9**	**281**	**810**	**149**	**403**	**1 652**
Charge for the reporting year	45	140	210	53	77	525
Disposals	-	(25)	(28)	-	-	(53)
At 31 December 2008	**54**	**396**	**992**	**202**	**480**	**2 124**
Net carrying value at 31 December 2007	**882**	**467**	**716**	**83**	**205**	**2 353**
Net carrying value at 31 December 2008	**837**	**383**	**1 084**	**1 649**	**222**	**4 175**

Changes in tangible and intangible fixed assets in 2007	Real estate	Vehicles	Machinery & Equipment	Leasehold improvement	Intangible assets	Total
Cost						
At 31 December 2006	**-**	**620**	**1 365**	**385**	**525**	**2 895**
Additions	891	128	258	22	83	1 382
Prepayments	-	-	9	55	-	64
Disposals	-	-	(106)	(230)	-	(336)
At 31 December 2007	**891**	**748**	**1 526**	**232**	**608**	**4 005**
Accumulated depreciation						
At 31 December 2006	**-**	**146**	**719**	**240**	**335**	**1 440**
Charge for the reporting year	9	135	196	67	68	475
Disposals	-	-	(105)	(158)	-	(263)
At 31 December 2007	**9**	**281**	**810**	**149**	**403**	**1 652**
Net carrying value at 31 December 2006	**-**	**474**	**646**	**145**	**190**	**1 455**
Net carrying value at 31 December 2007	**882**	**467**	**716**	**83**	**205**	**2 353**

NOTES TO THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

In thousands of lats

24 PROPERTY, EQUIPMENT AND INTANGIBLE FIXED ASSETS (continued)

(2) The Bank

Changes in tangible and intangible fixed assets in 2007	**Real estate**	**Vehicles**	**Machinery & Equipment**	**Leasehold improvement**	**Intangible assets**	**Total**
Cost						
At 31 December 2007	**891**	**738**	**1 521**	**232**	**608**	**3 990**
Additions	-	41	512	62	90	705
Prepayments	-	-	66	1 557	4	1 627
Disposals	-	(21)	(30)	-	-	(51)
At 31 December 2008	**891**	**758**	**2 069**	**1 851**	**702**	**6 271**
Accumulated depreciation						
At 31 December 2007	**9**	**274**	**808**	**149**	**403**	**1 643**
Charge for the reporting year	45	137	209	53	77	521
Disposals	-	(19)	(28)	-	-	(47)
At 31 December 2008	**54**	**392**	**989**	**202**	**480**	**2 117**
Net carrying value at 31 December 2007	**882**	**464**	**713**	**83**	**205**	**2 347**
Net carrying value at 31 December 2008	**837**	**366**	**1 080**	**1 649**	**222**	**4 154**

Changes in tangible and intangible fixed assets in 2007	**Real estate**	**Vehicles**	**Machinery & Equipment**	**Leasehold improvement**	**Intangible assets**	**Total**
Cost						
At 31 December 2006	**-**	**611**	**1 361**	**385**	**525**	**2 882**
Additions	891	127	256	22	83	1 379
Prepayments	-	-	9	55	-	64
Disposals	-	-	(105)	(230)	-	(335)
At 31 December 2007	**891**	**738**	**1 521**	**232**	**608**	**3 990**
Accumulated depreciation						
At 31 December 2006	**-**	**141**	**718**	**240**	**335**	**1 434**
Charge for the reporting year	9	133	195	67	68	472
Disposals	-	-	(105)	(158)	-	(263)
At 31 December 2007	**9**	**274**	**808**	**149**	**403**	**1 643**
Net carrying value at 31 December 2006	**-**	**470**	**643**	**145**	**190**	**1 448**
Net carrying value at 31 December 2007	**882**	**464**	**713**	**83**	**205**	**2 347**

NOTES TO THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

In thousands of lats

25 INVESTMENTS IN SHARE CAPITAL OF SUBSIDIARY

The Bank has the following participation in the share capital of its subsidiary:

		2008 Investment and participation				2007 Investment and participation			
Group companies: registration number and address	**Type of activity**	Total book value of assets	Cost	Fixed capital portion (%)	Cost less impair-ment	Total book value of assets	Cost	Fixed capital portion (%)	Cost less impair-Ment
Ltd TKB Leasing, reg. No 40003591059, Latvia, Riga, Palasta 7	Leasing and crediting operations	6 075	50	100	50	6 904	50	100	-
SIA TKB Nekustāmie īpašumi, reg.Nr. 40003723143, Latvija, Rīga, Palasta 7	Real estate transactions	58	2	75	2	51	2	75	2
		6 133	**52**	**-**	**52**	**6 955**	**52**	**-**	**2**

The methods applied to include the subsidiaries financial statements in the Group's consolidated financial statements are described in Note 2, (3). The subsidiaries shares are not quoted at stock exchange.

The below data reflects consolidated information on subsidiaries and associated companies:

	2008	2007
Assets	6 133	6 955
Liabilities	(5 961)	(6 891)
Net assets	**172**	**64**
Gross income from operating activities	498	423
Profit for the period	107	114

NOTES TO THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

In thousands of lats	The Group		The Bank	
	2008	2007	2008	2007

26 OTHER ASSETS

Margin accounts in brokerage companies	736	2 553	736	2 553
Spot foreign exchange assets [1]	247	340	247	340
Overpaid value added tax	666	77	507	16
Money in transit [2]	23	28	23	28
Other assets [3]	184	220	146	193
	1 856	**3 218**	**1 659**	**3 130**

[1] The table below shows the fair value of *spot* foreign exchange contracts which is disclosed for each contract as asset or liability. The notional value of these contracts reflects the value of basis asset underlying the agreement whose changes in fair value are estimated and the due and payable amounts of cash flow.

Fair value of foreign currency futures

Assets (positive fair value)	**247**	**340**	**247**	**340**
Liabilities (negative fair value)	**(244)**	**(638)**	**(244)**	**(638)**

Notional principal value of foreign currency futures

Assets (due from)	**84 367**	**163 160**	**84 367**	**163 160**
Liabilities (due to)	**(84 364)**	**(163 458)**	**(84 364)**	**(163 458)**

All foreign currency spot transactions concluded to secure currency trading transactions of the Group's customers. The concluded foreign currency spot transactions are provided for purchase and sale of foreign currency in the future under the terms specified beforehand. The maximum remaining term of payments of foreign currency futures does not exceed 2 days.

[2] The funds, transferred from other correspondent accounts of the Bank, whose crediting has not been confirmed by the correspondent bank yet, are disclosed as money in transit.

[3] Other assets include various claims on debtors in relation to operating activities of the Bank.

NOTES TO THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

In thousands of lats	The Group		The Bank	
	2008	2007	2008	2007

27 DUE TO CREDIT INSTITUTIONS

	2008	2007	2008	2007
Credit institutions registered in other countries	3 343	4 085	3 343	4 085
Credit institutions registered in the Republic of Latvia	7 219	1 314	7 219	1 314
OECD credit institutions	-	11 162	-	11 162
	10 562	**16 561**	**10 562**	**16 561**

Deposits that serve as collateral of the following claims:

	2008	2007	2008	2007
Loans and unused credit lines (Note 21, (5) and 47, (1))	50	48	50	48
Letters of credit (Note 36, (2) and 47, (1))	-	-	-	-
	50	**48**	**50**	**48**

28 DUE TO CUSTOMERS

	2008	2007	2008	2007
Private enterprises	144 307	223 848	144 311	223 889
Including due from subsidiaries	*-*	*-*	*4*	*41*
Individuals	13 592	8 526	13 592	8 526
Non-governmental-organizations servicing individuals	118	62	118	62
Financial institutions	1 572	213	1 572	218
Including due from subsidiaries	*-*	*-*	*-*	*5*
Local government	6	2	6	2
	159 595	**232 651**	**159 599**	**232 697**

Deposits which serve as collateral for the following claims:

	2008	2007	2008	2007
Loans and unused credit lines (Note 21, (5) and 47, (1))	2 386	776	2 386	776
Guarantees (Note 36, (2) and 47, (1))	45	445	45	445
Letters of credit (Note 36, (2))	-	32	-	32
	2 431	**1 253**	**2 431**	**1 253**

NOTES TO THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

In thousands of lats

29 DEBT SECURITIES ISSUED

(1) General information

On 1 March 2007 The Bank launched the first mortgage bond issue in the amount of five million euro (3.5 million LVL). It incorporated the issue of 50 000 bonds with the nominal value of 100 euro each. The issue was approved by the decision of the Financial and Capital Market Commission and organised by "SEB Latvijas Unibanka". The maturity date of the mortgage bonds is 1 December 2012. Since 26 October 2007 the bonds have been admitted to listing on the Riga Stock Exchange. By the end of the reporting year the carrying value of securities was 3 520 thousand lats (in 2007: 3 518 thousand lats).

According to the Bank's Mortgage Bonds prospectus interest are paid four times a year, i.e. on 1 March, 1 June, 1 September and 1 December. The interest rate of mortgage bonds consists of 3-month EURIBOR plus 1,4 percentage points. The interest rate for the interest period from 1 December 2008 to 1 March 2009 is 5.25% per annum.

(2) Pledge of the Bank's mortgage bonds

The mortgage loans real estate registered in the Republic of Latvia and other cover legally provided by the Law on Mortgage Bonds that have been issued by the bank have been pledged as collateral for the issued mortgaged bonds by the Bank. The fair value of this real estate by the end of 2008 was 10 083 thousand lats (unaudited, see Note 21, (3)), by the end of 2007 accordingly 9 264 thousand lats. The increase in value of collateral is due to change in composition of collateralized loans, i.e. excluding some loans, which are replaces with other loans, that have higher collateral value. At all time the amount of pledged mortgage loans should be at least 110% of the issued mortgage bond amount. In case of early repayment or default of the mortgage loan that has been pledged as collateral for the mortgage bond, another mortgage loan should be pledged as collateral.

The volume of the mortgage loans pledged as a collateral:

In thousands of lats	The Bank 2008		The Bank 2007	
Maturity of loans	**Volume**	**Number**	**Volume**	**Number**
5-10 years	4 368	39	4 980	44
> 10 years	-	-	32	1
	4 368	**39**	**5 012**	**45**

NOTES TO THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

In thousands of lats

29 DEBT SECURITIES ISSUED (continued)

(2) Pledge of the Bank's mortgage bonds (continued)

Structure of the mortgage loans pledged as collateral by the legal status of borrowers:

In thousands of lats	**The Bank** 2008		**The Bank** 2007	
Borrowers	**Volume**	**Number**	**Volume**	**Number**
Residents companies	745	1	708	1
Resident individuals	3 623	38	4 304	44
	4 368	**39**	**5 012**	**45**

Structure of the mortgage loans pledged as collateral by amount of loans:

	The Bank 2008		**The Bank** 2007	
Amount in lats	**Volume 000'LVL**	**Number**	**Volume 000'LVL**	**Number**
<5 000	5	2	2	1
5 000-25 000	211	15	322	21
25 000-50 000	229	7	208	6
50 000-100 000	242	3	349	4
100 000-500 000	1 967	10	1 814	10
500 000-1 000 000	1 714	2	2 317	3
	4 368	**39**	**5 012**	**45**

NOTES TO THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

In thousands of lats	The Group 2008	The Group 2007	The Bank 2008	The Bank 2007

30 ACCRUED EXPENSES AND DEFERRED INCOME

	The Group 2008	The Group 2007	The Bank 2008	The Bank 2007
Unused holiday and premium pay	362	356	353	351
Deferred income	1	4	1	4
Other accrued expenses	240	351	237	343
	603	**711**	**591**	**698**

31 OTHER LIABILITIES

	The Group 2008	The Group 2007	The Bank 2008	The Bank 2007
Suspense accounts[1]	376	951	376	951
Spot foreign exchange liabilities (Note 26)	244	638	244	638
Unpaid dividends of previous periods[2]	1 767	1 714	1 767	1 714
Other liabilities	575	90	541	57
	2 962	**3 393**	**2 928**	**3 360**

[1] Suspense accounts (cleared after the year end) represent payments received by the Bank where the beneficiary is not clearly identified. After clarification they are credited to customer accounts.

