AS "PrivatBank"

Bank and Consolidated Financial Statements

for the year ended 31 December 2008

CONTENTS

THE SUPERVISORY COUNCIL AND BOARD OF THE BANK

As at the date of signing the financial statements members of the Board and Council of the Bank were as follows:

Council

Name	*Position*	*Date of appointment*
Jurijs Pikušs	Chairman of the Council	02.04.2008
Viktor Samarin	Deputy Chairman of the Council	02.04.2008
Oleksandrs Vitjazs	Council member	02.04.2008
Yuriy Kandaurov	Council member	02.04.2008

Board

Name	*Position*	*Date of appointment*
Oleksandr Trubakov	Chairman of the Board	27.07.2007
Oleksandr Mekekechko	Board member	27.07.2007
Vladislavs Beļskis	Board member	27.07.2007
Rolands Pētersons	Board member	27.07.2007
Mykolay Koev	Board member	27.07.2007

On 29 April 2008 Inna Zhuravļova resigned from the Board.

On 2 April 2008 Yuriy Kandaurov elected in the Council

On 6 March 2009 Vladislavs Beļskis resigned from the Board.

On behalf of the Bank's management,

Chairman of the Council
Jurijs Pikušs

Chairman of the Board
Oleksandr Trubakov

30 March 2009

STATEMENT OF THE MANAGEMENT'S RESPONSIBILITIES

The Management of AS PrivatBank (the Bank) is responsible for the preparation of the consolidated financial statements of the Bank and its subsidiaries (the Group) as well as for the preparation of the financial statements of the Bank.

The consolidated and Bank financial statements on pages 8 to 80 are prepared in accordance with the source documents and present fairly the financial position of the Group as at 31 December 2008 and the results of its operations and cash flows for the year ended 31 December 2008 as well as the financial position of the Bank as at 31 December 2008 and the results of its operations and cash flows for the year ended 31 December 2008.

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

The management of AS PrivatBank is responsible for the maintenance of a proper accounting system, safeguarding the Group's assets, and prevention and detection of fraud and other irregularities in the Group. The management is also responsible for operating the Bank in compliance with the Law on Credit Institutions, regulations of the Finance and Capital Markets Commission and other legislation of the Republic of Latvia applicable to credit institutions.

On behalf of the Bank's management,

Chairman of the Council
Jurijs Pikušs

Chairman of the Board
Oleksandr Trubakov

30 March 2009

Opinion

In our opinion, the unconsolidated financial statements give a true and fair view of the financial position of AS "PrivatBank" as at 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.

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at 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.

Report on Other Legal and Regulatory Requirements

In addition, our responsibility is to assess whether the accounting information included in the Management Report, as set out on page 3, the preparation of which is the responsibility of management, is consistent with the consolidated financial statements. Our work with respect to the Management Report was limited to the aforementioned scope and did not include a review of any information other than drawn from the consolidated financial statements of the Bank. In our opinion, the management report is consistent with the consolidated financial statements.

KPMG Baltics SIA
License No 55

Ondrej Fikrle | *Inga Lipšāne*

Ondrej Fikrle
Partner pp KPMG Baltics SIA
Riga, Latvia
30 March 2009

Inga Lipšāne
Sworn Auditor
Certificate No 112

This report is an English translation of the original Latvian. In the event of discrepancies between the two reports, the Latvian version prevails.

BANK AND CONSOLIDATED INCOME STATEMENT

For the year ended 31 December	Note	Group 2008 '000 LVL	Bank 2008 '000 LVL	Group 2007 '000 LVL	Bank 2007 '000 LVL
Interest income	4	11 290	11 159	7 602	7 454
Interest expense	4	(6 072)	(6 075)	(3 170)	(3 170)
Net interest income		**5 218**	**5 084**	**4 432**	**4 284**
Fee and commission income	5	2 979	2 980	2 625	2 626
Fee and commission expense	6	(714)	(613)	(683)	(552)
Net fee and commission income		**2 265**	**2 367**	**1 942**	**2 074**
Net gain/(loss) on financial instruments at fair value through profit or loss		2	2	(23)	(23)
Net foreign exchange income	7	2 311	2 322	1 270	1 263
Other income/(expenses)		417	(161)	385	(233)
Operating income		**10 213**	**9 614**	**8 006**	**7 365**
Impairment losses	8	(2 154)	(1 899)	(383)	(403)
General administrative expenses	9	(8 093)	(7 638)	(6 268)	(5 927)
Gain on sale of subsidiary	16	97	-	-	-
Income before tax		**63**	**77**	**1 355**	**1 035**
Income tax expense	10	(33)	(33)	(203)	(146)
Profit for the year		**30**	**44**	**1 152**	**889**

The accompanying notes on pages 14 to 80 form an integral part of these Consolidated and Bank financial statements.

The Consolidated and Bank financial statements as set out on pages 8 to 80 were approved by the Management Board and Supervisory Council on 30 March 2009.

Chairman of the Council
Jurijs Pikušs

Chairman of the Board
Oleksandr Trubakov

BANK AND CONSOLIDATED BALANCE SHEET

As at 31 December	Note	Group 2008 '000 LVL	Bank 2008 '000 LVL	Group 2007 '000 LVL	Bank 2007 '000 LVL
ASSETS					
Cash and balances with the Bank of Latvia	11	9 537	9 537	12 957	12 957
Financial instruments at fair value through profit or loss	13	466	466	472	472
Loans and receivables due from banks	12	51 062	51 062	23 593	23 593
Loans and receivables due from customers	14	115 167	115 930	93 314	92 813
Available-for-sale assets	15	50	41	50	41
Investments in subsidiaries	16	-	12	-	16
Property and equipment	17	1 616	1 488	1 930	1 461
Intangible assets	18	126	99	109	100
Deferred tax asset	25	40	-	-	-
Prepaid income tax		146	144	20	20
Other assets	19	3 503	2 690	2 761	2 710
Total Assets		**181 713**	**181 469**	**135 206**	**134 183**

The accompanying notes on pages 14 to 80 form an integral part of these Consolidated and Bank financial statements.

The Consolidated and Bank financial statements as set out on pages 8 to 80 were approved by the Management Board and Supervisory Council on 30 March 2009.

Chairman of the Council
Jurijs Pikušs

Chairman of the Board
Oleksandr Trubakov

BANK AND CONSOLIDATED BALANCE SHEET

As at 31 December	Note	Group 2008 '000 LVL	Bank 2008 '000 LVL	Group 2007 '000 LVL	Bank 2007 '000 LVL
LIABILITIES					
Financial instruments at fair value through profit or loss	13	940	940	-	-
Deposits and balances from banks	20	11 417	11 417	13 048	13 048
Current accounts and deposits from customers	21	138 148	138 400	89 166	89 248
Provisions	22	375	372	321	276
Mortgage bonds	23	14 752	14 752	14 757	14 757
Deferred tax liability	25	53	53	78	47
Corporate income tax payable		14	-	20	-
Other liabilities	24	925	898	2 757	2 214
Total Liabilities		**166 624**	**166 832**	**120 147**	**119 590**
Share capital	26	10 650	10 650	10 650	10 650
Other reserves		3 749	3 749	3 719	3 719
Retained earnings		690	238	690	224
Total Shareholders' Equity		**15 089**	**14 637**	**15 059**	**14 593**
Total Liabilities and Shareholders' Equity		**181 713**	**181 469**	**135 206**	**134 183**
Commitments and Contingencies	30	3 286	3 286	1 991	1 991

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Chairman of the Council
Jurijs Pikušs

Chairman of the Board
Oleksandr Trubakov

BANK AND CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December	Note	Group 2008 '000 LVL	Bank 2008 '000 LVL	Group 2007 '000 LVL	Bank 2007 '000 LVL
CASH FLOWS FROM OPERATING ACTIVITIES					
Profit before income tax		63	77	1 355	1 035
Amortisation and depreciation		737	572	607	459
Loss on disposal of property and equipment		176	17	-	-
Impairment losses (recoveries)		2 154	1 899	383	403
Increase in cash and cash equivalents before changes in assets and liabilities, as a result of ordinary operations		**3 130**	**2 565**	**2 345**	**1 897**
(Increase)/decrease in balances due from banks		(24 154)	(24 155)	10 634	10 634
Increase in loans and advances to non-banking customers and receivables		(23 970)	(25 016)	(35 369)	(34 991)
(Increase)/decrease in assets available-for-sale investments		-	-	(6)	-
(Increase)/decrease in financial assets held-for-trading		946	946	(411)	(411)
Decrease in financial instruments designated at fair value through profit or loss		-	-	101	101
Increase in accrued income and deferred expenses		-	-	(1 005)	(1 006)
(Increase)/decrease in other assets		(717)	20	256	(51)
Increase in balances due to banks		3 625	3 625	3 504	3 504
Increase in balances due to customers		48 982	49 152	15 711	15 764
Increase in deferred income and accrued expenses		54	96	550	576
Increase in other liabilities		(1 837)	(1 321)	(315)	(120)
Increase in cash and cash equivalents from operating activities before corporate income tax		**6 059**	**5 912**	**(4 005)**	**(4 103)**
Corporate income tax paid		(223)	(151)	(204)	(163)
Net cash and cash equivalents from/(used in) operating activities		**5 836**	**5 761**	**(4 209)**	**(4 266)**
CASH FLOW FROM INVESTING ACTIVITIES					
Purchase of property, plant and equipment		(679)	(625)	(567)	(506)
Proceeds from sale of subsidiaries net cash disposed of		(17)	4		
Proceeds from sale of property and equipment		10	10	64	60
Increase in cash and cash equivalents from investing activities		**(686)**	**(611)**	**(503)**	**(446)**
CASH FLOW FROM FINANCING ACTIVITIES					
Proceeds from issue of debt securities		-	-	6 382	6 382
Share issue		-	-	7 100	7 100
Increase in cash and cash equivalents from financing activities		-	-	**13 482**	**13 482**

BANK AND CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	Group 2008 '000 LVL	Bank 2008 '000 LVL	Group 2007 '000 LVL	Bank 2007 '000 LVL
Net cash flow for the period		**5 150**	**5 150**	**8 770**	**8 770**
Cash and cash equivalents at the beginning of the year		**23 834**	**23 834**	**15 064**	**15 064**
Cash and cash equivalents at the end of the year	27	**28 984**	**28 984**	**23 834**	**23 834**

The accompanying notes on pages 14 to 80 form an integral part of these Consolidated and Bank financial statements.

The Consolidated and Bank financial statements as set out on pages 8 to 80 were approved by the Management Board and Supervisory Council on 30 March 2009.

Chairman of the Council
Jurijs Pikuss

Chairman of the Board
Oleksandr Trubakov

BANK AND CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December

	Attributable to equity holders of the Group			
	Share capital '000 LVL	**Other reserves '000 LVL**	**Retained earnings/ (accumulated losses) '000 LVL**	**Total equity '000 LVL**
Balance at 31 December 2006	3 550	3 694	(437)	**6 807**
Net profit for the year	-	-	1 152	**1 152**
Shares issued	7 100	-	-	**7 100**
Reserves	-	25	(25)	-
Balance at 31 December 2007	**10 650**	**3 719**	**690**	**15 059**
Net profit for the year	-	-	30	**30**
Reserves	-	30	(30)	-
Balance at 31 December 2008	**10 650**	**3 749**	**690**	**15 089**

For the year ended 31 December

	Attributable to equity holders of the Bank			
	Share capital '000 LVL	**Other reserves '000 LVL**	**Retained earnings/ (accumulated losses) '000 LVL**	**Total equity '000 LVL**
Balance at 31 December 2006	3 550	3 694	(640)	**6 604**
Net profit for the year	-	-	889	**889**
Shares issued	7 100	-	-	**7 100**
Reserves	-	25	(25)	-
Balance at 31 December 2007	**10 650**	**3 719**	**224**	**14 593**
Net profit for the year	-	-	44	**44**
Reserves	-	30	(30)	-
Balance at 31 December 2008	**10 650**	**3 749**	**238**	**14 637**

The accompanying notes on pages 14 to 80 form an integral part of these Consolidated and Bank financial statements.