[2] Unpaid dividends of previous periods mostly consist of payments to the estate of S. Tarasenoks also. For details see Note 33.

NOTES TO THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

32 SUBORDINATED LIABILITIES

As of 31 December 2008 the balance of subordinated non-convertible liabilities was 5 172 thousand lats (2007: 1 208 thousand lats) deposited with maturities in 2009, 2010, 2013 and 2015.

List of subordinated liabilities, which exceed 10% from the total subordinated liabilities (according to maturity) as of 31 December 2008:

Name	Currency of contract	Principal 000'LVL	Accrued interest 000'LVL	Date of conclusion	Maturity	Interest %
TEMIRBANK OAO	USD	990	17	01.10.2004	01.12.2009	7.00
TUAREG HOLDINGS S.A.	USD	1 394	14	31.07.2008	31.07.2015	9.4737
TUAREG HOLDINGS S.A.	EUR	470	5	31.07.2008	31.07.2015	9.4737
Other	USD	2 233	49	2002, 2008	2010, 2013, 2015	8.25, 9.00
TOTAL		**5 087**	**85**			

List of subordinated liabilities, which exceed 10% from the total subordinated liabilities (according to maturity) as of 31 December 2007:

Name	Currency of contract	Principal 000'LVL	Accrued interest 000'LVL	Date of conclusion	Maturity	Interest %
TEMIRBANK OAO	USD	968	17	01.10.2004	01.12.2009	7.00
EDGARS PĪGOZNIS	USD	102	9	20.06.2002	21.06.2009	9.25 (FedFund Target likme + 4%)
EDGARS PĪGOZNIS	USD	62	6	20.03.2003	21.03.2010	9.25 (FedFund Target likme + 4%)
Other	USD	40	4	20.03.2003	27.03.2010	9.25 (FedFund Target likme + 4%)
TOTAL		**1 172**	**36**			

Subordinated liabilities (subordinated capital) consist of cash assets, borrowed by the Bank for the period which is not shorter than five years. Conditions that allow demanding pre-term repayment of a loan are regulated in accordance with the regulations for calculating of capital requirements that foresee the right of lenders to demand repayment of a loan before its maturity only in case of a borrower's liquidation. In case of a borrower's liquidation the subordination regulations of subordinated liabilities (loan) determine that the lender's claims are satisfied only after claims of all other borrower's creditors are satisfied, but before satisfying the claims of shareholders of the borrower. Basic provisions for all other subordinated liabilities correspond to the afore-mentioned.

The concluded agreements do not foresee possibility to change subordinated liabilities into investments in equity, or other possible liabilities.

The above mentioned amount of subordinated liabilities is included in excess capital for the purposes of calculation of the capital adequacy ratio (see Note 49).

NOTES TO THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

In thousands of lats

33 SHARE CAPITAL AND RESERVES

(1) Share capital

The Bank's registered and paid-up share capital on 31 December 2008 was 6 337 thousand lats (2007: 6 337 thousand lats). It consisted of 126 742 ordinary shares with a nominal value of 50 lats each (2007: 126 742). The total number of shareholders is 46(2007 43), of which 10 (2007: 11) - corporate and 36 (2007: 32) individuals.

During 2008, no material changes occurred in the composition of shareholding structure.

List of shareholders and mutually related shareholder groups which directly or indirectly control 10% or more of the share capital:

Shareholder	Country	Shareholding 2008		Shareholding 2007	
		%	LVL'000	%	LVL'000
I.Buimisters	Latvia	37.10	2 351	38.97	2 469
The estate of S.Tarasenoks (dec'd)*	Latvia	14.15	896	14.15	896
C&R Invest Ltd	Latvia	13.58	861	13.58	861
C.E.G. Treherne	GB	9.18	582	9.18	582
GCK Holdings Netherlands B.V.	Netherlands	6.80	431	6.80	431
Rikam S.A.H.	Luxembourg	6.79	430	6.79	430
Figon Co Limited	Cyprus	3.16	201	3.16	201

* Owing to the fact that Sergey Tarasenoks has passed away, his shares have been include in the succession mass. According to the decision of Riga Orphan' s Court as of 11 May 2005, case No. 1-6/849 , the sworn lawyer Mara Bekere (p.k. 061176-10302) has been appointed as the trustee of the succession mass which consists of 17 929 shares of JSC "TRASTA KOMERCBANKA".

(2) Reserves

The reserve capital and other reserves of the Bank were created by the decisions of shareholders in prior years. As there are no regulatory requirements for maintaining these reserves, they could be released in future periods based on the decision of shareholders. Reserves balance amount as at the end of the year was 3 804 thousand lats (2007: 3 804 thousand lats).

Foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of foreign subsidiaries.

NOTES TO THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

In thousands of lats

34 THE BANK'S DIVIDEND PER ORDINARY SHARE

In thousands of lats	2008	2007
(1) The amount of dividends, which is not recognised as liabilities, proposed by the the Bank's management for approval at the shareholder meeting		
The amount of dividend recommended by the Management of the Bank	-	3 800
Number of shares entitled to dividends	126 742	126 742
Dividend per share (in thousands of lats)	**-**	**0.030**
The amount of dividend per share (in lats)	**-**	**29.98**

(2) Amount of dividends paid

The amount of dividends paid for the previous period (for years 2007 and 2006)	3 800	5 000

35 THE GROUP'S EARNINGS PER SHARE

	2008	2007
Net profit attributable to equity holders of the Bank	6 292	15 964
Average number of shares	126 742	114 643
Earnings per share (in lats)	**49.64**	**139.25**
Diluted earnings per share (in lats)	**49.64**	**139.25**

There are no dilutive instruments that influence earnings per share.

NOTES TO THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

36 OFF-BALANCE SHEET ITEMS

(1) Classification of Off-Balance Sheet Commitments

In thousands of lats	The Group 2008	The Group 2007	The Bank 2008	The Bank 2007
Contingent liabilities	**260**	**617**	**646**	**617**
including guarantees	*260*	*617*	*646*	*617*
Commitments to clients	**10 685**	**17 040**	**10 794**	**18 480**
including unused credit lines	*2 949*	*12 621*	*3 058*	*14 061*
including letters of credit	*121*	*32*	*121*	*32*
including rent commitments [1]	*7 096*	*4 374*	*7 096*	*4 374*
Including other liabilities [2]	*519*	*13*	*519*	*13*
Total off-balance sheet liabilities	**10 945**	**17 657**	**11 440**	**19 097**
Provisions for off-balance sheet liabilities	(54)	-	(209)	-
	10 891	**17 657**	**11 231**	**19 097**

[1] Analysis of lease agreements according to remaining validity:

In thousands of lats	The Group 2008	The Group 2007	The Bank 2008	The Bank 2007
Up to 1 year	122	109	122	109
From 1 year up to 5 years	-	87	-	87
Over 5 years	6 974	4 178	6 974	4 178
	7 096	**4 374**	**7 096**	**4 374**

[2] Other liabilities are disclosed as the Bank's future liabilities for acquisition of fixed assets and equity securities. In the previous period these liabilities included future costs related to the construction of a residential apartment house in the amount of the unused amount of the agreement (Note 23).

(2) Analysis of collateral of off-balance-sheet liabilities

In thousands of lats	The Group 2008	The Group 2007	The Bank 2008	The Bank 2007
Guarantees	1 067	979	1 067	979
Deposits placed in the Bank (Note 28)	*45*	*445*	*45*	*445*
Commercial collateral (current and fixed assets)	*300*	*354*	*300*	*354*
Commercial real estate	*640*	*180*	*640*	*180*
Apartments, dwelling houses, land	*82*	*-*	*82*	*-*
Letters of credit	-	32	-	32
Deposits placed in the Bank (Note 27 and 28)	*-*	*32*	*-*	*32*
	1 067	**1 011**	**1 067**	**1 011**

NOTES TO THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

In thousands of lats	The Group		The Bank	
	2008	2007	2008	2007

37 ASSETS AND LIABILITIES UNDER MANAGEMENT

This item includes assets and liabilities held by the Bank under its own name on behalf of the clients. The Bank receives fees based on the amounts managed. The amount of these assets and liabilities are not recognized in the balance sheet.

Assets and liabilities under management are composed as follows:

Assets under management

Due from corporate	24 606	9 858	24 606	9 858
Due from other credit institutions registered in other countries	513	-	513	-
Due from individuals	-	148	-	148
	25 119	**10 006**	**25 119**	**10 006**

Customer profile on whose behalf the assets are managed

Credit institutions registered in other countries	23 933	8 131	23 933	8 131
Enterprises	1 186	535	1 186	535
Individuals	-	1 340	-	1 340
	25 119	**10 006**	**25 119**	**10 006**

38 MORTGAGED ASSETS

As of 31 December 2008 and 2007 the Bank had no mortgaged assets, except for those described in Notes 21 and 29.

39 CASH AND CASH EQUIVALENTS

In thousands of lats	The Group		The Bank	
	2008	2007	2008	2007
Due from other credit institutions with a maturity of less than 3 months from the date of acquisition	47 562	150 832	47 562	150 832
Cash and balances due from the Bank of Latvia	19 235	17 993	19 235	17 993
Due to other credit institutions with a maturity of less than 3 months from the date of acquisition	(10 512)	(5 350)	(10 512)	(5 350)
	56 285	**163 475**	**56 285**	**163 475**

NOTES TO THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

In thousands of lats

40 THE GROUP'S AND BANK'S TRANSACTIONS WITH RELATED PARTIES

Related parties are defined as shareholders of the Bank who have a significant influence in the Bank, as well as their spouses, parents and children, the Bank's subsidiaries, chairpersons and members of the council and management board, internal service manager and members and other employees of the Bank, who are authorized to perform planning, management and control activities on behalf of the Bank, or are in charge of these activities, as well as their spouses, parents, children and companies in which the above-mentioned persons have a controlling interest.

The Bank has offered standard services to related parties, such as the settlement of accounts, the purchase and sale of securities, securities management on behalf of clients, and brokerage etc. These transactions are mostly conducted on normal business terms.

(1) Presented below are the Group's transactions with related parties

In thousands of lats	2008				2007			
	Share-holders	Other related parties[1]	Council and board	Total	Share-holders	Other related parties[1]	Council and board	Total
Assets								
Loans	628	1 012	151	**1 791**	827	2 153	188	**3 168**
Allowance for loans	-	*(35)*	-	***(35)***	-	*(17)*	-	***(17)***
Loans, net	628	977	151	**1 756**	827	2 136	188	**3 151**
Liabilities								
Deposits	40	436	258	**734**	83	190	427	**700**
Off-balance sheet liabilities								
Unused credit lines	10	11	16	**37**	10	12	15	**37**
Profit and loss statement								
Interest income	48	66	11	**125**	52	40	9	**101**
Fee and commission income	1	13	3	**17**	-	2	2	**4**
Interest expense	(6)	(8)	(10)	**(24)**	(10)	(6)	(16)	**(32)**
Other expenses	(15)	(54)	(57)	**(126)**	(13)	(154)	(48)	**(215)**

[1] Other related parties are spouses, children of the shareholders and council and board members and companies in which they have a controlling interest.

NOTES TO THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

In thousands of lats

40 THE GROUP'S AND BANK'S TRANSACTIONS WITH RELATED PARTIES (continued)

(2) Presented below are the Bank's transactions with related parties

In thousands of lats	2008					2007				
	Share-holders	Subsi-diaries	Other related parties[2]	Council and board	Total	Share-holders	Subsi-diaries	Other related parties[2]	Council and board	Total
Assets										
Loans	488	5 695	940	106	**7 229**	827	6 624	2 153	114	**9 718**
Allowance for loans	-	-	*(35)*	-	***(35)***	-	*(5)*	*(17)*	-	***(22)***
Loans, net	488	5 695	905	106	**7 194**	827	6 619	2 136	114	**9 696**
Liabilities										
Deposits	40	5	436	258	**739**	83	46	199	427	**755**
Off-balance sheet liabilities										
Unused credit lines	10	134	11	16	**171**	10	1 440	12	15	**1 477**
Profit and loss statement										
Interest income	44	219	62	7	**332**	52	160	40	7	**259**
Fee and commission income	1	1	13	3	**18**	-	-	2	1	**3**
Interest expense	(6)	(1)	(8)	(10)	**(25)**	(10)	-	(6)	(16)	**(32)**
Release of allowance, net	-	5	-	-	**5**	-	34	-	-	**34**
Other expenses	(15)	(142)	(54)	(57)	**(268)**	(13)	(210)	(154)	(48)	**(425)**

[2] Other related parties are spouses, children of the shareholders and council and board members and companies in which they have a controlling interest.

(3) The Bank's related parties' loan collateral analysis

In thousands of lats	2008	2007
Securities	43	-
Apartments, dwelling houses, land	1 216	237
Commercial real estate	1 265	1 661
Commercial collateral (current and fixed assets)	182	66
	2 706	**1 964**

In thousands of lats

41 THE BANK'S ASSETS, LIABILITIES AND OFF-BALANCE SHEET ITEMS

The financial assets and liabilities of each subsidiary of the Bank are managed individually by the Bank management. Therefore the table given below contains a summary of the Bank's assets, liabilities and off-balance items arranged by categories. The arrangement of the assets, liabilities and off-balance items of the Group by categories does not differ materially from the arrangement of the Bank's assets, liabilities and off-balance items by categories.

(1) Arrangement of Assets by Categories

	CLASSIFICATION OF FINANCIAL ASSETS				
	Held for trading financial assets	Available for sale financial assets	Loans and receivables	Other	Total
ASSETS			**2008**		
Cash and balances due from the Bank of Latvia	-	-	17 886	1 349	19 235
Due from credit institutions with a maturity of less than 3 months	-	-	47 562	-	47 562
Held for trading financial assets	2 410	-	-	-	2 410
Available for sale financial assets	-	255	-	-	255
Due from credit institutions with a maturity of more than 3 months	-	-	8 755	-	8 755
Loans	-	-	118 731	-	118 731
Accrued income and deferred expenses	-	-	-	133	133
Long-term projects costs	-	-	-	2 282	2 282
Tangible assets	-	-	-	3 932	3 932
Intangible assets	-	-	-	222	222
Investments in share capital of subsidiary	-	-	-	52	52
Corporate income tax assets	-	-	-	668	668
Deferred tax assets	-	-	-	14	14
Other assets	247	-	905	507	1 659
Assets of disposal group classified as held for sale	-	-	-	11 225	11 225
Total assets as at 31 December 2008	**2 657**	**255**	**193 839**	**20 384**	**217 135**
ASSETS			**2007**		
Cash and balances due from the Bank of Latvia	-	-	17 168	825	17 993
Due from credit institutions with a maturity of less than 3 months	-	-	150 832	-	150 832
Held for trading financial assets	8 345	-	-	-	8 345
Available for sale financial assets	-	6 257	-	-	6 257
Due from credit institutions with a maturity over than 3 months	-	-	6 432	-	6 432
Loans	-	-	92 290	-	92 290
Accrued income and deferred expenses	-	-	-	257	257
Long-term projects costs	-	-	-	2 217	2 217
Tangible assets	-	-	-	2 142	2 142
Intangible assets	-	-	-	205	205
Investments in share capital of subsidiary	-	-	-	2	2
Deferred tax assets	-	-	-	25	25
Other assets	340	-	2 774	16	3 130
Total assets as at 31 December 2007	**8 685**	**6 257**	**269 496**	**5 689**	**290 127**

NOTES TO THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

In thousands of lats

41 THE BANK'S ASSETS, LIABILITIES AND OFF-BALANCE SHEET ITEMS (continued)

(2) Arrangement of Liabilities and Off-Balance Liabilities by Categories

	CLASSIFICATION OF FINANCIAL LIABILITIES			
	Held for trading financial liabilities	Financial liabilities at amortized cost	Other	Total
LIABILITIES		**2008**		
Due to credit institutions	-	10 562	-	10 562
Held for trading financial liabilities	-	-	-	-
Due to customers	-	159 599	-	159 599
Debt securities issued	-	3 520	-	3 520
Accrued expenses and deferred income	-	-	591	591
Provisions for contingent liabilities	-	-	209	209
Corporate income tax liabilities	-	-	5	5
Subordinated liabilities	-	5 172	-	5 172
Other liabilities	244	2 143	541	2 928
Liabilities as at 31 December 2008	**244**	**180 996**	**1 346**	**182 586**
OFF-BALANCE SHEET ITEMS				
Contingent liabilities	-	-	646	646
Commitments to clients	-	-	10 794	10 794
Total off-balance sheet liabilities as at 31 December 2008	**-**	**-**	**11 440**	**11 440**
LIABILITIES		**2007**		
Due to credit institutions	-	16 561	-	16 561
Held for trading financial liabilities	2	-	-	2
Due to customers	-	232 697	-	232 697
Debt securities issued	-	3 518	-	3 518
Accrued expenses and deferred income	-	-	698	698
Provisions for contingent liabilities	-	-	-	-
Corporate income tax liabilities	-	-	766	766
Deferred tax liabilities	-	-	-	-
Subordinated liabilities	-	1 208	-	1 208
Other liabilities	638	2 665	57	3 360
Liabilities as at 31 December 2007	**640**	**256 649**	**1 521**	**258 810**
OFF-BALANCE SHEET ITEMS				
Contingent liabilities	-	-	617	617
Commitments to clients	-	-	18 480	18 480
Total off-balance sheet liabilities as at 31 December 2007	**-**	**-**	**19 097**	**19 097**

NOTES TO THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

In thousands of lats

42 FAIR VALUE OF THE BANK'S FINANCIAL ASSETS AND LIABILITIES

(1) Comparison of the Bank's financial assets and liabilities accounting value to the fair value

The fair value of the financial assets and liabilities of each subsidiary company of the Bank is assessed individually by the Bank management. Therefore the table given below contains a comparison of the fair value of the Bank's financial assets and liabilities to their accounting value. An assessment of the Group does not differ materially from that of the Bank.

The principles for determining the fair value are described in Note 2 to this Annual Report.

	2008			2007		
	Carrying value	Fairvalue	Difference	Carrying value	Fair value	Difference
ASSETS						
Cash and balances due from the Bank of Latvia	17 886	17 886	-	17 168	17 168	-
Due from credit institutions with a maturity of less than 3 months	47 562	47 562	-	150 832	150 832	-
Held for trading financial assets	2 410	2 410	-	8 345	8 345	-
Available for sale financial assets	255	255	-	6 257	6 257	-
Due from credit institutions with a maturity of more than 3 months	8 755	8 755	-	6 432	6 432	-
Loans	118 731	118 584	147	92 290	91 615	675
Other assets	1 152	1 152	-	3 114	3 114	-
Total financial assets	**196 751**	**196 604**	**147**	**284 438**	**283 763**	**675**
LIABILITIES						
Due to credit institutions	10 562	10 562	-	16 561	16 561	-
Held for trading financial liabilities	-	-	-	2	2	-
Due to customers	159 599	159 588	11	232 697	232 667	30
Debt securities issued	3 520	3 570	(50)	3 518	3 534	(16)
Subordinated liabilities	5 172	5 197	(25)	1 208	1 251	(43)
Other liabilities	2 387	2 387	-	3 303	3 303	-
Total financial liabilities	**181 240**	**181 304**	**(64)**	**257 289**	**257 318**	**(29)**
OFF-BALANCE SHEET ITEMS						
Contingent liabilities	646	646	-	617	617	-
Commitments to clients	10 794	10 794	-	18 480	18 480	-
Total off-balance sheet financial liabilities	**11 440**	**11 440**	**-**	**19 097**	**19 097**	**-**

It is assumed that the accounting value of financial assets and liabilities with liquidity or a short period of maturity is approximated to their fair value. This assumption is also used for demand deposits, savings accounts without time limitation and financial instruments with variable rates.

NOTES TO THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

In thousands of lats

42 FAIR VALUE OF THE BANK'S FINANCIAL ASSETS AND LIABILITIES (continued)

(2) Analysis of the methods used to determine the fair value of the Bank's financial assets and liabilities

The fair value of the financial assets and liabilities of each subsidiary company of the Bank is assessed individually by the Bank management. Therefore the table given below contains an analysis of the methods used to determine the fair value of the Bank's financial assets and liabilities. An assessment of the Group does not differ materially from that of the Bank.

The principles for determining the fair value are described in Note 2 to this Annual Report.

	2008				2007			
	Quoted market price	Valuation techniques – market observable inputs [1]	Valuation techniques – market unobservable inputs [2]	Total	Quoted market price	Valuation techniques – market observable inputs	Valuation techniques – market unobservable inputs	Total
ASSETS								
Cash and balances due from the Bank of Latvia	-	17 886	-	**17 886**	-	17 168	-	**17 168**
Due from credit institutions with a maturity of less than 3 months	-	47 562	-	**47 562**	-	150 832	-	**150 832**
Held for trading financial assets	2 410	-	-	**2 410**	8 345	-	-	**8 345**
Available for sale financial assets	206	-	49	**255**	6 192	65	-	**6 257**
Due from credit institutions with a maturity of more than 3 months	-	8 755	-	**8 755**	-	6 432	-	**6 432**
Loans	-	-	118 731	**118 731**	-	-	92 290	**92 290**
Other assets	-	247	905	**1 152**	-	340	2 774	**3 114**
Total financial assets	**2 616**	**74 450**	**119 685**	**196 751**	**14 537**	**174 837**	**95 064**	**284 438**
LIABILITIES								
Due to credit institutions	-	10 562	-	**10 562**	-	16 561	-	**16 561**
Held for trading financial liabilities	-	-	-	**-**	-	2	-	**2**
Due to customers	-	-	159 599	**159 599**	-	-	232 697	**232 697**
Debt securities issued	-	-	3 520	**3 520**	-	-	3 518	**3 518**
Subordinated liabilities	-	-	5 172	**5 172**	-	-	1 208	**1 208**
Other liabilities	-	244	2 143	**2 387**	-	638	2 665	**3 303**
Total financial liabilities	**-**	**10 806**	**170 434**	**181 240**	**-**	**17 201**	**240 088**	**257 289**
OFF-BALANCE SHEET ITEMS								
Contingent liabilities	-	-	646	**646**	-	617	-	**617**
Commitments to clients	-	-	10 794	**10 794**	-	14 093	4 387	**18 480**
Total off-balance sheet financial liabilities	**-**	**-**	**11 440**	**11 440**	**-**	**14 710**	**4 387**	**19 097**

[1] Valuation techniques, which apply base interest rates (e.g. LIBOR) and foreign exchange rates, are deemed to be observable market data.

[2] Valuation techniques, which apply the discount rates that are used in transactions which in substance have similar features (amount, term, customer type) are deemed to be not observable the market data.

NOTES TO THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

In thousands of lats

43 THE BANK'S GEOGRAPHICAL ANALYSIS OF ASSETS, LIABILITIES AND OFF-BALANCE SHEET ITEMS

The management of the Bank manages risk separately for each Bank's subsidiary. Therefore the below table summarizes the Bank's geographical analysis. The Group's geographical analysis is not materially different from Bank's geographical analysis.