The Consolidated and Bank financial statements as set out on pages 8 to 80 were approved by the Management Board and Supervisory Council on 30 March 2009.

Chairman of the Council
Jurijs Pikuss

Chairman of the Board
Oleksandr Trubakov

1 Background

Principal activities

AS "PrivatBank" (the "Bank") was established in the Republic of Latvia ("Latvia") as a joint stock company and was granted its general banking licence on 31 July 1992 (reissued on 17 September 1998). The principal activities of the Bank are deposit taking and customer account maintenance, lending and issuing guarantees, cash and settlement operations and operations with securities and foreign exchange. The activities of the Bank are regulated by the Bank of Latvia and the Financial and Capital Market Commission ("FCMC") in Latvia. The Bank has 12 branches and 15 cash offices from which it conducts business throughout Latvia. The registered address of the Bank's head office is Terbatas street 4, Riga, Latvia. The majority of the Bank's assets and liabilities are located in Latvia. The average number of people employed by the Bank during the year was 403 (2007: 370).

The consolidated financial statements include the financial statements for the year ended 31 December 2008 of AS "PrivatBank" (the "Bank") and its subsidiaries (together referred to as the "Group").

The subsidiaries of the Bank are as follows:

			Ownership %	
Name	**Country of incorporation**	**Principal Activities**	**2008**	**2007**
SIA "PrivatLīzings"	Latvia	Finance and operating lease activities	100	100
SIA "PrivatConsulting"	Latvia	Consulting and travel services	100	100
SIA "DigiPro"	Latvia	Sale of electronic products via POS terminals and facilitation card settlements in POS terminals	-	100

Basis of Preparation

Statement of compliance

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

The financial statements were authorised for issue by the Management Board on 30 March 2009. The financial statements may be amended by the shareholders.

Basis of measurement

The financial statements have been prepared on the historical cost basis except for the following:

- financial assets and liabilities at fair value through profit or loss are stated at fair value;

- derivatives are stated at fair value;

- available-for-sale assets are stated at fair value except those whose fair value cannot be reliably estimated.

Functional and Presentation Currency

The financial statements are presented in the Group's and the Bank's functional currency in thousands of lats (LVL 000's), unless otherwise stated.

Significant accounting policies

The following significant accounting polices have been applied in the preparation of the financial statements. The accounting policies have been consistently applied and there are no changes in accounting policies as compared to 2007.

Basis of consolidation

Subsidiaries

For the purposes of the Group consolidated financial statements, subsidiaries are those enterprises controlled by the Bank. Control exists when the Bank has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control effectively commences until the date that control effectively ceases.

Intra-group transactions and unrealised profit arising from intra-group transactions are excluded in the course of consolidation. Unrealised losses are eliminated similarly except that such losses are eliminated to the extent that there is no evidence of impairment.

Foreign currency translation

Transactions in foreign currencies are translated into the functional currency of the Bank at the exchange rate set by the Bank of Latvia at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated into the functional currency at the spot exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between the amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated into the functional currency at the spot exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognised in profit or loss.

Foreign exchange rates for the key currencies at the end of the reporting period were the following (LVL vs 1 unit of foreign currency):

Currency	*Reporting date*	
	31.12.2008	31.12.2007
USD	0.4950	0.4840
EUR	0.7028	0.7028

Financial instruments

Classification

Financial instruments are classified into the following categories:

Financial instruments at fair value through profit or loss are financial assets or liabilities that are acquired or incurred principally for the purpose of selling or repurchasing in the near term, or that are 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 that are designated to this category at initial recognition.

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Bank has the positive intention and ability to hold to maturity, and which are not designated at fair value through profit or loss, or available for sale.

Available-for-sale assets are those financial assets that are designated as available-for-sale or are not classified as loans and receivables, held-to-maturity investments or financial instruments at fair value through profit or loss.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than (a) those that the Bank intends to sell immediately or in the short-term, (b) those that the Bank upon initial recognition designates as at the fair value through profit or loss or as available for sale; or (c) those for which the holder may not recover substantially all of its initial investments, other than because of credit deterioration. Loans and receivables include amounts due from credit institutions on term, loans and receivables from customers and other financial assets which comply with these classification criteria.

Liabilities at amortised cost include deposits and balances to banks and current accounts and deposits from customers.

All regular way purchases and sales of investment securities are recognised at the settlement date, which is the date that an asset is delivered to or by an enterprise.

Reclassification of financial assets

In October 2008 the IASB issued Reclassification of Financial Assets (Amendments to IAS 39 Financial Instruments: Recognition and Measurement and IFRS 7 Financial Instruments: Disclosures). The amendment to IAS 39 permits an entity to reclassify non-derivative financial assets, other than those designated at fair value through profit or loss upon initial recognition, out of the fair value through profit or loss (i.e. trading) category if they are no longer held for the purpose of being sold or repurchased in the near term, as follows:

- If the financial asset would have met the definition of loans and receivables, if the financial asset had not been required to be classified as held for trading at initial recognition, then it may be reclassified if the entity has the intention and ability to hold the financial asset for the foreseeable future or until maturity.
- If the financial asset would not have met the definition of loans and receivables, then it may be reclassified out of the trading category only in 'rare circumstances'.

The amendment to IAS 39 also permits an entity to transfer from the available-for-sale category to the loans and receivables category a non-derivative financial asset that otherwise would have met the definition of loans and receivables if the entity has the intention and ability to hold that financial asset for the foreseeable future or until maturity.

The amendment to IFRS 7 introduces additional disclosure requirements if an entity has reclassified financial assets in accordance with the amendment to IAS 39. The amendments are effective retrospectively from 1 July 2008.

Neither the Bank nor the Group has reclassified financial assets under these amendments.

Recognition

The Group and the Bank initially recognise loans and receivables, deposits and debt securities issued on the date at which they are originated. All other financial assets and liabilities are recognised in the balance sheet on the trade date when the Group or the Bank becomes a party to the contractual provisions of the instrument.

Measurement

A financial asset or liability is initially measured at its fair value plus, in the case of a financial asset or liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or liability.

Subsequent to initial recognition, financial assets are measured at their fair values, without any deduction for transaction costs that may be incurred on sale or other disposal, except for:

- held-to-maturity investments and loans and receivables that are measured at amortised cost using the effective interest method; and
- investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured which are measured at cost.

All financial liabilities, other than those designated at fair value through profit or loss and financial liabilities that arise when a transfer of a financial asset carried at fair value does not qualify for derecognition, are measured at amortised cost. Amortised cost is calculated using the effective interest method. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortised based on the effective interest rate of the instrument.

Fair value measurement principles

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction on the measurement date.

When available, the Group and the Bank measure the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis.

If a market for a financial instrument is not active, the Group and the Bank establish fair value using a valuation technique. Valuation techniques include recent arm's length transactions between knowledgeable, willing parties (if available), reference to the current fair value of other instruments that are substantially the same, discounted cash flow analyses and option pricing models. The chosen valuation technique makes maximum use of market inputs, relies as little as possible on estimates specific to the Bank, incorporates all factors that market participants would consider in setting a price, and is consistent with accepted economic methodologies for pricing financial instruments.

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price, i.e., the fair value of the consideration given or received, unless the fair value of that instrument is evidenced by comparison with other observable current market transactions with the same instrument (i.e., without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets. When the transaction price provides the best evidence of fair value at initial recognition, the financial instrument is initially measured at the transaction price and any difference between this price and the value initially obtained from a valuation model is subsequently recognised in profit or loss depending on the individual facts and circumstances of the transaction but not later than when the valuation is supported wholly by observable market data or the transaction is closed out.

Assets and long positions are measured at a bid price; liabilities and short positions are measured at an asking price. Where the Group or the Bank has positions with offsetting risks, mid-market prices are used to measure the offsetting risk positions and a bid or asking price adjustment is applied only to the net open position as appropriate. Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit. Fair value estimates obtained from models are adjusted for any other factors, such as liquidity risk or model uncertainties, to the extent that the Group or the Bank believe a third-party market participant would take them into account in pricing a transaction.

Gains and losses on subsequent measurement

A gain or loss arising from a change in the fair value of a financial asset or liability is recognised as follows:

- a gain or loss on a financial instrument classified as at fair value through profit or loss is recognised in the income statement;
- a gain or loss on an available-for-sale financial asset is recognised directly in equity through the statement of changes in shareholders' equity (except for impairment losses and foreign exchange gains and losses) until the asset is derecognised, at which time the cumulative gain or loss previously recognised in equity is recognised in the income statement. Interest in relation to an available-for-sale financial asset is recognised as earned in the income statement calculated using the effective interest method.

For financial assets and liabilities carried at amortised cost, a gain or loss is recognised in the income statement when the financial asset or liability is derecognised or impaired, and through the amortisation process.

Derecognition

A financial asset is derecognised when the contractual rights to the cash flows from the financial asset expire or when the Group or Bank transfer substantially all of the risks and rewards of ownership of the financial asset. Any rights or obligations created or retained in the transfer are recognised separately as assets or liabilities. A financial liability is derecognised when it is extinguished.

The Group and Bank also derecognise certain assets when it writes off balances pertaining to the assets deemed to be uncollectible.

Offsetting

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

Repurchase and reverse repurchase agreements

Securities sold under sale and repurchase ("repo") agreements are accounted for as secured financing transactions, with the securities retained in the balance sheet and the counterparty liability included in amounts payable under repo transactions. The difference between the sale and repurchase price represents the interest expense and is recognised in the income statement over the term of the repo agreement using the effective interest rate method.

Securities purchased under agreements to resell ("reverse repo") are recorded as amounts receivable under reverse repo transactions. The differences between the purchase and resale prices are treated as interest income and accrued over the term of the reverse repo agreement using the effective interest method.

If assets are purchased under agreement to resell are sold to third parties, the obligation to return securities is recorded as a trading liability and measured at fair value.

Derivatives

Derivative financial instruments including foreign exchange contracts, currency and interest rate swaps and other derivative financial instruments are initially recognised in the balance sheet at their fair value. Attributable transaction costs are recognised in the profit or loss when incurred. Fair values are obtained from quoted market prices and discounted cash flow models as appropriate. All derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Neither the Group nor the Bank applies hedge accounting.

Property and equipment

Owned assets

Items of property and equipment are stated at cost less accumulated depreciation and impairment losses.

Where an item of property and equipment comprises major components having different useful lives, they are accounted for as separate items of property and equipment.

Depreciation

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of the individual assets. Depreciation commences on the date when available for use or, in respect of internally constructed assets, from the time an asset is completed and ready for use. Land is not depreciated. Depreciation methods, useful lives and residual values are reviewed annually.

The annual depreciation rates are as follows:

Category	*Annual Rate*
Equipment	20%
Computers and equipment	33%
Network equipment and servers	25%
Vehicles	20%

Intangible assets

Intangible assets, which are acquired by the Group or Bank, are stated at cost less accumulated amortisation and impairment losses.

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets. The estimated useful lives are 5 to 7 years.