31 December 2008	Latvia	EU	USA	Russia	Ukraine	Other countries	Total
ASSETS							
Cash and balances due from the Bank of Latvia	19 235	-	-	-	-	-	19 235
Due from credit institutions with a maturity of less than 3 months	14 866	21 395	-	3 804	73	7 424	47 562
Held for trading financial assets	22	107	-	1 145	109	1 027	2 410
Available for sale financial assets	206	49	-	-	-	-	255
Due from credit institutions with a maturity of more than 3 months	-	-	-	-	8 755	-	8 755
Loans	67 009	23 067	290	1 305	17 389	9 671	118 731
Accrued income and deferred expenses	96	34	2	-	-	1	133
Long-term projects costs	2 282	-	-	-	-	-	2 282
Tangible assets	3 932	-	-	-	-	-	3 932
Intangible assets	222	-	-	-	-	-	222
Investments in share capital of subsidiary	52	-	-	-	-	-	52
Corporate income tax assets	668	-	-	-	-	-	668
Deferred tax assets	14	-	-	-	-	-	14
Other assets	690	774	-	-	26	169	1 659
Assets of disposal group classified as held for sale	-	-	-	-	11 225	-	11 225
Total assets	**109 294**	**45 426**	**292**	**6 254**	**37 577**	**18 292**	**217 135**
LIABILITIES							
Due to credit institutions	7 219	760	-	661	1 085	837	10 562
Due to customers	13 836	51 052	3 085	6 817	753	84 056 [1]	159 599
Debt securities issued	3 520	-	-	-	-	-	3 520
Accrued expenses and deferred income	554	37	-	-	-	-	591
Provisions for contingent liabilities	209	-	-	-	-	-	209
Corporate income tax liabilities	-	5	-	-	-	-	5
Subordinated liabilities	931	-	-	1 339	-	2 902	5 172
Other liabilities	2 612	57	-	17	13	229	2 928
Total liabilities	**28 881**	**51 911**	**3 085**	**8 834**	**1 851**	**88 024**	**182 586**
OFF-BALANCE SHEET COMMITMENTS							
Contingent liabilities	601	45	-	-	-	-	646
Commitments to clients	10 319	177	67	54	-	177	10 794
Total off-balance sheet commitments	**10 920**	**222**	**67**	**54**	**-**	**177**	**11 440**
Net position as at 31 December 2008	**69 493**	**(6 707)**	**(2 860)**	**(2 634)**	**35 726**	**(69 909)**	**23 109**

[1] This balance sheet item includes customer deposits whose registration country is the British Virgin Islands, Republic of Panama, New Zealand, Belize, Panama, Marshall Islands and other similar countries.

NOTES TO THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

In thousands of lats

43 THE BANK'S GEOGRAPHICAL ANALYSIS OF ASSETS, LIABILITIES AND OFF-BALANCE SHEET ITEMS (continued)

31 December 2007	Latvia	EU	USA	Russia	Ukraine	Other countries	Total
ASSETS							
Cash and balances due from the Bank of Latvia	17 993	-	-	-	-	-	17 993
Due from credit institutions with a maturity of less than 3 months	21 250	94 456	-	10 855	7 535	16 736	150 832
Held for trading financial assets	58	164	175	4 947	238	2 763	8 345
Available for sale financial assets	500	4 745	15	-	-	997	6 257
Due from credit institutions with a maturity of more than 3 months	484	704	-	662	4 508	74	6 432
Loans	66 180	10 856	244	101	12 154	2 755	92 290
Accrued income and deferred expenses	99	33	2	102	5	16	257
Long-term projects costs	2 217	-	-	-	-	-	2 217
Tangible assets	2 142	-	-	-	-	-	2 142
Intangible assets	205	-	-	-	-	-	205
Investments in share capital of subsidiary	2	-	-	-	-	-	2
Deferred tax assets	25	-	-	-	-	-	25
Other assets	458	2 615	-	16	8	33	3 130
Total assets	**111 613**	**113 573**	**436**	**16 683**	**24 448**	**23 374**	**290 127**
LIABILITIES							
Due to credit institutions	1 312	11 579	-	4	3 649	17	16 561
Held for trading financial liabilities	-	-	2	-	-	-	2
Due to customers	8 684	76 029	12 314	3 227	493	131 950[1]	232 697
Debt securities issued	3 518	-	-	-	-	-	3 518
Accrued expenses and deferred income	519	98	8	1	60	12	698
Corporate income tax liabilities	766	-	-	-	-	-	766
Subordinated liabilities	223	-	-	-	-	985	1 208
Other liabilities	2 214	138	-	54	1	953	3 360
Total liabilities	**17 236**	**87 844**	**12 324**	**3 286**	**4 203**	**133 917**	**258 810**
OFF-BALANCE SHEET COMMITMENTS							
Contingent liabilities	185	371	-	-	28	33	617
Commitments to clients	16 545	25	42	40	456	1 372	18 480
Total off-balance sheet commitments	**16 730**	**396**	**42**	**40**	**484**	**1 405**	**19 097**
Net position as at 31 December 2007	**77 647**	**25 333**	**(11 930)**	**13 357**	**19 761**	**(111 948)**	**12 220**

[1] This balance sheet item includes customer deposits whose registration country is the British Virgin Islands, Republic of Panama, Belize, New Zealand, Marshall Islands and other similar countries.

NOTES TO THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

In thousands of lats

44 ANALYSIS OF SEGMENTS

The following analysis of segments is based on the Group's and the Bank's internal reporting forms.

(1) Balance sheet

	The Group		The Bank	
Cash	31.12.2008	31.12.2007	31.12.2008	31.12.2007
Balance from credit institutions	19 235	17 993	19 235	17 993
Loans and receivables	56 270	157 090	56 270	157 669
Latvian state fixed income securities	122 325	92 942	122 844	93 526
Other state fixed income securities	2 086	11 809	2 086	11 809
Shares and other investments	408	2 445	11 685	2 446
Fixed assets and intangible assets	12 056	4 571	6 437	4 493
Other assets	92 819	5 012	3 700	4 960
Total assets	**305 199**	**291 862**	**222 257**	**292 896**
Balances due to banks	10 561	16 643	10 561	21 694
Deposits	159 441	232 575	159 445	227 768
Issued bonds	2 802	2 798	3 504	3 501
Other liabilities	83 266	5 673	4 121	4 535
Impairment and accrued liabilities	5 020	1 582	4 991	2 619
Equity	44 109	32 591	39 635	32 779
Total equity and liabilities	**305 199**	**291 862**	**222 257**	**292 896**
Total assets per internal reporting	**305 199**	**291 862**	**222 257**	**292 896**
Reconciling items:				
Impairment[1]	*(4 963)*	*(1 581)*	*(4 778)*	*(1 472)*
Other reconciling items[2]	*(21 320)*	*(781)*	*(344)*	*(1 297)*
Total assets per IFRS statements	**278 916**	**289 500**	**217 135**	**290 127**
Total liabilities per internal reporting	**261 090**	**259 271**	**182 622**	**260 117**
Reconciling items:				
Impairment[1]	*(4 963)*	*(1 581)*	*(4 778)*	*(1 472)*
Subordinated liabilities[3]	*5 086*	*1 208*	*5 086*	*1 208*
Other reconciling items[2]	*(15 645)*	*(781)*	*(344)*	*(1 043)*
Total liabilities per IFRS statements	**245 568**	**258 117**	**182 586**	**258 810**

[1] For internal reporting purposes impairment is shown as a liability and not netted with related assets.

[2] Other reconciling items mostly represent cut-off and classification required by IFRS.

[3] For internal reporting purposes subordinated liabilities are classified as equity.

NOTES TO THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

In thousands of lats

44 ANALYSIS OF SEGMENTS

The following analysis of segments is based on the Group's and the Bank's internal reporting forms.

(2) Profit and loss statement

	The Group		The Bank	
	2008	2007	2008	2007
Interest revenue	15 738	16 059	15 536	15 902
Commission revenue	8 227	6 784	8 187	6 657
Profit from trading	2 381	8 779	2 383	8 727
Impairment	103	119	63	167
Other income	675	490	655	427
Total revenues	**27 124**	**32 231**	**26 824**	**31 880**
Interest expenses	2 901	1 939	2 946	2 049
Commission expenses	1 415	1 780	1 415	1 821
Administration expenses[1]	9 425	9 444	9 326	8 661
Tax expenses	2 397	2 798	2 365	3 178
Impairment	3 480	163	3 517	111
Other	141	138	126	22
Total expenses	**19 759**	**16 262**	**19 695**	**15 842**
Profit	**7 365**	**15 969**	**7 129**	**16 038**
Total revenues per internal reporting	**23 965**	**22 843**	**23 723**	**22 559**
Reconciling item[2]	-	-	-	96
Total revenues per IFRS statements	**23 965**	**22 843**	**23 723**	**22 655**

[1] The Bank's administration expenses include depreciation charge in the amount of 521 thousand lats (2007: 472 thousand lats). The Group's administration expenses accordingly include depreciation charge in the amount of 525 thousand lats (2007: 475 thousand lats).

[2] Reconciling item is mainly due to cut-off, as well as nominal interest rate accounting used for internal reporting purposes in contrast to effective interest rate accounting used for IFRS compliant financial statements.

Revenue split by location of the customer

	The Group				The Bank			
	2008		2007		2008		2007	
	Latvian residents	Latvian non-residents	Latvian residents	Latvian non-residents	Latvian residents	Latvian non-residents	Latvian residents	Latvian non-residents
Interest revenue	7 230	8 592 [1]	5 557	10 706	7 041	8 541	5 381	10 678
Commission revenue	290	7 853 [2]	274	6 306	287	7 854	271	6 306
Kopā ienākumi	**7 520**	**16 445**	**5 831**	**17 012**	**7 328**	**16 395**	**5 652**	**16 984**

All non-current assets other than financial instruments are located in Latvia. Additions to non-current assets during year 2008 amounted to LVL 2 393 thousand (2007: LVL 1 415 thousand).

[1] This balance sheet item includes interest income whose was received from the USA, Cyprus, Bulgaria, Austria, United Kingdom and other countries (2007: the same).

[2] This balance sheet item includes commission income whose was received from the United Kingdom, British Virgin Islands, New Zealand, Republic of Panama and other countries (2007: the United Kingdom, British Virgin Islands, Republic of Panama, USA and other countries).

NOTES TO THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

45 RISK CONTROL AND MANAGEMENT

As the amount of transactions at the Group's level was insignificant, the Bank performs management of the relevant risks individually, except credit risk which is managed at the Group's level. The same procedures that are described below are used for risk management at the Group's level.

(1) General principles

In order to manage risks and comply with regulations concerning performance indicators of the Bank activities - capital adequacy, liquidity, foreign currency positions and risk control and administration of Bank transactions, there are certain policies approved by the Bank. These include Risk Management Policy and other policies, Capital Adequacy Assessment Policy, Liquidity Management Policy, Foreign Currency Risk Management Policy, State Risk Management Policy, Lending Policy, Trading Portfolio Policy other others, which the Bank Council and Board have been approved. These policies are developed according to the Strategic Plan of the Bank and they are regularly updated taking account of the development of the market and Bank activities.

These policies define the principles according to which the Bank defines:

- ✓ general guidelines which govern the Bank in its activities in order to minimise all kinds of risks which may result in losses ;
- ✓ classification of risk transactions and other risks to which the Bank is exposed in its operating activities;
- ✓ general day-to-day control and administration of risks of the Bank.

The main purpose of the Risk Management Policy of the Bank is to describe and determine an aggregate of means with help of which the Bank would be able to ultimately minimise any probability of incurring losses in situations where the funds deposited by the Bank or the funds that are due to the Bank are not paid on time and in the full amount, or the Bank incurs losses of another kind.

The Risk Management Policy of the Bank is implemented by the Bank Council, Board, Asset-Liability Assessment Committee (hereinafter – ALCO), Loan Committee, Loan Assessment Committee and respective Bank subdivisions controlling risk transactions.