Income and expense recognition

All significant income and expense categories are recognised on an accrual basis.

Interest income and expense are recognised in the income statement as they accrue, taking into account the effective interest rate of the asset/liability. Interest income and expense include the amortisation of any discount or premium or other differences between the initial carrying amount of an interest bearing instrument and its amount at maturity calculated on an effective interest rate basis.

In case of impairment of the interest bearing assets, interest continues to be accrued on the net carrying amount using the effective interest method.

Fees and commissions (excluding commissions for long-term loans issued) are accounted for when collected or incurred. Income and expense that refer to the accounting period are reflected in the income statement regardless of the date of receipt or payment.

Loan origination fees and related direct costs associated with the loan origination are deferred over the estimated average life of the loans, usually under the effective interest rate method.

Investment in subsidiaries

Investments in subsidiaries are carried at the initial cost in the Bank's financial statements. The Bank recognises income from the investment only to the extent that the Bank receives distributions from accumulated profits of the subsidiary arising after the date of acquisition.

Impairment

Financial assets

At each balance sheet date the Bank assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. Financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset, and that the loss event has an impact on the future cash flows of the asset that can be estimated reliably.

Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency by a borrower, restructuring of a loan or advance by the Bank on terms that the Bank would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the group. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

The Group and Bank consider evidence of impairment for loans and advances and held-to-maturity investment securities at both a specific asset and collective level. All individually significant loans and advances and held-to-maturity investment securities are assessed for specific impairment. All individually significant loans and advances and held-to-maturity investment securities found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Loans and advances and held-to-maturity investment securities that are not individually significant are collectively assessed for impairment by grouping together loans and advances and held-to-maturity investment securities with similar risk characteristics.

In assessing collective impairment the Group and Bank use statistical modelling of historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical modelling. Default rates, loss rates and the expected timing of future recoveries are regularly benchmarked against actual outcomes to ensure that they remain appropriate.

Impairment losses on assets carried at amortised cost are measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against loans and advances. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Impairment losses on available-for-sale investment securities are recognised by transferring the cumulative loss that has been recognised directly in equity to profit or loss. The cumulative loss that is removed from equity and recognised in profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised in profit or loss. Changes in impairment provisions attributable to time value are reflected as a component of interest income.

If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed, with the amount of the reversal recognised in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised directly in equity.

Non-financial assets

The carrying amounts of the Group's and the Bank's non-financial assets, other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognised in profit or loss.

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

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

Calculation of recoverable amount

The recoverable amount of the Group's and the Bank's investments in held-to-maturity securities and receivables is calculated as the present value of expected future cash flows, discounted at the original effective interest rate inherent in the asset. The recoverable amount of the Group's and Bank's financial assets at fair value through profit or loss and investments available-for-sale is their fair value.

The recoverable amount of other assets is the greater of their net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

Credit related commitments

In the normal course of business, the Group and the Bank enter into credit related commitments, comprising undrawn loan commitments, letters of credit and guarantees, and provides other forms of credit insurance.

Financial guarantees are contracts that require the Group or the Bank to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

A financial guarantee liability is recognised initially at fair value net of associated transaction costs, and is measured subsequently at the higher of the amount initially recognised less cumulative amortisation or the amount of provision for losses under the guarantee. Provisions for losses under financial guarantees and other credit related commitments are recognised when losses are considered probable and can be measured reliably.

Taxation

Income tax expense comprises current and deferred tax. Income tax expense is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

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

Deferred tax is provided for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries to the extent that they probably will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Cash and cash equivalents

Cash and cash equivalents include notes and coins on hand, unrestricted balances held with the Bank of Latvia and highly liquid financial assets with original maturities of less than three months, which are subject to insignificant risk of changes in their fair value, and are used by the Bank in the management of its short-term commitments.

Leases

Finance lease

A finance lease is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset. Title may or may not eventually be transferred.

When assets are leased out or under a finance lease, the net investment in the finance lease is recognised as a receivable. The net investment in the finance lease represents the difference between the gross receivable and the unearned finance income.

Operating lease

An operating lease is a lease other than a finance lease.

Assets leased out under an operating lease are presented within property and equipment in the balance sheet less accumulated depreciation. They are depreciated over their expected useful lives on a basis consistent with similar owned property and equipment.

Segment reporting

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

Provisions

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

A provision for restructuring is recognised when the Group or the Bank has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating costs are not provided for.

Dividends

The Group or Bank receives dividends from the equity instruments that are recorded to income when the right to receive payment is established.

Proposed dividends are recognised in the financial statements only when approved by the shareholders.

Employee benefits

Short term employee benefits, including salaries and social contributions, bonuses and vacation benefits are included in net operating expenses on an accrual basis. The Bank pays fixed security contributions to the State Social Fund on behalf of its employees during the employment period in accordance with local legal requirements and will have no obligations to pay further contributions relating to employee services in respect to the pension of retired employees.

Funds under trust management

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

New International Financial Reporting Standards and interpretations not yet effective

A number of new standards amendments to standards and interpretations are not yet effective for the year ended 31 December 2008, and have not been applied in preparing these financial statements:

IFRIC 13 Customer Loyalty Programmes addresses the accounting by entities that operate or otherwise participate in customer loyalty programmes under which the customer can redeem credits for awards such as free or discounted goods or services. IFRIC becomes mandatory for the Bank's 2009 financial statements and will be applicable retrospectively. The interpretation is not relevant to the Group or the Bank.

An amendment to *IFRS 2 Share-based Payment – Vesting Conditions and Cancellations* clarifies the definition of vesting conditions, introduces the concept of non-vesting conditions, requires non-vesting conditions to be reflected in grant-date fair value and provides the accounting treatment for non-vesting conditions and cancellations. The amendment is not relevant to the Group or the Bank.

A revised *IFRS 3 Business Combinations (2008)* incorporates the following changes:

- the definition of a business has been broadened
- contingent consideration will be measured at fair value, with subsequent changes in fair value recognised in profit or loss
- transaction cost, other than share and debt issue costs, will be expensed as incurred
- any pre-existing interest in an acquiree will be measured at fair value, which the related gain or loss recognised in profit or loss
- any non-controlling (minority) interest will be measured at either fair value, or at its proportionate interest in the identifiable assets and liabilities of an acquiree, on a transaction-by-transaction basis.

The revised IFRS 3, which becomes mandatory for the Group's and the Bank's 2010 financial statements, will be applied prospectively and therefore will have no impact on prior periods in the financial statements.

IFRS 8 Operating Segments introduces the "management approach" to segment reporting. IFRS 8, which becomes mandatory for the Group's and the Bank's 2009 consolidated financial statements, will require a change in the presentation and disclosure of segment information based on the internal reports that are regularly reviewed by the Group's and the Bank's "chief operating decision maker" in order to assess each segment's performance and to allocate resources to them. Currently, the Group and the Bank present segment information in respect of its business and geographical segments. The Group and the Bank are currently in the process of determining the potential effect of this standard on the Group's and the Bank's segment reporting.

The revised *IAS 1 Presentation of Financial Statements (2007)* introduces the term "total comprehensive income," which represents changes in equity during a period other than those changes resulting from transactions with owners in their capacity as owners. Total comprehensive income may be presented in either a single statement of comprehensive income (effectively combining both the income statement and all non-owner changes in equity in a single statement), or in an income statement and a separate statement of comprehensive income. The Group and the Bank will apply this amendment from the annual period beginning 1 January 2009.

The revised *IAS 23 Borrowing Costs* removes the option to expense borrowing costs and requires that an entity capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. The revised IAS 23 will become mandatory for the Bank's 2009 financial statements and will constitute a change in accounting policy for the Bank. In accordance with the transitional requirements, the Bank will apply the revised IAS 23 to qualifying assets for which capitalisation of borrowing costs commences on or after the effective date. Therefore, there will be no impact on prior periods in the Group's and Bank's 2009 financial statements.

The amended *IAS 27 Consolidated and Separate Financial Statements (2008)* requires accounting for changes in ownership interests in a subsidiary that occur without loss of control to be recognised as an equity transaction. When the Bank loses control of a subsidiary, any interest retained in the former subsidiary will be measured at fair value with the gain or loss recognised in profit or loss. The amendments to IAS 27, which become mandatory for the Bank's and Group's 2010 financial statements.

Amendments to IAS 32 and IAS 1 *Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation* require puttable instruments and instruments that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation to be classified as equity if certain conditions are met. The amendments, which become mandatory for the Group's and Bank's 2009 financial statements with retrospective application required, are not expected to have any significant impact on the financial statements.

Amendments to IAS 39 *Financial Instruments: Recognition and Measurement – Eligible Hedged Items* clarify the application of existing principles that determine whether specific risks or portions of cash flows are eligible for designation in a hedging relationship. The amendments will become mandatory for the Bank's 2010 financial statements, with retrospective application required. The Group and Bank are currently in the process of evaluating the potential effect of this amendment.

IFRIC 15 *Agreements for the Construction of Real Estate* clarifies that revenue arising from agreements for the construction of real estate is recognised by reference to the stage of completion of the contract activity in the following cases:

- the agreement meets the definition of a construction contract in accordance with IAS 11.3;
- the agreement is only for the rendering of services in accordance with IAS 18 (e.g., the entity is not required to supply construction materials); and
- the agreement is for the sale of goods but the revenue recognition criteria of IAS 18.14 are met continuously as construction progresses.

In all other cases, revenue is recognised when all of the revenue recognition criteria of IAS 18.14 are satisfied (e.g., upon completion of construction or upon delivery). IFRIC 15 is not relevant to the Group's or Bank's operations as neither the Group nor the Bank provide real estate construction services or develop real estate for sale.

IFRIC 16 *Hedges of a Net Investment in a Foreign Operation* clarifies that:

- net investment hedging can be applied only to foreign exchange differences arising between the functional currency of a foreign operation and the parent entity's functional currency and only in an amount equal to or less than the net assets of the foreign operation
- the hedging instrument may be held by any entity within the group except the foreign operation that is being hedged
- on disposal of a hedged operation, the cumulative gain or loss on the hedging instrument that was determined to be effective is reclassified to profit or loss.

The interpretation allows an entity that uses the step-by-step method of consolidation an accounting policy choice to determine the cumulative currency translation adjustment that is reclassified to profit or loss on disposal of a net investment as if the direct method of consolidation had been used. IFRIC 16, which becomes mandatory for the Group's and Bank's 2009 financial statements, applies prospectively to the Bank's existing hedge relationships and net investments. The amendment is not expected to be relevant to the Group or the Bank.

IFRIC 17 *Distributions of Non-cash Assets to Owners* applies to non-reciprocal distributions of non-cash assets to owners acting in their capacity as owners and is effective prospectively for annual periods beginning on or after 15 July 2009. In accordance with the interpretation a liability to pay a dividend shall be recognised when the dividend is appropriately authorised and is no longer at the discretion of the entity and shall be measured at the fair value of the assets to be distributed. The carrying amount of the dividend payable shall be remeasured at each reporting date, with any changes in the carrying amount recognised in equity as adjustments to the amount of the distribution. When the dividend payable is settled the difference, if any, between the carrying amount of the assets distributed and the carrying amount of the dividend payable shall be recognised in profit or loss. As the interpretation is applicable only from the date of application, it will not impact on the financial statements for periods prior to the date of adoption of the interpretation. Further, since it relates to future dividends that will be at the discretion of the board of directors/shareholders it is not possible to determine the effects of application in advance.

2 Risk management

The Group and the Bank have exposure to the following risks:

- credit risk
- liquidity risk
- market risks
- operational risks

This note presents information about the Group's and the Bank's exposure to each of the above risks, the Group's and the Bank's objectives, policies and processes for measuring and managing risk.

Risk management policies and procedures

The Group's and the Bank's risk management policies aim to identify, analyse and manage the risks faced by the Group and the Bank, to set appropriate risk limits and controls, and to continuously monitor risk levels and adherence to limits. Risk management policies and procedures are reviewed regularly to reflect changes in market conditions, products and services offered and emerging best practice.

The Management Board of the Bank has overall responsibility for the oversight of the risk management framework, overseeing the management of key risks and reviewing its risk management policies and procedures as well as approving significantly large exposures.

The Management Board of the Bank is responsible for monitoring and implementation of risk mitigation measures and making sure that the Bank operates within the established risk parameters. The head of the Risk Department of the Bank is responsible for the overall risk management, ensuring the implementation of common principles and methods for identifying, measuring, managing and reporting both financial and non-financial risks. He reports directly to the chairman of the board of the Bank and indirectly to the Management Board. The head of the Compliance Department of the Bank is responsible for compliance functions.

Credit, market and liquidity risks both at portfolio and transactional levels are managed and controlled through a system of Credit Committees and an Asset and Liability Committee (ALCO).

Both external and internal risk factors are identified and managed throughout the Bank's organisational structure. Particular attention is given to developing risk maps that are used to identify the full range of risk factors and serve as a basis for determining the level of assurance over the current risk mitigation procedures. Apart from the standard credit and market risk analysis, the Risk Department monitors financial and non-financial risks by holding regular meetings with operational units in order to obtain expert judgements in their areas of expertise

Market risks

Market risk is the risk that movements in market prices, including foreign exchange rates, interest rates, credit spreads and equity prices will affect the Bank's income or the value of its portfolios. Market risks comprise currency risk, interest rate risk and other price risk. Market risk arises from open positions in interest rate, currency and equity financial instruments, which are exposed to general and specific market movements and changes in the level of volatility of market prices.

The objective of market risk management is to manage and control market risk exposures within acceptable parameters, whilst optimising the return on risk.

Overall authority for market risk is vested in the ALCO, chaired by the chairman of the board of the Bank. Market risk limits are approved by ALCO based on recommendations of the Risk Department.

The Group and the Bank manage their market risk by setting open position limits in relation to the financial instrument, interest rate maturity and currency positions and stop-loss limits which are monitored on a regular basis and reviewed and approved by the Management Board.

In addition, the Group and Bank use a wide range of stress tests to model the financial impact of a variety of exceptional market scenarios on individual trading portfolios and the Group's and the Bank's overall position. Stress tests provide an indication of the potential size of losses that could arise in extreme conditions. The stress tests carried out by the Group and the Bank include: risk factor stress testing, where stress movements are applied to each risk category and ad hoc stress testing, which includes applying possible stress events to specific positions.

The management of interest rate risk by monitoring interest rate gap is supplemented by monitoring the sensitivity of the Bank's net interest margin to various standard and non-standard interest rate scenarios.

Interest rate risk

Interest rate risk is the risk that movements in interest rates will affect the Group's and the Bank's income or the value of its portfolios of financial instruments.

The Group and the Bank is exposed to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may also reduce or create losses in the event that unexpected movements arise.

Fair value of financial assets at fair value through profit or loss and financial assets available for sale is not sensitive to interest rate changes as the portfolio for the these categories consists of equity securities and as of 31 December 2008 and 2007. For sensitivity analysis results, refer to Note 38.

Currency risk

The Bank has assets and liabilities denominated in several foreign currencies. Foreign currency risk arises when the actual or forecasted assets in a foreign currency are either greater or less than the liabilities in that currency. For further information on the Group's and Bank's exposure to currency risk at year end refers to Notes 35 Currency analysis.

An analysis of sensitivity of the Bank's net income for the year and equity to changes in the foreign currency exchange rates based on positions existing as at 31 December 2008 and 2007 and a simplified scenario of a 5% change in USD or EUR to LVL exchange rates is as follows:

	2008		2007	
'000 LVL	**Net income**	**Equity**	**Net income**	**Equity**
5% appreciation of USD against LVL	21	21	(8)	(8)
5% depreciation of USD against LVL	(21)	(21)	8	8
5% appreciation of EUR against LVL	(47)	(47)	(14)	(14)
5% depreciation of EUR against LVL	47	47	14	14

Price risk

Price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual instrument or factors affecting all instruments traded in the market. Price risk arises when the Group or the Bank takes a long or short position in a financial instrument. As at 31 December 2008 the Bank and Group does not hold financial instruments whichcould be impacted by price risk.

Credit risk

Credit risk is the risk of financial loss occurring as a result of default by a borrower or counterparty on their obligation to the Group or the Bank. The Group and the Bank have developed policies and procedures for the management of credit exposures (both for on balance sheet and off balance sheet exposures), including guidelines to limit portfolio concentration and the establishment of a Credit Committee, which actively monitors the Group's and the Bank's credit risk. The Group's and the Bank's credit policy is reviewed and approved by the Management Board.

The Group's and Bank's credit policy establishes:

- Procedures for review and approval of loan/credit applications;
- Methodology for the credit assessment of borrowers (corporate, SME and retail);
- Methodology for the credit assessment of counterparties, issuers and insurance companies;
- Methodology for the evaluation of collateral;
- Credit documentation requirements;
- Procedures for the ongoing monitoring of loans and other credit exposures.

Corporate loan/credit applications are originated by the relevant client managers and are then passed on to the Loan Department, which is responsible for the Bank's corporate loan portfolio. Reports produced by the department's credit analysts are based on a structured analysis focusing on the customer's business and financial performance. Individual transactions are also reviewed by the Bank's Legal, Accounting and Tax Departments depending on the specific risks and pending final approval of the Credit Committee.

The Group and Bank continuously monitor the performance of individual credit exposures and regularly reassesses the creditworthiness of its customers. The review is based on the customer's most recent financial statements and other information submitted by the borrower, or otherwise obtained by the Bank. The current market value of collateral is regularly assessed by either independent appraisal companies or the Bank's specialists, and in the event of negative movements in market prices the borrower is usually requested to put up additional security.

Retail loan/credit applications are reviewed by the Bank's Retail Lending Division through the use of scoring models and application data verification procedures developed together with the Risk Department.

Apart from individual customer analysis, the whole credit portfolio is assessed by the Risk Department with regard to credit concentration and market risks.

The Group's and Bank's maximum exposure to on balance sheet credit risk is generally reflected in the carrying amounts of financial assets on the balance sheet. The impact of possible netting of assets and liabilities to reduce potential credit exposure is not significant.

The Group and Bank monitor concentrations of credit risk by industry/sector and by geographic location. For the analysis of concentration of credit risk in respect of Loans and receivables from customers refer to Note 14 Loans and receivables from customers.

Liquidity risk

Liquidity risk is the risk that the Group or the Bank will encounter difficulty in raising funds to meet their commitments. Liquidity risk exists when the maturities of assets and liabilities do not match. The matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of financial institutions, including the Bank. It is unusual for financial institutions ever to be completely matched since business transacted is often of an uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses.

The Group and the Bank maintain liquidity management with the objective of ensuring that funds will be available at all times to honour all cash flow obligations as they become due. The Group's and the Bank's liquidity policy is reviewed and approved by the Management Board.

The Group and the Bank seek to actively support a diversified and stable funding base comprising debt securities in issue, long-term and short-term loans from other banks, core corporate and retail customer deposits, accompanied by diversified portfolios of highly liquid assets, in order to be able to respond quickly and smoothly to unforeseen liquidity requirements.

The liquidity management policy of the Group and the Bank requires:

- projecting cash flows by major currencies and considering the level of liquid assets necessary in relation thereto;
- maintaining a diverse range of funding sources;
- managing the concentration and profile of debts;
- maintaining debt financing plans;
- maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any interruption to cash flow;
- maintaining liquidity and funding contingency plans;
- monitoring balance sheet liquidity ratios against regulatory requirements.

The Treasury Department receives information from business units regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. The Treasury Department then provides for an adequate portfolio of short-term liquid assets to be maintained, largely made up of short-term liquid trading securities, loans and receivables from banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Bank as a whole.

The daily liquidity position is monitored and regular liquidity stress testing under a variety of scenarios covering both normal and more severe market conditions is performed by the Treasury Department. Under normal market conditions, liquidity reports covering the liquidity position of the Bank are presented to senior management on a daily basis. Decisions on the Bank's liquidity management are made by the Asset and Liability Management Committee and implemented by the Treasury Department.

Operational risks

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Group's and the Bank's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the Group's and the Bank's operations.

The Group's and the Bank's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Bank's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management within each business unit. This responsibility is supported by the development of overall Group's and the Bank's standards for the management of operational risk in the following areas:

- requirements for appropriate segregation of duties, including the independent authorisation of transactions
- requirements for the reconciliation and monitoring of transactions
- compliance with regulatory and other legal requirements
- documentation of controls and procedures
- requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified
- development of contingency plans
- training and professional development
- ethical and business standards
- risk mitigation, including insurance where this is effective.

Compliance with Group and Bank standards is supported by a program of periodic reviews undertaken by Internal Audit. The results of Internal Audit reviews are discussed with the management of the business unit to which they relate, with summaries submitted to the senior management of the Group and the Bank. There is an operational risk event register in the Group and the Bank, where all operational risk events are registered. Monthly, the Risk Department prepares a summary report for the Management Board about the events of operating risk in the Group and the Bank. Methods for the quantitative and qualitative analysis of operational risk, and also stress-testing scenarios, are developed.

Capital management

The Group's and the Bank's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholders' returns is also recognised and the Group and the Bank recognise the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantage and security afforded by a solid capitalisation.

The FCMC sets and monitors capital requirements for the Bank.

The Bank defines as capital those items defined by statutory regulation as capital. Under the current capital requirements set by the FCMC banks have to maintain a ratio of capital to risk weighted assets ("statutory capital ratio") above the prescribed minimum level. As at 31 December 2008, this minimum level is 8%. The Bank was in compliance with the statutory capital ratio during the years ended 31 December 2008 and 2007.

The following table shows the composition of the Bank's capital position calculated in accordance with the requirements of the Basle II and the FCMC, as at 31 December 2008:

	Group	Bank
	'000 LVL	'000 LVL
Tier 1 capital		
Share capital	10 650	10 650
Additional paid-in capital	3 749	3 749
Retained earnings	690	238
Intangible assets	(126)	(99)
Total tier 1 capital	**14 963**	**14 538**
Total tier 2 capital	**-**	**-**
Total capital	**14 963**	**14 538**
Capital required	**11 095**	**11 003**
Total capital expressed as a percentage of risk-weighted assets ("total capital ratio")	**10.79 %**	**10.57 %**
Total capital expressed as a percentage of risk-weighted assets ("total capital ratio") as at 31 December 2007	**14.33 %**	**14.00 %**

The risk-weighted assets are measured by means of a hierarchy of risk weights classified according to the nature of – and reflecting an estimate of credit, market and other risks associated with – each asset and counterparty, taking into account any eligible collateral or guarantees. A similar treatment is adopted for off-balance sheet exposure, with some adjustments to reflect the more contingent nature of the potential losses.

3 Use of estimates and judgements

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

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

Key sources of estimation uncertainty:

Allowances for credit losses

Total allowances for impairment applies to financial assets evaluated individually for impairment and is based upon management's best estimate of the present value of the cash flows that are expected to be received. In estimating these cash flows, management makes judgements about a counterparty's financial situation and the net realisable value of any underlying collateral. Each impaired asset is assessed on its merits, and the workout strategy and estimate of cash flows considered recoverable are independently approved by the Credit Risk function.