The Council provides general management of the Bank ensuring achievement of goals and targets set in the Articles of Association. To exercise control over the risk management system of the Bank, the Council approves internal risk management policies, ensures compliance with such policies, their efficiency analysis and improvement.

The Board provides day-to-day management of the Bank ensuring compliance with internal documents which set out risk management procedures and requirements, distribution of powers and responsibilities among subdivisions and elaboration, approval and submission of risk management reports. The Board ensures identification and management of operational risks.

ALCO Committee determines the asset-liability structure of the Bank, sets and monitors parametres controlling balance and off-balance sheet positions - limits for positions of assets and liabilities; where necessary, it sets the volume of special provisions for doubtful loans, save for the portfolio of commercial loans where reserves are set by the Loan Committee; ensures the Bank’s ability to fulfill its current financial liabilities, takes charge of long-term liquidity of the Bank by forming a balanced asset-liability term-structure; takes care of ensuring the Bank contingent activities with financial resources; analyses, assesses and controls risks of the Bank on a regular basis; elaborates and revises regularly limits restricting risks of the Bank; keeps track of compliance with these limits; determines assets/liabilities portfolios of the Bank (commercial loans, interbank loans, securities and others) and their limits; determines administrators of portfolios and guidelines of administration; defines and conducts correspondent banking policy of the Bank; at least once a quarter provides assessment of correspondent banks and state of correspondent accounts.

NOTES TO THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

45 RISK CONTROL AND MANAGEMENT (continued)

(1) General principles (continued)

Loan Committee is in charge of elaboration of the Bank Lending Policy; formation of the loan portfolio and its management within the framework of the Lending Policy; considers loan applications and guarantee requests; takes decisions on lending terms and conditions and interest rates of loans to be granted; on a regular basis (at least once a month) inspects the quality of loan portfolio.

Loan Assessment Committee develops certain procedures in order to timely identify impairment of loan quality, ie. main criteria for assessment and classification; revises procedures in place on a regular basis and, where necessary, amend the same regularly but no less than once a quarter, provides assessment of loan quality of the Bank and classification according to the respective risk degree and based on the assessment and classification criteria.

(2) Capital Adequacy Assessment Process

For the purpose of capital adequacy assessment and in accordance with its capital adequacy maintenance strategy the Bank has defined that capital is an aggregate of elements of capital, reserves and liabilities which are freely available to the Bank to cover contingent, yet not identified, losses related to risks of ordinary activities. To assess capital adequacy the Bank applies the "First Pillar+" approach using as a basis regulatory minimum capital requirements and including the following risks and assessment methods:

- ✓ for credit risk capital requirements – *standardised approach;*
- ✓ for market risk capital requirements - *standardised approach;*
- ✓ for operational risk capital requirements – *key figure approach.*

To ensure capital adequacy the Bank provides for the following capital increment sources:

- ✓ increase of capital through share issue;
- ✓ attraction of subordinated capital;
- ✓ formation of operation development reserves from profit of the Bank;
- ✓ retained earnings from the previous year;
- ✓ audited profit of the current year (by permission of the Financial and Capital Market Commission).

The Bank has prepared a contingency plan to maintain its capital adequacy in case of threat for the capital adequacy ratio to fall under the established standard. In addition to the above described capital increasing sources, the plan foresees:

- ✓ improvement of asset quality;
- ✓ asset restructuring for the purpose of minimising the share of risk group assets;
- ✓ application of Tier 3 capital elements (by permission of the Financial and Capital Market Commission).

The ratio of the Bank's value of shareholder equity to its weighted assets and off-balance sheet liabilities is managed so as not to fall below 8%. The analysis of the actual figure is provided in the table below:

	2008	2007
	%	%
31 December	17.70	15.73
Average for the period	13.04	12.04
Highest level	17.61	15.73
Lowest level	10.22	9.46

NOTES TO THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

45 RISK CONTROL AND MANAGEMENT (continued)

(3) Credit Risk

Credit risks – is a risk of incurring losses if a borrower (debtor of the Bank) may not fulfill or refuse to fulfill its liabilities to the Bank according to the terms and conditions of the agreement.

The Bank provides assessment of its loan quality on a regular basis which allows timely identification of contingent losses and operational risks if the loan quality impairs. The loans granted by the Bank and its subsidiaries are regularly supervised and assessed in order to minimise the amount of maximum losses that the Bank and its subsidiaries may incur in transactions with domestic and foreign customers.

The Bank Lending Policy specifies general guidelines according to which the Bank provides lending services. It defines the general procedure for issue of loans and guarantees and loan repayment; the procedure for control and supervision of risk transactions; classification of credit portfolio and procedure for implementation of security measures in case of potential losses.

Creating its Loan Portfolio, the Bank controls concentration of risks and complies with the restrictions of maximum volume. In order to minimise exposure to credit risks and prevent concentration of credit means the Bank manages diversification of its loan portfolio by countries, industries and loan types, and set limits for transactions per one customer or counterparty.

In order to meet the limits set by the Bank State Risk Management Policy, the Bank provides daily and monthly reviews of these limits. The limits for transaction partners and types of transactions are determined by evaluating state risks and risks of transaction partners.

(4) Liquidity risk

Liquidity risk – a risk that the Bank may not be able on a daily basis and/or in the future to fulfill timely obligations in regard to legally sound claims without suffering substantial losses, and may not surmount unplanned changes in Bank resources and/or market conditions due to insufficient volume of liquid assets.

The Bank Liquidity Risk Management Policy specifies general guidelines according to which the Bank determines its asset-liability structure and their quality, internal limits for liquidity net positions of asset-liability term-structure and liquidity net positions in lats, dollars and euros separately; procedure and frequency for assessment of term-structure; internal limits for maximum amount of deposits which can be attracted from one customer (mutually related customer groups); measures in case of non-compliance with the internal limits and contingency plan to surmount a crisis.

The Bank monitors its liquidity in both short and long-term positions, bearing in mind the regulations on liquidity requirements for credit institutions set by FCMC. The Bank maintains a high level of internal liquidity (liquidity reserve) on a daily basis by attracting additional resources from outside in order to remove any doubts as to liquidity of the Bank on the part of its customers and the market and to prevent any excess losses. To ensure sufficient liquidity, the Bank provides regular assessment and control of asset-liability term-structure. The Bank maintains liquid assets in the amount which is sufficient to fulfill its liabilities but not less than 30% of the total amount of its current liabilities (liquidity ratio). The actual liquidity ratio for the reporting period is presented in the table below:

	2008	2007
	%	%
31 December	42.43	69.28
Average for the period	51.56	71.83
Highest level	69.23	84.87
Lowest level	34.06	61.06

NOTES TO THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

45 RISK CONTROL AND MANAGEMENT (continued)

(4) Liquidity risk (continued)

A liquidity crisis in the Bank's understanding occurs when the daily liquidity ratio becomes less than 35%. In this event the Bank takes a number of measures in order to increase the liquidity indicators. Such measures include the following:

Optimization of the Bank's loan portfolio,

✓ reduction in the loan portfolio – negotiations with a preliminarily determined group of customers (*loyal customers*), to inquire about the possibility of premature repayment of loans;
✓ monitoring of unused credit lines – all the credit lines which have not been used protractedly are view as subject to probable reduction;
✓ re-crediting of a part of the loan portfolio in other financial institutions (loan residents – in commercial banks of Latvia, non-residents – in banks of their residence countries).

Management of the liquidity portfolio (in the current market situation the Bank considers that a liquidity portfolio is the highly-liquid part of the interbank loan portfolio and securities trade portfolio),

✓ Reduction in the Interbank loan portfolio with the term which is not longer than 1 week;
✓ Repo transactions;
✓ Realisation of portfolio;

Management of fixed assets, assessment of fixed assets for the purpose of further realistion;

Attraction of shareholder support, considering of the question about a possible support from shareholders (increasing of subordinated capital and equity capital and other options);

Increasing of customer basis by means of term deposits,

✓ Attraction of term deposits offering interest rates which exceed the market rates (*loyal customers*);
✓ Attraction of subordinated capital (*loyal customers*);

Increasing of customer basis with deposits on demand,

✓ Attraction of news customer through representative offices and subsidiaries;
✓ Increasing of residents' balances (negotiations of TKB with customers).

Attraction of additional funding,

✓ Receiving of approved lines from partner - banks;
✓ Receiving of different loans from banks, including syndicated, club, etc.;
✓ Issuing of mortgage bonds, other long-term and medium-term financial instruments;
Finding of funding in the Bank of Latvia, international organisations and domestic financial organisations against the collateral of loan portfolio.

45 RISK CONTROL AND MANAGEMENT (continued)

(5) Market risk

Market risk – is a risk to incur losses due to revaluation of balance sheet and off-balance sheet items which is related to changes of market prices of financial instruments, including derivatives, caused by fluctuation of currency rates and interest rates.

Currency risk is a risk to incur losses due to revaluation of balance and off-balance sheet items denominated in foreign currency when currency exchange rates change. The Bank Currency Risk Management Policy specifies general guidelines which govern the Bank in formation of its currency asset-liability structure; in general daily control and management of currency risks of the Bank and in defining its safeguard mechanism against contingent currency risks.

To ensure control of currency risks the Bank defines limits for the currency risk to which it can be exposed and keeps track whether its assets are in a balanced position in relation to liabilities in the respective currencies (ie., the Bank maintains as minimal as possible its currency positions and the total currency position). To control its currency exposure the Bank determines restrictions for positions of each foreign currency and of the total open position and their relation against the equity capital and various types of limits. As a result the Bank ensures that it complies with the required standards. According to the Law on Credit Institutions the total open position in foreign currencies cannot exceed 20% of equity capital. The analysis of the total open position in foreign currencies of the Bank is presented in the table below:

	2008	2007
	%	%
31 December	13.85	14.19
Average for the period	8.76	6.98
Highest level	1.62	2.84
Lowest level	16.93	17.36

Interest rate risk is a risk that market changes of interest rates may affect financial standing of the Bank. The day-to-day activity of the Bank is related to interest rate exposure which is affected by maturity dates of the assets, liabilities and off-balance sheet items that are related to interest income and expenses and interest rate revision dates. The Bank Interest Rate Risk Management Policy defines the interest rate risk measurement methodology which covers the main sources of interest rate exposures and allows assessing the impact of interest rate exposure on earnings of the Bank and its economic value; internal limits of interest rate risk and measures to be taken in case of noncompliance with these limits; procedure for stress testing and its frequency, including assumptions of possible development scenarios and conditions in which the Bank may incur substantial losses due to interest rate exposure (if the losses thereof exceeds 20% of equity capital), and assumptions and feasible plan of actions.

The Bank provides thorough assessment of these risks. Their long-term assessment includes preparation of annual budgets but short-term assessment is provided through regular asset-liability diversification and revision of interest rates. To measure the exposure to interest rate risk the Bank applies spread analysis method. This method sets the net position of interest rate risk as a spread between assets, liabilities and off-balance sheet items which are interest rate sensitive according to their remaining maturities.

As a part of implementation of the Trade Portfolio Policy, the Bank values assets in the trading portfolio on a daily basis. Thus, it allows increased efficiency for the short-term investments of the Bank.

NOTES TO THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

45 RISK CONTROL AND MANAGEMENT (continued)

(6) Operational risk

Operational risk – a risk is a possibility to incur losses due to irrelevant or incomplete fulfillment of internal processes, human actions or system functioning or due to the influence of external circumstances, including legal risk, except for strategic or reputation risks. The Operational Risk Management Policy sets operational risk management objectives; definition of operational risk that is intended for internal use and that corresponds to the application and experience of the Bank; the key processes and priorities of the operational risk management; approach that is to be applied to identification, assessment, supervision and control of operational risks, and methods of operational risk mitigation and basic principles for provision of continuity of operations, which include methods chosen by the Bank to handle emergency situations .