Valuation of financial instruments

The determination of fair value for financial assets and liabilities for which there is no observable market price requires the use of valuation techniques as described in the accounting policy. For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgement depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

Impairment of financial instruments (other than loans)

The determination of impairment indication is based on a comparison of the financial instrument's carrying value and fair value. Due to downturns in the financial and capital markets, the market price is not always a reliable source for impairment indication. The Group and the Bank use valuation models based on quoted market prices of similar products.

For the purposes of impairment loss measurement, the Bank's management makes estimates of any expected changes in future cash flows from a specific financial instrument based on an analysis of the financial position of the issuer of the financial instrument.

Current market situation

The ongoing global liquidity crisis which commenced in the middle of 2007 resulted in, among other things, lower liquidity levels in financial and real estate markets, a lower level of capital market funding and lower liquidity across the banking sector. In addition, Latvia has been experiencing an economic downturn which has affected, and may continue to affect, the activities of enterprises operating in this environment. The accompanying financial statements reflect management's assessment of the impact of the Latvian and global business environment on the operations and the financial position of the Bank and the Group. The future developments in the business environment may differ from management's assessment.

4 Net interest income

	Group 2008 '000 LVL	Bank 2008 '000 LVL	Group 2007 '000 LVL	Group 2007 '000 LVL
Interest income				
Loans and receivables due from customers	9 710	9 579	6 170	6 022
Loans and receivables due from banks	1 152	1 152	1 074	1 074
Penalties from delayed interest payments	398	398	309	309
Other	30	30	49	49
	11 290	**11 159**	**7 602**	**7 454**
Interest expense				
Current accounts and deposits from customers	4 427	4 430	1 773	1 773
Mortgage bonds	936	936	698	698
Deposits and balances from banks	496	496	524	524
Payments to Deposit guarantee fund	213	213	175	175
	6 072	**6 075**	**3 170**	**3 170**
Net interest income	**5 218**	**5 084**	**4 432**	**4 284**

5 Fee and commission income

	Group 2008 '000 LVL	Bank 2008 '000 LVL	Group 2007 '000 LVL	Bank 2007 '000 LVL
Current account servicing	2 404	2 404	2 249	2 249
Payment cards servicing	234	234	198	198
Brokerage servicing	116	116	-	-
Asset management fees	22	22	9	9
Other commission income	203	204	169	170
	2 979	**2 980**	**2 625**	**2 626**

6 Fee and commission expense

	Group 2008 '000 LVL	Bank 2008 '000 LVL	Group 2007 '000 LVL	Bank 2007 '000 LVL
Commission fee for transfers	311	311	345	345
Commission fee for credit card servicing	88	88	83	83
Encashment fees	80	80	45	45
Other	235	134	210	79
	714	**613**	**683**	**552**

7 Net foreign exchange income

	Group 2008 '000 LVL	Bank 2008 '000 LVL	Group 2007 '000 LVL	Bank 2007 '000 LVL
Realised gain on financial assets and liabilities	2 411	2 422	707	700
Unrealised gain from revaluation of financial assets and liabilities	30	30	618	618
Net loss on spot transactions and derivatives	(130)	(130)	(55)	(55)
	2 311	**2 322**	**1 270**	**1 263**

8 Impairment losses

	Group 2008 '000 LVL	Bank 2008 '000 LVL	Group 2007 '000 LVL	Bank 2007 '000 LVL
Allowances for impairment losses	**890**	**789**	**541**	**420**
Increase in the loan loss allowances	2 655	2 135	877	782
Recovery of prior period loan loss allowances	(538)	(236)	(494)	(379)
Increase in the impairment allowances for other assets	37	-	-	-
Total net impairment for current period	*2 154*	*1 899*	*383*	*403*
Write-off of the loan loss allowances	(228)	(215)	(34)	(34)
Total allowances at the end of the year	**2 816**	**2 473**	**890**	**789**

9 General administrative expenses

	Group 2008 '000 LVL	Bank 2008 '000 LVL	Group 2007 '000 LVL	Bank 2007 '000 LVL
Salary of members of the Council and the Board	164	157	176	167
Remuneration to staff	3 631	3 477	2 600	2 514
Social taxes	891	853	650	628
Advertisment and marketing	477	464	465	463
Depreciation and amortisation	737	572	607	459
Office maintenance and redecoration	863	809	688	650
Communications and post	625	614	330	326
Transportation and business trips	161	168	144	143
Professional services	156	146	97	97
Legal services	40	24	31	31
Staff training	29	29	41	41
Other	319	325	439	408
	8 093	**7 638**	**6 268**	**5 927**

10 Income tax expense

Recognised in the income statement	Group 2008 '000 LVL	Bank 2008 '000 LVL	Group 2007 '000 LVL	Bank 2007 '000 LVL
Current tax expense				
Current year	91	27	187	146
	91	**27**	**187**	**146**
Deferred tax expense				
Origination and reversal of temporary differences	(58)	6	16	-
	(58)	**6**	**16**	**-**
Total income tax expense in the income statement	**33**	**33**	**203**	**146**

The Bank's applicable tax rates for current and deferred tax are 15% (2007: 15%) and 15% (2007:15%), respectively.

Reconciliation of effective tax rate:

	Group 2008 '000 LVL	Bank 2008 '000 LVL	Group 2007 '000 LVL	Bank 2007 '000 LVL
Income before tax	63	77	1 355	1 035
Income tax at the applicable tax rate	9	12	203	155
Non-deductible costs/(non-taxable income), net	28	25	21	21
Adjustments for foreign withholding tax	-	-	(7)	(7)
Tax allowance for donations	(4)	(4)	(22)	(22)
Deferred tax asset not recognised	-	-	9	-
Adjustment related to prior period	-	-	(4)	(4)
	33	**33**	**203**	**146**

11 Cash and balances with the Bank of Latvia

Cash and cash equivalents at the end of the financial year as shown in the statement of cash flow are composed of the following items:

	Group 2008 '000 LVL	Bank 2008 '000 LVL	Group 2007 '000 LVL	Bank 2007 '000 LVL
Cash	1 304	1 304	1 283	1 283
Due from Bank of Latvia	8 233	8 233	11 674	11 674
	9 537	**9 537**	**12 957**	**12 957**

Deposits with the Bank of Latvia represent the balance outstanding on correspondent account with the Bank of Latvia in LVL and EUR.

In accordance with the Bank of Latvia's regulations the Bank is required to maintain a compulsory reserve set based on the average monthly balance of the following items:

+ deposits from the public
- less liabilities against credit institutions
- less balance due to the State Treasury on its consolidated account with the Bank
+ bonds and other debt securities issued by the Bank.

The compulsory reserve is compared to the Bank's average monthly correspondent account balance in LVL. The Bank's average correspondent balance should exceed the compulsory reserve requirement. The Bank was in compliance with the aforementioned compulsory reserve requirement at the 31 December 2008 and 2007.

12 Loans and receivables due from banks

	Group 2008 '000 LVL	Bank 2008 '000 LVL	Group 2007 '000 LVL	Bank 2007 '000 LVL
Nostro accounts				
Latvian commercial banks	348	348	1 209	1 209
Banks domiciled in OECD countries	19 242	19 242	16 519	16 519
Non-OECD banks	294	294	589	589
Total nostro accounts	**19 884**	**19 884**	**18 317**	**18 317**
Loans and deposits				
Latvian commercial banks	1 116	1 116	1 300	1 300
Banks domiciled in OECD countries	29 801	29 801	3 100	3 100
Non-OECD banks	261	261	876	876
Total loans and deposits	**31 178**	**31 178**	**5 276**	**5 276**
	51 062	**51 062**	**23 593**	**23 593**

Correspondent accounts include amounts due from Deutche Bank (Bankers Trust) amounting to USD 170 thousand or LVL 84 thousand which are not included in the calculation of cash and cash equivalents due to such amounts being frozen at 31 December 2008. The Bank's management does not consider the frozen accounts at risk since the blocked customer accounts in deposits are directly linked to and exceed the blocked amount in the correspondent account with Deutche Bank (Bankers Trust) of USD 189 thousand (or LVL 94 thousand).

13 Financial instruments at fair value through profit or loss

Derivative financial instruments

Bank/Group LVL '000	**Notional amount**		**Fair value Assets**		**Fair value Liabilities**	
	31.12.2008	**31.12.2007**	**31.12.2008**	**31.12.2007**	**31.12.2008**	**31.12.2007**
Forward currency exchange agreements	17 201	34 272	466	472	940	-
Total	**17 201**	**34 272**	**466**	**472**	**940**	**-**

Derivative financial instruments held as at 31 December 2008 comprise contracts in LVL, EUR and USD. Maturities of derivatives vary from 5 January 2009 to 21 January 2009.

14 Loans and receivables due from customers

	Group 2008 '000 LVL	**Bank 2008 '000 LVL**	**Group 2007 '000 LVL**	**Bank 2007 '000 LVL**
Commercial loans				
Loans to corporates	1 117	16 269	1 208	14 802
Loans to small and medium size companies	40 255	30 528	32 724	23 096
Total commercial loans	**41 372**	**46 797**	**33 932**	**37 898**
Loans to individuals				
Consumer loans	2 629	2 629	931	919
Credit cards	3 610	3 610	1 690	1 690
Auto loans	4 968	-	4 556	-
Mortgage loans	64 587	64 587	48 125	48 125
Other	780	780	4 970	4 970
Total loans to individuals	**76 574**	**71 606**	**60 272**	**55 704**
Gross loans and advances to customers	**117 946**	**118 403**	**94 204**	**93 602**
Impairment allowance	(2 779)	(2 473)	(890)	(789)
Net loans and advances to customers	**115 167**	**115 930**	**93 314**	**92 813**

During the year ended 31 December 2008 the Bank renegotiated 534 commercial loans that would otherwise be past due or impaired of LVL 33 642 thousand (31 December 2007: nil). Such restructuring activity is aimed at managing customer relationships and maximising collection opportunities.

14 Loans and receivables from customers, continued

Finance lease receivables

Loans and advances to customers include the following finance lease receivables for leases of certain property and equipment where the Group is lessor:

LVL'000	2008	2007
Gross investment in finance leases, receivable:		
Less than one year	461	386
Between one and five years	14 359	13 667
More than five years	479	1 005
	15 299	15 058
Unearned finance income	594	554
Net investment in finance leases	**14 705**	**14 504**
The net investment in finance leases comprises:		
Less than one year	391	298
Between one and five years	13 844	13 222
More than five years	470	984
	14 705	**14 504**

Industry analysis of the loan portfolio

	Group 2008 '000 LVL	Bank 2008 '000 LVL	Group 2007 '000 LVL	Bank 2007 '000 LVL
Trade	3 046	2 824	3 121	3 074
Manufacturing	1 408	888	952	936
Mining/metallurgy	1 699	910	1 690	1 211
Finance	11 389	27 013	7 830	21 406
Real estate	10 797	10 205	9 083	8 476
Agriculture, forestry and timber	1 208	533	888	128
Other commercial loans	11 830	4 424	10 368	2 664
Loans to individuals	76 574	71 606	60 272	55 707
	117 946	**118 403**	**94 204**	**93 602**
Impairment allowance	(2 779)	(2 473)	(890)	(789)
	115 167	**115 930**	**93 314**	**92 813**

Geographical analysis of the loan portfolio

	Group 2008 '000 LVL	Bank 2008 '000 LVL	Group 2007 '000 LVL	Bank 2007 '000 LVL
Latvia	115 907	116 364	93 140	92 538
OECD countries	962	962	341	341
Non-OECD countries	1 077	1 077	723	723
	117 946	**118 403**	**94 204**	**93 602**
Impairment allowance	(2 779)	(2 473)	(890)	(789)
	115 167	**115 930**	**93 314**	**92 813**

Credit quality of commercial loan portfolio

Analysis of collateral

The following table provides the analysis of commercial loan portfolio, net of impairment, by types of collateral as at 31 December 2008:

Group

	31 December 2008	% of loan portfolio	31 December 2007	% of loan portfolio
Real estate	15 989	40	13 080	39
Motor vehicles	8 085	20	8 973	26
Commercial pledge	4 742	12	3 550	11
Deposits	422	1	282	1
Other collateral	7 205	18	7 508	22
No collateral	3 640	9	243	1
Total	**40 083**	**100**	**33 636**	**100**

Bank

	31 December 2008	% of loan portfolio	31 December 2007	% of loan portfolio
Real estate	15 989	35	13 080	35
Commercial pledge	20 084	44	17 534	47
Deposits	422	1	282	1
Other collateral	6 049	13	6 351	16
No collateral	3 133	7	414	1
Total	**45 677**	**100**	**37 661**	**100**

The amounts shown in the table above represent the carrying value of the loans, and do not necessarily represent the fair value of the collateral.

The following table provides the analysis of loans to individuals portfolio, net of impairment, by types of collateral as at 31 December 2008:

Group:

	31 December 2008	% of loan portfolio	31 December 2007	% of loan portfolio
Real estate	65 640	88	53 044	89
Motor vehicles	4 832	6	3 584	6
Other collateral	398	0	104	0
No collateral	4 214	6	2 946	5
Total	**75 084**	**100**	**59 678**	**100**

Bank

	31 December 2008	% of loan portfolio	31 December 2007	% of loan portfolio
Real estate	65 640	93	53 007	96
Other collateral	396	1	104	0
No collateral	4 217	6	2 041	4
Total	**70 253**	**100**	**55 152**	**100**

The amounts shown in the table above represent the carrying value of the loans, and do not necessarily represent the fair value of the collateral.

Commercial loan allocation, depending on delay of payments

Group

LVL'000		**Loans with**	**Of which past due by the following terms**					
Loans (residual value plus accrued interest)		**no delayed payments**	**Less than 30 days**	**30-60 days**	**61-90 days**	**91-180 days**	**181-360 days**	**More than 360 days**
31 December 2008								
	41 372	32 557	1 728	1 029	1 322	1 322	2 942	472
Impairment allowance	**(1 289)**	(468)	(7)	-	(45)	(234)	(278)	(257)
Net carrying value	**40 083**	32 089	1 721	1 029	1 277	1 088	2 664	215
31 December 2007								
	33 932	28 956	2 020	1 767	190	906	93	-
Impairment allowance	**(296)**	(25)	-	(246)	(4)	(4)	(17)	-
Net carrying value	**33 636**	28 931	2 020	1 521	186	902	76	-

Bank

LVL'000 Loans (residual value plus accrued interest)		Loans with no delayed payments	Of which past due by the following terms: Less than 30 days	30-60 days	61-90 days	91-180 days	181-360 days	More than 360 days
31 December 2008								
	46 797	42 763	484	305	546	813	1 475	411
Impairment allowance	**(1 120)**	(385)	-	-	(41)	(224)	(222)	(248)
Net carrying value	**45 677**	42 378	484	305	505	589	1 253	163
31 December 2007								
	37 898	36 429	1	1 468	-	-	-	-
Impairment allowance	**(237)**	(5)	-	(232)	-	-	-	-
Net carrying value	**37 661**	36 424	1	1 236	-	-	-	-

Individual loan allocation, depending on delay of payments

Group

LVL'000 Loans (residual value plus accrued interest)		Loans with no delayed payments	Less than 30 days	30-60 days	Of which past due by the following terms: 61-90 days	91-180 days	181-360 days	More than 360 days
31 December 2008								
	76 574	38 351	15 163	6 031	1 929	4 016	6 582	4 502
Impairment allowance	**(1 490)**	(66)	(1)	-	(7)	(24)	(655)	(737)
Net carrying amount	**75 084**	38 285	15 162	6 031	1 922	3 992	5 927	3 765
31 December 2007								
	60 272	43 441	6 206	5 171	2 131	2 569	687	67
Impairment allowance	**(594)**	(38)	(4)	(37)	(57)	(175)	(242)	(41)
Net carrying amount	**59 678**	43 403	6 202	5 134	2 074	2 394	445	26

Bank

LVL'000 Loans (residual value plus accrued interest)		Loans with no delayed payments	Less than 30 days	30-60 days	Of which past due by the following terms: 61-90 days	91-180 days	181-360 days	More than 360 days
31 December 2008								
	71 606	35 906	14 085	5 608	1 746	3 724	6 187	4 350
Impairment allowance	(1 353)	(43)	-	-	-	(18)	(586)	(706)
Net carrying amount	70 253	35 863	14 085	5 608	1 746	3 706	5 601	3 644

LVL'000 Loans (residual value plus accrued interest)		Loans with no delayed payments	Of which past due by the following terms					
			Less than 30 days	30-60 days	61-90 days	91-180 days	181-360 days	More than 360 days
31 December 2007								
	55 704	40 525	5 314	4 817	1 940	2 440	641	27
Impairment allowance	**(552)**	(31)	(3)	(36)	(57)	(166)	(233)	(26)
Net carrying amount	**55 152**	40 494	5 311	4 781	1 883	2 274	408	1

Impaired loans

	Bank		Group	
	2008 '000 LVL	**2007 '000 LVL**	**2008 '000 LVL**	**2007 '000 LVL**
Impaired loans gross	10 707	3 133	12 530	3 457
Impairment allowance	(2 473)	(789)	(2 779)	(890)
Net Loans and receivables from customers	**8 234**	**2 344**	**9 751**	**2 567**
Fair value of collateral related to impaired loans	**20 634**	**8 752**	**23 093**	**9 234**

When reviewing the loans the Bank sets the following categories for individual loans to assess their credit risk:

Bank

	Gross 2008 '000 LVL	**Impairment allowance**	**Gross 2007 '000 LVL**	**Impairment allowance**
Standard	65 909	0	53 888	0
Watch	4 085	448	1 226	154
Substandard	987	319	164	48
Doubtful	211	109	195	120
Lost	414	477	231	230
Total	**71 606**	**1 353**	**55 704**	**552**

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Group

2008 '000 LVL	Gross 2008 '000 LVL	Impairment allowance	Gross 2007 '000 LVL	Impairment allowance
Standard	70 582	0	58 257	0
Watch	4 136	451	1 379	164
Substandard	987	319	185	54
Doubtful	389	163	208	127
Lost	480	557	243	249
Total	**76 574**	**1 490**	**60 272**	**594**

When reviewing the loans the Bank sets the following categories for commercial loans to assess their credit risk:

Bank

	Gross 2008 '000 LVL	Impairment allowance	Gross 2007 '000 LVL	Impairment allowance
Standard	41 317	-	36 431	-
Watch	4 642	464	891	66
Substandard	376	134	576	171
Doubtful	334	231	-	-
Lost	128	291	-	-
Total	**46 797**	**1 120**	**37 898**	**237**

Group

	Gross 2008 '000 LVL	Impairment allowance	Gross 2007 '000 LVL	Impairment allowance
Standard	34 834	-	31 490	0
Watch	4 642	464	849	108
Substandard	376	134	576	171
Doubtful	1 324	327		
Lost	196	364	17	17
Total	**41 372**	**1 289**	**33 932**	**296**

Significant credit exposures

As at 31 December 2008 and 2007 the Bank had one borrower and one group of related borrowers, respectively, whose loan balances exceeded 10% of the Bank's equity. The gross value of these loans as of 31 December 2008 and 2007 was LVL1 696 thousand and LVL1 496 thousand, respectively.

According to regulatory requirements, the Bank is not allowed to have a credit exposure of greater than 25% of its equity to one client or group of related clients. As at December 31 2008 and 2007 the Bank was in compliance with this requirement.

15 Available-for-sale assets

	2008 '000 LVL	2008 '000 LVL	2007 '000 LVL	2007 '000 LVL
Equity investments				
Corporate shares	50	41	50	41
	50	**41**	**50**	**41**

16 Investments in subsidiaries

Name	Country of incorporation	Main Activity	% Controlled 2008	% Controlled 2007	2008 Carrying Value '000 LVL	2007 Carrying Value '000 LVL
SIAPrivatLīzings	Latvia	Finance and operating lease activities	100	100	10	10
SIA PrivatConsulting	Latvia	Consulting and travel services	100	100	2	2
SIA DigiPro	Latvia	Sale of electronic products via POS terminals and ensuring card settlements in POS terminals	-	100	-	4
					12	**16**

(a) Disposal of subsidiary

On 5 December 2008 the Bank sold of its investment in SIA DigiPro to a third party at a profit of LVL 97 thousand.

The disposal of the subsidiary had the following effect on the Bank's assets and liabilities at the date of disposal:

'000 LVL	Carrying amount at date of disposal
Assets	
Cash	21
Receivables	426
Property and equipment	53
Other assets	141
Liabilities	
Loan from credit institution	(392)
Other liabilities	(336)
Deferred tax liability	(6)
Net identifiable assets and liabilities	**(93)**
Consideration received	4
Cash disposed of	(21)
Net cash outflow	**(17)**

17 Property and equipment

Group

'000 LVL	Land and buildings	Equipment	Leasehold improvements	Vehicles	Construction in progress	Total
Historical cost						
31 December 2006	**-**	**2 619**	**300**	**330**	**332**	**3 581**
Additions	-	136	18	38	372	564
Disposals	-	(612)	(2)	(33)	(49)	(696)
Transfers	-	298	168	-	(466)	-
Correction	-	-	(55)	-	-	(55)
31 December 2007	**-**	**2 441**	**429**	**335**	**189**	**3 394**
Additions	-	248		3	405	656
Disposals	-	(383)	(14)	(51)	(21)	(469)
Transfers	51	340	76	-	(467)	-
Correction	-	-	-	-	(74)	(74)
Disposals of DigiPro		(43)	(3)		(7)	(53)
31 December 2008	**51**	**2 603**	**488**	**287**	**25**	**3 454**
Accumulated depreciation						
31 December 2006	**-**	**1 395**	**141**	**78**	**-**	**1 614**
Depreciation charge	-	404	71	64	-	539
Disposals	-	(600)	-	(33)	-	(633)
Correction	-	(1)	(55)	-	-	(56)
31 December 2007	**-**	**1 198**	**157**	**109**	**-**	**1 464**
Depreciation charge	3	483	82	89		657
Disposals	-	(234)	(14)	(35)	-	(283)
31 December 2008	**3**	**1 447**	**225**	**163**	**-**	**1 838**
Carrying amount at						
31 December 2008	**48**	**1 156**	**263**	**124**	**25**	**1 616**
31 December 2007	**-**	**1 243**	**272**	**226**	**189**	**1 930**
31 December 2006	**-**	**1 224**	**159**	**252**	**332**	**1 967**