The Bank provides regular supervision of identified inherent operational risks in regard to all its major products, types of activities, processes and systems in order to discover and eliminate on time any discrepancies regarding the Operational Risk Management Policy and procedures and, therefore, considerably minimise the frequency of possible occurrence of operational losses and their size.

The Bank applies the following methods to operational risk mitigation:

- ✓ investments into respective data processing and information security technologies;
- ✓ investments into training of personnel;
- ✓ outsourcing in situations where service providers have more experience or higher potential in management of operational risks related to certain activities of the Bank;
- ✓ insurance (if necessary), making sure that its use for operational risk mitigation does not create other types of risk (legal risk or business partner risk);
- ✓ elaboration of a plan for provision of continuity of operations.

(7) Internal Control System for Prevention of Laundering of Proceeds Derived From Crime and Financing of Terrorism.

On 13 August 2008, the new Law on the Prevention of Laundering the Proceeds from Criminal Activity (Money Laundering) and Terrorist Financing (hereinafter - the Law) entered into force replacing the law of 1998 “On the Prevention of Laundering the Proceeds Derived from Criminal Activity". The new Law incorporates legislative provisions that arise from Directive 2005/60EC of the European Parliament and Council as from 26 October 2006 and Directive 2006/70EC of the European Commission as from 01 August 2006. In accordance with the Law the Financial and Capital Market Commission on 27 August 2008 issued the Regulations for Enhanced Customer Due Diligence (hereinafter – the Regulations).

The new Law provides for unprecedented duties and responsibility for most of natural and legal persons of Latvia regarding the prevention of laundering the proceeds from criminal activity and terrorist financing. The scope of subjects of the Law has been considerably increased.

The new Law and the Regulations introduce the principle of a “risk-based approach” to the prevention of laundering the proceeds derived from crime and terrorist financing, which states the necessity to maintain an ongoing assessment of the money laundering and terrorist financing risks and based on such assessment to perform enhanced due diligence of customers.

Taking into account the new requirements, "TRASTA KOMERCBANKA”, JSC has reviewed and upgraded all the documents of the internal control system for the prevention of laundering the proceeds from criminal activity and terrorist financing, as well as it works actively updating the files of its present customers in order to comply with the latest requirements.

The Bank has approved a plan of measures for 2009 aimed at improving the internal control system for the prevention of laundering the proceeds from criminal activity and terrorist financing. The main focus is to be made on the introduction of a new computerised customer monitoring system.

NOTES TO THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

In thousands of lats

46 CREDIT RISK

As one of the Bank's subsidiaries extends finance leases and loans, credit quality management of financial assets is carried out by the Bank's management on a consolidated basis. Therefore, in the opinion of the Bank's management, presenting information in the tables analysing aging and credit quality of the financial assets only for the Group increases quality of information and provides the most realistic information about credit quality.

(1) Maximum exposure to credit risk by types of financial assets

	The Group		The Bank	
	2008	2007	2008	2007
ASSETS				
Cash and balances due from the Bank of Latvia	17 886	17 168	17 886	17 168
Due from credit institutions with a maturity of less than 3 months	47 562	150 832	47 562	150 832
Held for trading financial assets	2 410	8 345	2 410	8 345
Available for sale financial assets	255	6 257	255	6 257
Due from credit institutions with a maturity of more than 3 months	8 755	6 432	8 755	6 432
Loans	118 033	91 561	118 731	92 290
Other assets	1 190	3 141	1 152	3 114
TOTAL ASSETS	**196091**	**283 736**	**196 751**	**284 438**
OFF-BALANCE SHEET ITEMS				
Contingent liabilities	255	617	486	617
Commitments to clients	3 021	17 040	3 130	18 480
TOTAL OFF-BALANCE SHEET LIABILITIES	**3 276**	**17 657**	**3 616**	**19 097**

The maximum exposure to credit risk reflects the value of financial assets and off-balance liabilities exposed to credit risk and is not reduced for the value of security or other factors reducing the credit.

NOTES TO THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

In thousands of lats

46 CREDIT RISK (continued)

(2) Analysis of a summary of the credit quality of the Group's financial assets and off-balance sheet liabilities

	Assets not past due nor impaired	Assets past due but not impaired	Impaired assets	Total
		2008		
Cash and balances due from the Bank of Latvia	17 886	-	-	17 886
Due from credit institutions with a maturity of less than 3 months	47 562	-	-	47 562
Held for trading financial assets	2 410	-	-	2 410
Available for sale financial assets	255	-	-	255
Due from credit institutions with a maturity of more than 3 months	8 755	-	-	8 755
Loans	90 342	14 868	12 823	118 033
Other assets	1 190	-	-	1 190
TOTAL ASSETS	**168 400**	**14 868**	**12 823**	**196 091**
Contingent liabilities	255	-	-	255
Commitments to clients	2 721	95	205	3 021
TOTAL OFF-BALANCE SHEET LIABILITIES	**2 976**	**95**	**205**	**3 276**
		2007		
Cash and balances due from the Bank of Latvia	17 168	-	-	17 168
Due from credit institutions with a maturity of less than 3 months	150 832	-	-	150 832
Held for trading financial assets	8 345	-	-	8 345
Available for sale financial assets	6 257	-	-	6 257
Due from credit institutions with a maturity of more than 3 months	6 432	-	-	6 432
Loans	83 448	7 173	940 [1]	91 561
Other assets	3 141	-	-	3 141
TOTAL ASSETS	**275 623**	**7 173**	**940**	**283 736**
Contingent liabilities	617	-	-	617
Commitments to clients	17 040	-	-	17 040
TOTAL OFF-BALANCE SHEET LIABILITIES	**17 657**	**-**	**-**	**17 657**

[1] Criteria of loan evaluation are described in Note 21, (2).

NOTES TO THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

In thousands of lats

46 CREDIT RISK (continued)

(3) Analysis of the Group's financial assets neither past due nor impaired (Note 46, (2))

	By groups of classification	By ratings	Other	Total
		2008		
Cash and balances due from the Bank of Latvia	-	17 886	-	17 886
Due from credit institutions with a maturity of less than 3 months	-	47 562	-	47 562
Held for trading financial assets	-	2 410	-	2 410
Available for sale financial assets	-	255	-	255
Due from credit institutions with a maturity over than 3 months	-	8 755	-	8 755
Loans [1]	90 342	-	-	90 342
Other assets	-	247	943	1 190
TOTAL ASSETS	**90 342**	**77 115**	**943**	**168 400**
Contingent liabilities	255	-	-	255
Commitments to clients	2 721	-	-	2 721
TOTAL OFF-BALANCE SHEET LIABILITIES	**2 976**	**-**	**-**	**2 976**
		2007		
Cash and balances due from the Bank of Latvia	-	17 168	-	17 168
Due from credit institutions with a maturity of less than 3 months	-	150 832	-	150 832
Held for trading financial assets	-	8 345	-	8 345
Available for sale financial assets	-	6 257	-	6 257
Due from credit institutions with a maturity over than 3 months	-	6 432	-	6 432
Loans [1]	83 448	-	-	83 448
Other assets	-	340	2 801	3 141
TOTAL ASSETS	**83 448**	**189 374**	**2 801**	**275 623**
Contingent liabilities	617	-	-	617
Commitments to clients	12 653	-	4 387	17 040
TOTAL OFF-BALANCE SHEET LIABILITIES	**13 270**	**-**	**4 387**	**17 657**

[1] Loans that are assessed by classification groups incorporates the loans, classified as Standard. *Standard loans* are loans for which there is no indication as at balance sheet date that they will not be paid, i.e. no problem is expected to occur with loan repayment, as the current and forecast cash flows are sufficient to repay the debt. Loans dependent on security are also classified as standard loans where the intrinsic value of their security (including the event of forced sale) equals or exceeds the sum of the debt, provided that the security can be sold in time, that there is a liquid market and that the Bank/subsidiary has no legal obstacles to alienate the security.

NOTES TO THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

In thousands of lats

46 CREDIT RISK (continued)

(4) Analysis of the Group's financial assets with credit quality assessed by credit ratings (Note 46, (3))

	Class 1	Class 2	Class 3	Class 4	Class 5	Class 6	No ratings	Total
				2008				
Cash and balances due from the Bank of Latvia	-	-	17 886	-	-	-	-	17 886
Due from credit institutions with a maturity of less than 3 months	27 359	6 317	-	4 952	-	13	8 921	47 562
Held for trading financial assets	-	-	374	1 510	184	28	314	2 410
Available for sale financial assets	-	-	-	-	-	114	141	255
Due from credit institutions with a maturity of more than 3 months	-	-	-	-	5 786	-	2 969	8 755
Other assets	112	-	-	30	-	-	105	247
Total assets	**27 471**	**6 317**	**18 260**	**6 492**	**5 970**	**155**	**12 450**	**77 115**
				2007				
Cash and balances due from the Bank of Latvia	-	17 168	-	-	-	-	-	17 168
Due from credit institutions with a maturity of less than 3 months	88 508	14 508	-	23 503	-	-	24 313	150 832
Held for trading financial assets	28	-	1 516	3 181	1 986	164	1 470	8 345
Available for sale financial assets	3 356	2 338	15	-	48	-	500	6 257
Due from credit institutions with a maturity of more than 3 months	-	-	-	704	3 906	-	1 822	6 432
Other assets	233	-	-	5	5	-	97	340
Total assets	**92 125**	**34 014**	**1 531**	**27 393**	**5 945**	**164**	**28 202**	**189 374**

Table of Rating Summary

	Moody's Investors Service Ltd		FitchRatings		Standard&Poor's Ratings Services	
Quality grade	**Long-term rating**	**Short-term rating**	**Long-term rating**	**Short-term rating**	**Long-term rating**	**Short-term rating**
Class 1	Aaa to Aa3	P-1	AAA to AA-	F-1+, F-1	AAA to AA-	A-1+, A-1
Class 2	A1 to A3	P-2	A+ to A-	F-2	A+ to A-	A-2
Class 3	Baa1 to Baa3	P-3	BBB+ to BBB-	F-3	BBB+ to BBB-	A-3
Class 4	Ba1 to Ba3	NP	BB+ to BB-	Lower than F3	BB+ to BB-	B-1, B-2, B-3, C
Class 5	B1 to B3		B+ to B-		B+ to B-	
Class 6	Caa1 and lower		CCC+ and lower		CCC+ and lower	

NOTES TO THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

In thousands of lats

46 CREDIT RISK (continued)

(5) Age analysis of the Group's financial assets past due but not impaired by time for which they are late (Note 46, (2))

	Up to 1 month	1 month to 3 months	3 months to 6 months	6 months to 1 year	1 year to 5 years	Total
			2008			
Companies	6 360	2 925	-	-	-	9 285
Individuals	5 030	553	-	-	-	5 583
Total assets	**11 390**	**3 478**	**-**	**-**	**-**	**14 868**
			2007			
Companies	4 824	-	-	-	-	4 824
Individuals	2 349	-	-	-	-	2 349
Total assets	**7 173**	**-**	**-**	**-**	**-**	**7 173**

(6) Analysis of revised loans which would otherwise be overdue and/or impaired in their value

	2008	2007
Companies	10 156	879
Individuals	2 667	61
Total assets	**12 823**	**940**

NOTES TO THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

In thousands of lats

47 LIQUIDITY RISK

(1) The Bank's maturity analysis of assets, liabilities and off-balance sheet items

The management of the Bank manages risk separately for each Bank's subsidiary. Therefore the below table summarizes the Bank's maturity analysis. The Group's maturity analysis is not materially different from Bank's maturity analysis.