17 Property and equipment, continued

Bank

'000 LVL	Land and buildings	Equipment	Leasehold improvements	Vehicles	Construction in progress	Total
Historical cost						
31 December 2006	-	**2 159**	**293**	**115**	**313**	**2 880**
Additions	-	119	17	-	370	506
Disposals	-	(613)	-	(33)	(46)	(692)
Transfers	-	286	169	-	(455)	-
Correction	-	-	(55)	-	-	(55)
31 December 2007	-	**1 951**	**424**	**82**	**182**	**2 639**
Additions	-	220	-	-	405	625
Disposals	-	(26)	(14)	(6)	(21)	(67)
Transfers	51	340	76	-	(467)	-
Correction	-	-	-	-	(74)	(74)
31 December 2008	**51**	**2 485**	**486**	**76**	**25**	**3 123**
Accumulated depreciation						
31 December 2006	-	**1 285**	**140**	**47**	-	**1 472**
Depreciation charge	-	307	71	17	-	395
Disposals	-	(600)	-	(33)	-	(633)
Correction	-	(1)	(55)	-	-	(56)
31 December 2007	-	**991**	**156**	**31**	-	**1 178**
Depreciation charge	3	390	81	23	-	497
Disposals	-	(21)	(13)	(6)	-	(40)
31 December 2008	**3**	**1 360**	**224**	**48**	-	**1 635**
Carrying value						
31 December 2008	**48**	**1 125**	**262**	**28**	**25**	**1 488**
31 December 2007	**-**	**960**	**268**	**51**	**182**	**1 461**
31 December 2006	**-**	**874**	**153**	**68**	**313**	**1 408**

18 Intangible assets

Group

'000 LVL	Software	Total
Historical cost		
31December 2006	**292**	**292**
Additions	3	3
Disposals	(1)	(1)
Transfers	38	38
31 December 2007	**332**	**332**
Additions	23	23
Transfers	74	74
31 December 2008	**429**	**429**
Acumulated amortisation		
31December 2006	**155**	**155**
Depreciation charge	68	68
31 December 2007	**223**	**223**
Depreciation charge	80	80
31 December 2008	**303**	**303**
Carrying amount at		
31 December 2008	**126**	**126**
31 December 2007	**109**	**109**
31 December 2006	**127**	**127**

18 Intangible assets (continued)

Bank

'000 LVL	Software	Total
Historical cost		
31December 2006	**277**	**277**
Disposals	(1)	(1)
Transfers	38	38
At 31 December 2007	**314**	**314**
Transfers	74	74
At 31 December 2008	**388**	**388**
Acumulated amortisation		
31December 2006	**150**	**150**
Depreciation charge	64	64
31 December 2007	**214**	**214**
Depreciation charge	75	75
31 December 2008	**289**	**289**
Carrying amount at		
31 December 2008	**99**	**99**
31 December 2007	**100**	**100**
31 December 2006	**127**	**127**

19 Other assets

	Group 2008 '000 LVL	Bank 2008 '000 LVL	Group 2007 '000 LVL	Bank 2007 '000 LVL
Materials	-	-	45	45
Stock	988	155	-	-
Security deposits	780	773	752	742
Gold	3	3	3	3
Accrued income	1 042	1 042	1 310	1 310
Deferred expenses	348	348	356	356
VAT receivable	8	-	-	-
Other	371	369	295	254
Impairment allowance	(37)	-	-	-
	3 503	**2 690**	**2 761**	**2 710**

20 Deposits and balances from banks

(a) Geographical profile:

	Group 2008 '000 LVL	Bank 2008 '000 LVL	Group 2007 '000 LVL	Bank 2007 '000 LVL
Credit institutions registered in Latvia	455	455	130	130
Credit institutions registered in OECD countries	7 181	7 181	3 570	3 570
Credit institutions registered in non-OECD countries	3 781	3 781	9 348	9 348
	11 417	**11 417**	**13 048**	**13 048**

(b) Deposits and balances from banks by type:

	Group 2008 '000 LVL	Bank 2008 '000 LVL	Group 2007 '000 LVL	Bank 2007 '000 LVL
Vostro accounts	875	875	732	732
Term deposits	3 514	3 514	17	17
Loans from banks	7 028	7 028	12 299	12 299
	11 417	**11 417**	**13 048**	**13 048**

Loans from banks as at 31 December 2008 comprise loans received from:

	Facility	Maturity	Interest rate
LandesBank Berlin AG	EUR 5 000 thousand	14 May 2009	6M Euribor + 0.85%
LandesBank Bayern	EUR 5 000 thousand	18 September 2009	6M Euribor + 0.80%

(c) Concentration of Deposits and balances from banks

As at 31 December 2008 and 2007 the Bank had three and two banks and financial institutions, respectively, whose balances exceeded 10% of the total Deposits and balances from banks . The gross value of these balances as of 31 December 2008 and 2007 were LVL 10 707 thousand and LVL 12 809 thousand, respectively.

21 Current accounts and deposits from customers

	Group 2008 '000 LVL	Bank 2008 '000 LVL	Group 2007 '000 LVL	Bank 2007 '000 LVL
Demand deposits				
Residents:				
State companies	329	329	1	1
Private enterprises	802	1 053	1 926	2 008
Individuals	6 247	6 248	4 023	4 023
Other	259	259	1	1
Non-residents:				
Residents of OECD countries	20 279	20 279	29 750	29 750
Residents of non-OECD countries	15 918	15 918	12 524	12 524
Total demand deposits	**43 834**	**44 086**	**48 225**	**48 307**
Term deposits				
Residents:				
State companies	1 508	1 508	1 404	1 404
Individuals	709	709	14 915	14 915
Private enterprises	37 150	37 150	1 604	1 604
Other	200	200	45	45
Non-residents:				
Residents of OECD countries	39 732	39 732	13 843	13 843
Residents of non-OECD countries	15 015	15 015	9 130	9 130
Total term deposits	**94 314**	**94 314**	**40 941**	**40 941**
Total current accounts and deposits from customers	**138 148**	**138 400**	**89 166**	**89 248**

The maturity structure of customer deposits as per agreement terms at 31 December 2008 was as follows:	**2008** Group 2008 '000 LVL	Bank 2008 '000 LVL	**2007** Group 2007 '000 LVL	Bank 2007 '000 LVL
Demand deposits	43 834	44 086	48 225	48 307
Term deposits:				
up to 3 months	7 552	7 552	24 889	24 889
3 to 6 months	46 938	46 938	5 183	5 183
6 months to one year	5 066	5 066	7 899	7 899
more than one year	34 758	34 758	2 970	2 970
Total demand and term deposits	**138 148**	**138 400**	**89 166**	**89 248**

(a) Blocked accounts

As of 31 December 2008, the Bank maintained customer deposit balances of LVL 422 thousand (2007: LVL 282 thousand) which were blocked by the Bank as collateral for loans and off-balance sheet credit instruments granted by the Bank.

(b) Concentrations of current accounts and customer deposits

As of 31 December 2008 and 2007, the Bank had no customers, whose balances exceeded 10% of total customer accounts.

22 Provisions

	Group 2008 '000 LVL	Bank 2008 '000 LVL	Group 2007 '000 LVL	Bank 2007 '000 LVL
Provision for unused vacation	191	188	151	148
Other	184	184	170	128
	375	**372**	**321**	**276**

23 Mortgage bonds

	Group 2008 '000 LVL	Bank 2008 '000 LVL	Group 2007 '000 LVL	Bank 2007 '000 LVL
Mortgage bonds issued	14 752	14 752	14 757	14 757
	14 752	**14 752**	**14 757**	**14 757**

As at 31 December 2008, the Bank and Group had LVL 14 752 thousand (2007: LVL 14 757 thousand) of bonds outstanding, including accrued interest of LVL 88 thousand (2007: LVL 93 thousand).

On 15 May 2006, the Bank issued 3-year mortgage bonds for EUR 4,865 thousand (LVL 3,419 thousand). As at 31 December 2008, accrued interest related to this issue amounted to LVL 26 thousand (2007: LVL 27 thousand). The coupon rate of these bonds is 6M EUR LIBOR + 1.5%. As at 31 December 2008, coupon rate of these bonds was 5.875% (2007: 6 %).

On 15 December 2006, the Bank issued 5-year mortgage bonds for EUR 7,000 thousand (LVL 4,920), and the accrued interest as at 31 December 2008 was LVL 12 thousand (2007: LVL 15 thousand). The coupon rate of these bonds is 6M EUR LIBOR + 1.6%. As at 31 December 2008 coupon rate of these bonds was 5.25% (2007: 6.5 %).

On 15 May 2007, the Bank issued 3-year mortgage bonds for EUR 9,000 thousand (LVL 6,325), and the accrued interest as at 31 December 2008 was LVL 50 thousand (2007: LVL 51 thousand). The coupon rate of these bonds is 6M EUR LIBOR + 1.55%. As at 31 December 2008 coupon rate of these bonds was 6.125% (2007: 6.25 %).

ISIN	Amount	Nominal value	Registered volume	Coupon rate	Maturity date	Amount in circulation	2008 Carrying value	2007 Carrying value
LV0000800332	48,650	100	4 865 EUR	5.875%	15.05.2009	3 419	3 419	3 419
LV0000800381	70,000	100	7 000 EUR	5.25%	15.12.2011	4 920	4 920	4 920
LV0000800464	90,000	100	9 000 EUR	6.125%	15.05.2010	6 325	6 325	6 325
Accrued expense							88	93
Total							**14 752**	**14 757**

24 Other liabilities

	Group 2008 '000 LVL	Bank 2008 '000 LVL	Group 2007 '000 LVL	Bank 2007 '000 LVL
Accrued expenses	353	350	814	828
Unrealised loss from SPOT transactions	-	-	27	27
Amounts in clearing	402	402	1 218	1 218
Trade accounts payable	-	-	547	-
Other	170	146	151	141
	925	**898**	**2 757**	**2 214**

25 Deferred tax

Temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes give rise to net deferred tax assets and liabilities as of 31 December 2008 and 2007.

These deductible temporary differences, which have no expiry dates, are listed below at their tax effected accumulated values:

	Group 2008 '000 LVL	Bank 2008 '000 LVL	Group 2007 '000 LVL	Bank 2007 '000 LVL
Deferred tax liabilities:				
temporary difference due to accelerated tax depreciation	96	88	123	76
temporary difference arising from provisions	(83)	(35)	(45)	(29)
Net deferred tax liabilities	**13**	**53**	**78**	**47**
Deferred tax liabilities at the beginning of the year	78	47	62	47
Effect from DigiPro disposal	(7)	-	-	-
Deferred tax charged to profit or loss	(58)	6	16	-
Deferred tax liabilities at the end the year	13	53	78	47

The rate of tax applicable for deferred tax was 15% (2007: 15%).

26 Share capital

Issued capital and share premium

Share capital consists of common shares entitling equal rights to dividends, residual assets and voting rights at the shareholders meeting. All shares are fully paid up. The immediate and ultimate parent of the Bank is CJS Commercial Bank "PrivatBank" (Ukraine).

The authorised and issued share capital comprises 10 650 000 ordinary shares (2007: 10 650 000). All shares have a par value of LVL 1

Shareholders as at 31 December 2008 are as follows:

Shareholder	Country	Shares LVL	Holding, %	Voting rights
Closed Joint Stock Commercial Bank "PrivatBank"	Ukraine	10 124 646	95.0671	With voting rights
M. Esterovs	USA	524 724	4.9271	With voting rights
J. Skvorcova	Latvia	150	0.0014	With voting rights
A. Laško	Latvia	153	0.0014	With voting rights
V. Bīriņš	Latvia	195	0.0018	With voting rights
O.Trubakov	Ukraine	33	0.0003	With voting rights
O. Mekekechko	Ukraine	33	0.0003	With voting rights
V. Beļskis	Latvia	33	0.0003	With voting rights
R. Pētersons	Latvia	33	0.0003	With voting rights
		10 650 000	**100.00**	

Other reserves of LVL 3 749 thousand (2007: LVL 3 719 thousand) represent retained earnings set aside by the Board. The reserves are distributable.