According to terms of the payments to maturity

31 December 2008	Up to 1 month	1 month to 3 months	3 months to 6 months	6 months to 1 year	1 year to 5 years	Over 5 years	Un-dated	Total
ASSETS								
Cash and balances due from the Bank of Latvia	19 235	-	-	-	-	-	-	19 235
Due from credit institutions with a maturity of less than 3 months	47 562	-	-	-	-	-	-	47 562
Held for trading financial assets	86	51	29	-	776	1 108	360	2 410
Available for sale financial assets	-	2	2	-	138	64	49	255
Due from credit institutions with a maturity of more than 3 months	-	8 755	-	-	-	-	-	8 755
Loans	10 214	7 973	16 166	12 344	47 418	24 616	-	118 731
Accrued income and deferred expenses	25	20	29	59	-	-	-	133
Long-term projects costs	-	-	-	-	-	-	2 282	2 282
Tangible assets	-	-	-	-	-	-	3 932	3 932
Intangible assets	-	-	-	-	-	-	222	222
Investments in share capital of subsidiary	-	-	-	-	-	-	52	52
Corporate income tax assets	-	-	-	-	-	-	668	668
Deferred tax assets	-	-	-	-	-	-	14	14
Other assets	1 006	-	-	-	-	-	653	1 659
Assets of disposal group classified as held for sale	-	-	-	-	-	-	11 225	11 225
Total assets	**78 128**	**16 801**	**16 226**	**12 403**	**48 332**	**25 788**	**19 457**	**217 135**
LIABILITIES								
Due to credit institutions	10 512	-	25	-	25	-	-	10 562
Due to customers	146 179	9 586	1 569	1 698	567	-	-	159 599
Debt securities issued	-	16	-	-	3 504	-	-	3 520
Accrued expenses and deferred income	591	-	-	-	-	-	-	591
Provisions for contingent liabilities	34	14	-	6	155	-	-	209
Corporate income tax liabilities	-	5	-	-	-	-	-	5
Subordinated liabilities	67	18	104	990	808	3 185	-	5 172
Other liabilities	1 176	-	-	1 752	-	-	-	2 928
Total liabilities	**158 559**	**9 639**	**1 698**	**4 446**	**5 059**	**3 185**	**-**	**182 586**

NOTES TO THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

In thousands of lats

47 LIQUIDITY RISK (continued)

(1) The Bank's maturity analysis of assets, liabilities and off-balance sheet items (continued)

According to terms of the payments to maturity

31 December 2008	Up to 1 month	1 month to 3 months	3 months to 6 months	6 months to 1 year	1 year to 5 years	Over 5 years	Other	Total
Off-balance sheet commitments								
Contingent liabilities	42	15	126	13	429	21	-	646
Incl. secured by deposits, placed in the Bank [1]	*-*	*15*	*11*	*-*	*19*	*-*	*-*	*45*
Commitments to clients	3 626	192	106	281	2 219	4 370	-	10 794
Incl. secured by deposits, placed in the Bank[1] *(Note 21, (5). and 36, (2))*	*184*	*-*	*-*	*-*	*-*	*-*	*-*	*184*
Total off-balance sheet commitments	**3 668**	**207**	**232**	**294**	**2 648**	**4 391**	**-**	**11 440**
Liquidity net position as at 31 December 2008[1]	**(83 915)**	**6 970**	**14 307**	**7 663**	**40 644**	**18 212**	**19 457**	**23 338**

[1] According to the Rules for compliance with the liquidity requirements, Off-balance sheet liabilities secured by deposits are not required to be included in the net position calculation.

Off-balance liabilities with possible maturity before the agreement expires are disclosed in the maturity group "Up to 1 month".

In the maturity analysis trading and available-for-sale securities are stated according to their maturity date. Assets that do not have a definite repayment or sales date are disclosed in the "Over 5 years" category. Liabilities with an indefinite due date or which are payable on demand are disclosed in the "Up to 1 month" category.

The Group and the Bank has prepared these consolidated financial statements and financial statements on a going concern basis notwithstanding the fact that it has a significant negative cumulative liquidity gap maturity in range from "up to 1 month" till "1 to 5 years" included of assets and liabilities. The Group's and Bank's management closely monitors and manages the Group's and Bank's liquidity position on a daily basis in accordance with the Group's and Bank's liquidity risk management framework. The negative cumulative liquidity net position in the term structure of assets and liabilities in the section "up to 1 month" as of December 31, 2008 and 2007 is mainly due to the large amounts paid to customers on demand.. According to the past history of the Group and the Bank, customers' deposits are normally held with the Group and the Bank for periods significantly exceeding their stated maturity. The Group and the Bank has considered the risk of being adversely affected by liquidity issues and has taken actions to minimize the negative impact on the Group and the Bank. The Group's and Bank's ability to avoid adverse changes in its liquidity position is depending on management's effectiveness in the continuing execution of the actions taken. Please also refer to going concern assumption in Note 2, (23), as well as Group's risk management procedures for liquidity risk in Note 45, (4).

NOTES TO THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

In thousands of lats

47 LIQUIDITY RISK (continued)

(1) The Bank's maturity analysis of assets, liabilities and off-balance sheet items (continued)

According to terms of the payments to maturity

31 December 2007	Up to 1 month	1 month to 3 months	3 months to 6 months	6 months to 1 year	1 year to 5 years	Over 5 years	Un-dated	Total
ASSETS								
Cash and balances due from the Bank of Latvia	17 993	-	-	-	-	-	-	17 993
Due from credit institutions with a maturity of less than 3 months	150 832	-	-	-	-	-	-	150 832
Held for trading financial assets	77	60	46	9	2 394	3 379	2 380	8 345
Available for sale financial assets	1 361	1 343	2 512	835	141	-	65	6 257
Due from credit institutions with a maturity of more than 3 months	13	2 475	1 020	2 924	-	-	-	6 432
Loans	6 049	6 535	6 981	9 801	38 354	24 570	-	92 290
Accrued income and deferred expenses	148	23	26	31	29	-	-	257
Long-term projects costs	-	-	-	-	-	-	2 217	2 217
Tangible assets	-	-	-	-	-	-	2 142	2 142
Intangible assets	-	-	-	-	-	-	205	205
Investments in share capital of subsidiary	-	-	-	-	-	-	2	2
Deferred tax assets	-	-	-	-	-	-	25	25
Other assets	368	-	-	-	-	-	2 762	3 130
Total assets	**176 841**	**10 436**	**10 585**	**13 600**	**40 918**	**27 949**	**9 798**	**290 127**
LIABILITIES								
Due to credit institutions	5 350	24	25	11 162	-	-	-	16 561
Held for trading financial liabilities	2	-	-	-	-	-	-	2
Due to customers	229 334	1 785	652	565	361	-	-	232 697
Debt securities issued	-	17	-	-	3 501	-	-	3 518
Accrued expenses and deferred income	694	2	2	-	-	-	-	698
Corporate income tax liabilities	-	766	-	-	-	-	-	766
Subordinated liabilities	-	-	-	-	1 208	-	-	1 208
Other liabilities	3 360	-	-	-	-	-	-	3 360
Total liabilities	**238 740**	**2 594**	**679**	**11 727**	**5 070**	**-**	**-**	**258 810**

NOTES TO THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

In thousands of lats

47 LIQUIDITY RISK (continued)

(1) The Bank's maturity analysis of assets, liabilities and off-balance sheet items (continued)

According to terms of the payments to maturity

31 December 2007	Up to 1 month	1 month to 3 months	3 months to 6 months	6 months to 1 year	1 year to 5 years	Over 5 years	Other	Total
Off-balance sheet commitments								
Contingent liabilities	617	-	-	-	-	-	-	617
Incl. secured by deposits, placed in the Bank [1]	*445*	-	-	-	-	-	-	*445*
Commitments to clients	14 142	96	129	255	1 251	2 607	-	18 480
Incl. secured by deposits, placed in the Bank[1] *(Note 21, (5). and 36, (2))*	*242*	-	-	-	-	-	-	*242*
Total off-balance sheet commitments	**14 759**	**96**	**129**	**255**	**1 251**	**2 607**	**-**	**19 097**
Liquidity net position as at 31 December 2007[1]	**(75 971)**	**7 746**	**9 777**	**1 618**	**34 597**	**25 342**	**9 798**	**12 907**

[1] According to the Rules of performance of liquidity requirements of Credit Institution, Off-balance sheet liabilities secured by deposits are not required to be included in the net position calculation.

NOTES TO THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

In thousands of lats

47 LIQUIDITY RISK (continued)

(2) Analysis of the gross contractual future cash flow of the Bank's liabilities and off-balance items [1]

The cash flow of each subsidiary company of the Bank is managed individually by the Bank management. Therefore the table given below contains an analysis of the expected future cash flow of the Bank's liabilities. The analysis of the expected future cash flow of the Group's liabilities does not differ materially from that of the Bank.

	According to terms of the payments						
31 December 2008	**Up to 1 month**	**1 month to 3 months**	**3 months to 6 months**	**6 months to 1 year**	**1 year to 5 years**	**Over 5 years**	**Total**
LIABILITIES							
Due to credit institutions	10 514	-	26	1	25	-	10 566
Held for trading financial liabilities	(78)	-	-	-	-	-	(78)
incl. forward foreign exchange receivable	*(993)*	-	-	-	-	-	*(993)*
incl. forward foreign exchange payable	*915*	-	-	-	-	-	*915*
Due to customers	146 542	10 075	1 605	1 782	643	-	160 647
Debt securities issued	-	46	29	57	3 857	-	3 989
Accrued expenses and deferred income	591	-	-	-	-	-	591
Subordinated liabilities	85	40	212	1 217	2 227	3 702	7 483
Other liabilities	2 681	-	-	-	-	-	2 681
incl. spot foreign exchange receivable	*(84 367)*	-	-	-	-	-	*(84 367)*
incl. spot foreign exchange payable	*84 364*	-	-	-	-	-	*84 364*
Total liabilities	**160 335**	**10 161**	**1 872**	**3 057**	**6 752**	**3 702**	**185 879**
OFF-BALANCE SHEET ITEMS							
Contingent liabilities	42	15	126	13	429	21	646
Commitments to clients	3 626	192	106	281	2 219	4 370	10 794
Total off-balance sheet liabilities	**3 668**	**207**	**232**	**294**	**2 648**	**4 391**	**11 440**
Total as at 31 December 2008	**164 003**	**10 368**	**2 104**	**3 351**	**9 400**	**8 093**	**197 319**

[1] This analysis is based on the undiscounted liability cash flow which includes interest payments as well as the gross value of the cash flow of derivative instruments.

NOTES TO THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

In thousands of lats

47 LIQUIDITY RISK (continued)

(2) Analysis of the expected future cash flow of the Bank's liabilities and off-balance items (continued)

According to terms of the payments

31 December 2007	Up to 1 month	1 month to 3 months	3 months to 6 months	6 months to 1 year	1 year to 5 years	Over 5 years	Total
LIABILITIES							
Due to credit institutions	5 350	24	365	11 558	-	-	17 297
Held for trading financial liabilities	(45)	-	-	-	-	-	(45)
incl. forward foreign exchange receivable	*(4 302)*	-	-	-	-	-	*(4 302)*
incl. forward foreign exchange payable	*4 257*	-	-	-	-	-	*4 257*
Due to customers	234 081	1 919	297	589	373	-	237 259
Debt securities issued	-	53	51	101	4 322	-	4 527
Accrued expenses and deferred income	694	2	2	-	-	-	698
Subordinated liabilities	36	-	17	34	1 283	-	1 370
Other liabilities	3 020	-	-	-	-	-	3 020
incl. spot foreign exchange receivable	*(163 160)*	-	-	-	-	-	*(163 160)*
incl. spot foreign exchange payable	*163 458*	-	-	-	-	-	*163 458*
Total liabilities	**243 136**	**1 998**	**732**	**12 282**	**5 978**	**-**	**264 126**
OFF-BALANCE SHEET ITEMS							
Contingent liabilities	617	-	-	-	-	-	617
Commitments to clients	14 142	96	129	255	1 251	2 607	18 480
Total off-balance sheet liabilities	**14 759**	**96**	**129**	**255**	**1 251**	**2 607**	**19 097**
Total as at 31 December 2007	**257 895**	**2 094**	**861**	**12 537**	**7 229**	**2 607**	**283 223**

NOTES TO THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

In thousands of lats

48 MARKET RISK (continued)

(1) The Bank's currency analysis of assets, liabilities and off-balance sheet items

The management of the Bank manages risk separately for each Bank's subsidiary. Therefore the below table summarizes the Bank's currency analysis. The Group's currency analysis is not materially different from Bank's currency analysis.

31 December 2008	LVL	USD	EUR	Other currencies	Total
ASSETS					
Cash and balances due from the Bank of Latvia	11 246	384	7 591	14	19 235
Due from credit institutions with a maturity of less than 3 months	10 703	27 414	4 912	4 533	47 562
Held for trading financial assets	101	2 108	201	-	2 410
Available for sale financial assets	-	-	255	-	255
Due from credit institutions with a maturity of more than 3 months	-	8 755	-	-	8 755
Loans	5 515	45 924	66 054	1 238	118 731
Accrued income and deferred expenses	117	6	10	-	133
Long-term projects costs	2 282	-	-	-	2 282
Tangible assets	3 932	-	-	-	3 932
Intangible assets	222	-	-	-	222
Investments in share capital of subsidiary	52	-	-	-	52
Corporate income tax assets	668	-	-	-	668
Deferred tax assets	14	-	-	-	14
Other assets	823	748	80	8	1 659
Assets of disposal group classified as held for sale	-	11 225	-	-	11 225
Total assets	**35 675**	**96 564**	**79 103**	**5 793**	**217 135**
Spot foreign exchange receivable [1]	**11 872**	**36 002**	**31 673**	**4 820**	**84 367**
LIABILITIES					
Due to credit institutions	3	2 211	8 075	273	10 562
Due to customers	3 799	95 400	54 908	5 492	159 599
Debt securities issued	-	-	3 520	-	3 520
Accrued expenses and deferred income	521	22	46	2	591
Provisions for contingent liabilities	6	48	155	-	209
Corporate income tax liabilities	-	-	5	-	5
Subordinated liabilities	-	2 654	2 518	-	5 172
Other liabilities	2 403	257	158	110	2 928
Total liabilities	**6 732**	**100 592**	**69 385**	**5 877**	**182 586**
Spot foreign exchange payable [1]	**1 040**	**36 528**	**42 191**	**4 605**	**84 364**

NOTES TO THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

In thousands of lats

48 MARKET RISK (continued)

(1) The Bank's currency analysis of assets, liabilities and off-balance sheet items (continued)

31 December 2008	LVL	USD	EUR	Other currencies	Total
Off-balance sheet commitments [3]					
Contingent liabilities	93	3	550	-	646
Commitments to clients	8 060	651	2 069	14	10 794
Total off-balance sheet commitments	**8 153**	**654**	**2 619**	**14**	**11 440**
Net forward position [2]	**-**	**993**	**(915)**	**-**	**78**
Net position as at 31 December 2008					
Total amount of the long/(short) position[3]	**39 775**	**(3 561)**	**(1 715)**	**131**	**34 630**
Net position	**-**	**(3 561)**	**(1 715)**	**131**	**(5 276)**
% of regulatory capital	**-**	**9.35**	**4.50**	**0.34**	**13.85**

[1] In compliance with the Rules for calculation of the minimum capital requirements, the total sums of Spot Agreements are to be included into calculation of currency net open position in case settlement date accounting has been applied for transaction accounting purposes.

[2] According to the Rules for calculation of the minimum capital requirements, net forward position i.e. difference between all receivable and payable amounts from concluded foreign currency forward agreements are to be included in the calculation of currency net forward position.

[3] Under the Rules for calculation of the minimum capital requirements, off-balance sheet liabilities need not be included in the calculation, if the Bank does not have reason to believe that settlement of the liabilities will be demanded and the means to pay will not be available.

NOTES TO THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

In thousands of lats

48 MARKET RISK (continued)

(1) The Bank's currency analysis of assets, liabilities and off-balance sheet items (continued)

31 December 2007	LVL	USD	EUR	Other currencies	Total
ASSETS					
Cash and balances due from the Bank of Latvia	17 395	187	394	17	17 993
Due from credit institutions with a maturity of less than 3 months	7 076	120 606	9 366	13 784	150 832
Held for trading financial assets	100	7 402	843	-	8 345
Available for sale financial assets	2	5 708	547	-	6 257
Due from credit institutions with a maturity of more than 3 months	-	5 558	874	-	6 432
Loans	5 336	27 898	59 056	-	92 290
Accrued income and deferred expenses	133	18	3	103	257
Long-term projects costs	2 217	-	-	-	2 217
Tangible assets	2 095		47	-	2 142
Intangible assets	186	-	19	-	205
Investments in share capital of subsidiary	2	-	-	-	2
Deferred tax assets	25	-	-	-	25
Other assets	422	2 604	96	8	3 130
Total assets	**34 989**	**169 981**	**71 245**	**13 912**	**290 127**
Spot foreign exchange receivable [1]	**400**	**79 681**	**57 598**	**25 481**	**163 160**
LIABILITIES					
Due to credit institutions	502	4 010	11 482	567	16 561
Held for trading financial liabilities	2	-	-	-	2
Due to customers	3 689	159 928	60 723	8 357	232 697
Debt securities issued	-	-	3 518	-	3 518
Accrued expenses and deferred income	534	44	83	37	698
Corporate income tax liabilities	766	-	-	-	766
Subordinated liabilities		1 208	-	-	1 208
Other liabilities	2 392	725	185	58	3 360
Total liabilities	**7 885**	**165 915**	**75 991**	**9 019**	**258 810**
Spot foreign exchange payable [1]	**349**	**83 589**	**49 385**	**30 135**	**163 458**

NOTES TO THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

In thousands of lats

48 MARKET RISK (continued)

(1) The Bank's currency analysis of assets, liabilities and off-balance sheet items (continued)

31 December 2007	LVL	USD	EUR	Other currencies	Total
Off-balance sheet commitments [3]					
Contingent liabilities	45	3	569	-	617
Commitments to clients	5 832	4 279	8 369	-	18 480
Total off-balance sheet commitments	**5 877**	**4 282**	**8 938**	**-**	**19 097**
Net forward position [2]	**-**	**1 970**	**(1 925)**	**-**	**45**
Net position as at 31 December 2007					
Total amount of the long/(short) position[3]	**27 155**	**2 128**	**1 542**	**239**	**31 064**
Net position	**-**	**2 128**	**1 542**	**239**	**3 909**
% of regulatory capital	**-**	**7.72**	**5.60**	**0.87**	**14.19**

[1] In compliance with the Rules for capital adequacy calculation, the total sums of Spot Agreements are to be included into calculation of currency net open position in case settlement date accounting has been applied for transaction accounting purposes.

[2] According to the Rules for capital adequacy calculation, net forward position i.e. difference between all receivable and payable amounts from concluded foreign currency forward agreements are to be included in the calculation of currency net forward position.

[3] Under the Rules for capital adequacy calculation, off-balance sheet liabilities need not be included in the calculation, if the Bank does not have reason to believe that settlement of the liabilities will be demanded and the means to pay will not be available.

NOTES TO THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

In thousands of lats

48 MARKET RISK (continued)

(2) Analysis of the Bank's exposure to interest rate risks

	2008			2007		
Currency	**Changes in basis points**	**Effect on profit before tax**	**Effect on equity**	**Changes in basis points**	**Effect on profit before tax**	**Effect on equity**
LVL	+100	323	275	+100	243	206
USD	+50	(236)	(200)	+50	(205)	(181)
EUR	+50	(109)	(95)	+50	(119)	(104)
		(22)	**(20)**		**(81)**	**(79)**

	2008			2007		
Currency	**Changes in basis points**	**Effect on profit before tax**	**Effect on equity**	**Changes in basis points**	**Effect on profit before tax**	**Effect on equity**
LVL	-100	(323)	(275)	-100	(243)	(206)
USD	+25	3 709	3 153	-225	925	817
EUR	-150	(241)	(290)	-50	119	104
		3 145	**2 588**		**801**	**715**

The Bank has been assessing on a regular basis the interest rate risk for each currency for which the extent of the Bank's assets or liabilities exceeds 5 percent of the total balance, and for all currencies on the whole. The analysis of exposure to interest rate risks is calculated as the effect on the net income of interest per year (which equals the effect of pre-tax profit or loss), assuming that the interest rates grew concurrently (regardless of the initial term) for 1 per cent (or 100 basis points).

When calculating the effect of interest rate changes, the interest rate risk's net open position as at 31 December 2008 and 31 December 2007 is multiplied by expected change in interest rates expressed as basis points.

NOTES TO THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

In thousands of lats

48 MARKET RISK (continued)

(3) Analysis of the Bank's exposure to currency risks

		2008			2007	
Currency	**Changes in basis points**	**Effect on profit before tax**	**Effect on equity**	**Changes in basis points**	**Effect on profit before tax**	**Effect on equity**
USD	+5	(178)	(151)	+5	106	90
EUR	+1	(17)	(15)	+1	15	13
Other	+5	7	6	+5	113	92
		(188)	**(160)**		**234**	**195**

		2008			2007	
Currency	**Changes in basis points**	**Effect on profit before tax**	**Effect on equity**	**Changes in basis points**	**Effect on profit before tax**	**Effect on equity**
USD	-5	178	151	-5	(106)	(90)
EUR	-1	17	15	-1	(15)	(13)
Other	-5	(7)	(6)	-5	(113)	(92)
		188	**160**		**(234)**	**(195)**

The analysis of exposure to currency risks is calculated as the effect (which equals the effect of pre-tax profit or loss) on the net income of interest. As the actual market situation changes, its effect may change either positively or negatively.

NOTES TO THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

In thousands of lats

49 CALCULATION OF CAPITAL ADEQUACY

	The Group		The Bank	
	2008	2007	2008	2007
Tier 1 Equity				
Paid-up share capital	6 337	6 337	6 337	6 337
Share premium	111	111	111	111
Reserve capital	3 804	3 804	3 804	3 804
Accumulated audited profit	17 302	5 138	17 248	5 142
Minority participation share (Tier 1 elements)	2 158	12	-	-
Audited profit of the current year of operation (Note 34, (1))	6 292	12 164	7 129	12 106
Available for sale other financial asset revaluation reserves	(80)	-	(80)	-
Other reserves (Note 33, (2))	(3 412)	-	-	-
Intangible assets (Note 19, (2) and 24)	(3 981)	(205)	(222)	(205)
Total	**28 531**	**27 361**	**34 327**	**27 295**
Tier 2 Equity				
Subordinated capital	3 768	255	3 768	255
Total	**3 768**	**255**	**3 768**	**255**
Total sum of the first level capital and second level capital, reduced by an equity capital decrease	**32 299**	**27 616**	**38 095**	**27 550**
Equity Capital	**32 299**	**27 616**	**38 095**	**27 550**
Summary of capital requirement calculations				
Credit risk, counterparty risk, dilution risk and unsettled delivery risk capital requirement	20 007	12 654	13 821	12 762
Position, foreign currency and commodities risk capital requirement	572	1 279	528	1 252
Negotiable debt instruments	*202*	*575*	*202*	*575*
Equity instruments	*43*	*372*	*43*	*372*
Foreign currency	*327*	*332*	*283*	*305*
Operational risk capital requirement	2 899	-	2 873	-
Total sum of capital requirement	**23 478**	**13 933**	**17 222**	**14014**
Capital requirements covered by equity	**8 821**	**13 683**	**20 873**	**13 536**
Capital adequacy ratio	**11.01%**	**15.86%**	**17.70%**	**15.73%**

50 SUBSEQUENT EVENTS

Within the period from the last day of the reporting year till the date of signature of these financial statements there were no subsequent events requiring adjustments to these financial statements or disclosures in these financial statements.

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