27 Cash and cash equivalents

Cash and cash equivalents consist of the following

	Group 2008 '000 LVL	Bank 2008 '000 LVL	Group 2007 '000 LVL	Bank 2007 '000 LVL
Cash	1 304	1 304	1 283	1 283
Due from the Bank of Latvia	8 233	8 233	11 674	11 674
Deposits in other credit institutions with maturity less than three moths	23 725	23 725	20 411	20 411
Due to other credit institutions with maturity less than three moths	(4 278)	(4 278)	(9 534)	(9 534)
Total	**28 984**	**28 984**	**23 834**	**23 834**

28 Funds under trust management

	Group 2008 '000 LVL	Bank 2008 '000 LVL	Group 2007 '000 LVL	Bank 2007 '000 LVL
Assets under management				
Loans to residents of OECD countries	25 698	25 698	365	365
	25 698	**25 698**	**365**	**365**
Liabilities under management				
Deposits of residents of other countries	25 698	25 698	365	365
	25 698	**25 698**	**365**	**365**

As at 31 December 2008, the Bank held and managed customers' funds of LVL 25 698 thousand at the customers' direction. These are not the Bank assets and are not recognized in the balance sheet. The Bank is not exposed to risks relating to such placements, which the ultimate customer bears.

29 Analysis by segment

The Bank's and Group's primary format for reporting segment information is by business segments.

The Bank is organised into two main business segments:

- Commercial banking – includes corporate and retail banking operations which include deposit taking and commercial lending, settlements and cash operations. Commercial banking services also include trade finance.
- Investment banking and financial markets – includes corporate finance, operations on foreign exchange, debt and equity capital markets, brokerage, securities and precious metals trading.

Segment breakdown of assets and liabilities of the Bank and Group is set out below:

	Group 2008 '000 LVL	Bank 2008 '000 LVL	Group 2007 '000 LVL	Bank 2007 '000 LVL
Assets				
Commercial banking	115 167	115 930	93 314	92 813
Investment banking and financial markets	51 062	51 062	23 593	23 593
Unallocated assets	15 484	14 477	18 299	17 777
Total assets	**181 713**	**181 469**	**135 206**	**134 183**
Liabilities				
Commercial banking	138 148	138 400	89 166	89 248
Investment banking and financial markets	11 417	11 417	13 048	13 048
Unallocated liabilities	17 059	17 015	17 933	17 294
Total liabilities	**166 624**	**116 832**	**120 147**	**119 590**

Segment information for the main reportable business segments of the Group for the year ended 31 December 2008 is set below:

Group

	Commercial banking	Investment banking and financial markets	Unallocated	Total
External revenue	12 716	3 611	769	17 096
Revenue	**12 716**	**3 611**	**769**	**17 096**
Impairment losses	2 154	-	-	2 154
Interest expense	5 429	495	148	6 072
Fee and commission expense	118	398	198	714
General administrative expenses	5 014	2 668	411	8 093
Segment result	**1**	**50**	**12**	**63**
Income tax expense	-	-	33	33
Net income after taxes	-	-	30	30

Segment information for the main reportable business segments of the Group for the year ended 31 December 2007 is set below:

	Commercial banking	Investment banking and financial markets	Unallocated	Total
External revenue	9 262	2 106	514	11 882
Revenue	**9 262**	**2 106**	**514**	**11 882**
Impairment losses	383	-	-	383
Interest expense	1 805	1 221	144	3 170
Fee and commission expense	468	73	142	683
General administrative expenses	5 472	642	154	6 268
Net loss on financial instruments at fair value through profit and loss	23	-	-	23
Segment result	**1 111**	**170**	**74**	**1 355**
Income tax expense	-	-	203	203
Net income after taxes	-	-	1 152	1 152

Segment information for the main reportable business segments of the Bank for the year ended 31 December 2008 is set below:

Bank

	Commercial banking	Investment banking and financial markets	Unallocated	Total
External revenue	12 140	3 611	712	16 463
Revenue	**12 140**	**3 611**	**712**	**16 463**
Impairment losses	1 899	-	-	1 899
Interest expense	5 432	495	148	6 075
Fee and commission expense	87	398	152	637
General administrative expenses	4 696	2 668	411	7 775
Segment result	**26**	**50**	**1**	**77**
Income tax expense	-	-	33	33
Net income after taxes	-	-	44	44

Segment information for the main reportable business segments of the Bank for the year ended 31 December 2007 is set below:

	Commercial banking	Investment banking and financial markets	Unallocated	Total
External revenue	8 723	2 106	514	11 343
Revenue	**8 723**	**2 106**	**514**	**11 343**
Impairment losses	403	-	-	403
Interest expense	1 806	1 221	143	3 170
Fee and commission expense	337	73	142	552
General administrative expenses	5 381	642	137	6 160
Net loss on financial instruments at fair value through profit and loss	23	-	-	23
Segment result	773	**170**	**92**	**1 035**
Income tax expense	-	-	146	146
Net income after taxes	-	-	889	889

30 Commitments and contingencies

At any time the Group and Bank have outstanding commitments to extend credit. These commitments take the form of approved loans and credit card limits and overdraft facilities.

The Group and Bank provide financial guarantees and letters of credit to guarantee the performance of customers to third parties. These agreements have fixed limits and generally extend for a period of up to five years. The Bank also provides guarantees by acting as the settlement agent in securities borrowing and lending transactions

The contractual amounts of commitments are set out in the following table by category. The amounts reflected in the table for commitments assume that amounts are fully advanced. The amounts reflected in the table for guarantees and letters of credit represent the maximum accounting loss that would be recognised at the balance sheet date if counterparties failed completely to perform as contracted.

	Group	**Bank**	**Group**	**Bank**
	2008 '000 LVL	**2008 '000 LVL**	**2007 '000 LVL**	**2007 '000 LVL**
Contracted amount				
Loan and credit line commitments	845	845	311	311
Credit card commitments	1 669	1 669	1 127	1 127
Guarantees and letters of credit	772	772	553	553

The total outstanding contractual commitments to extend credit indicated above does not necessarily represent future cash requirements, as these commitments may expire or terminate without being funded.

31 Litigation

In the ordinary course of business, the Group and Bank are subject to legal actions and complaints. Management believes that the ultimate liability, if any, arising from such actions or complaints, will not have a material adverse effect on the financial conditions of the results of future operations of the Group or the Bank.

32 Related party transactions

(a) Control relationships

The Bank's immediate parent and it's ultimate controlling party is CJS Commercial Bank "PrivatBank", (Ukraine).

(b) Transactions with members of the Board of Directors and the Management Board

Total remuneration included in employee compensation (refer Note 9):

	Group 2008 '000 LVL	Bank 2008 '000 LVL	Group 2007 '000 LVL	Bank 2007 '000 LVL
Members of the Management Board	113	106	134	125
Council	51	51	42	42
	164	**157**	**176**	**167**

The above amounts include non-cash benefits in respect of members of the Board of Directors and the Management Board.

The outstanding balances and average interest rates as of 31 December 2008 with members of the Board of Directors and the Management Board are as follows:

	2008 '000 LVL	Average Interest Rate	2007 '000 LVL	Average Interest Rate
Balance Sheet				
Assets				
Loans and receivables from customers	271	5.76%	197	6.03%
Deposits and current accounts	53	1.45%	65	-

Amounts included in the income statement in relation to transactions with members of the Board of Directors and the Management Board are as follows:

	2008 '000 LVL	2007 '000 LVL
Income statement		
Interest income	19	13
Interest expense	6	2

32 Related party transactions, continued

(c) Transactions with other related parties

The outstanding balances and the related average interest rates as of 31 December 2008 and related income statement amounts of transactions for the year ended 31 December 2008 with other related parties are as follows. Other related parties include TaoPrivatBank, Georgia.

Group

	Parent company				Other subsidiaries of the Parent company				Total	
	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
	'000 LVL		Average contractual interest rate		'000 LVL		Average contractual interest rate		'000 LVL	
Balance Sheet										
Assets										
Balance on correspondent account	138	54	-	-	979	-	-	-	**1 117**	**54**
Term deposits	5	5	-	-	-	-	-	-	**5**	**5**
Funds in settlement (VISA, PrivatMoney)	95	102	-	-	-	-	-	-	**95**	**102**
Liabilities										
Due to PrivatBank (Ukraine) – loro account	142	510	-	-	-	-	-	-	**142**	**510**
PrivatBank overnight	990	8 785	2.75	5	-	-	-	-	**990**	**8 785**
Funds in settlement (PrivatMoney)	1	21	-	-	-	-	-	-	**1**	**21**
Open currency deals	-		-	-	2 397	-	-	-	**2 397**	-
Income statement										
Interest income	12	867	-	-	-	-	-	-	**12**	**867**
Interest expense	79	388	-	-	-	-	-	-	**79**	**388**
Fee and commission income	94	103	-	-	-	-	-	-	**97**	**103**
Fee and commission expense	39	74							**39**	**74**

NOTES TO BANK AND CONSOLIDATED FINANCIAL STATEMENTS

Bank

	Parent company				Other subsidiaries of the Parent company		Subsidiaries				Total	
	2008	2007	2008	2007	2008		2008	2007	2008	2007	2008	2007
	'000 LVL		Average contractual interest Rate		'000 LVL	Average constractual interest Rate	'000 LVL		Average contractual interest Rate		'000 LVL	
Balance Sheet												
Assets												
Balance on correspondent account	138	54	-	-	979	-	-	-	-	-	**1 117**	**54**
Term deposits	5	5	-	-	-	-	-	-	-	-	**5**	**5**
Funds in settlement (VISA, PrivatMoney)	95	102	-	-	-	-	-	-	-	-	**95**	**102**
Loan to SIA "PrivatLīzings"	-	-	-	-	-	-	15 146	13 513	7.63	5.59	**15 146**	**13 513**
Loan to SIA "PrivatConsulting"	-	-	-	-	-	-	10	-	4	-	**10**	**-**
Liabilities												
Due to PrivatBank – loro account	142	510	-	-	-	-	-	-	-	-	**142**	**510**
PrivatBank overnight	990	8 785	2.75	5	-	-	-	-	-	-	**990**	**8 785**
Funds in settlement (PrivatMoney)	1	21	-	-	-	-	-	-	-	-	**1**	**21**
Unfinished currency deals	-		-	-	2 397	-	-	-	-	-	**2 397**	**-**
Due to SIA "PrivatLīzings"	-		-	-	-	-	251	75	-	-	**251**	**75**
Due to SIA "PrivatConsulting"	-		-	-	-	-	1	7	-	-	**1**	**7**
Income statement												
Interest income	12	867	-	-	-	-	1 094	846	-	-	**1 106**	**1 713**
Interest expense	79	388	-	-	-	-	3	-	-	-	**82**	**388**
Fee and commission income	94	103	-	-	-	-	1	-	-	-	**95**	**103**
Fee and commission expense	39	74	-	-	-	-	-	-	-	-	**39**	**74**
General and administrative expenses	-	-	-	-	-	-	22	63	-	-	**22**	**63**

33 Fair value of financial instruments

ASSETS	2008 '000 LVL Carrying Value	2008 '000 LVL Fair Value	2007 '000 LVL Carrying Value	2007 '000 LVL Fair Value
Cash and balances with the Bank of Latvia	9 537	9 537	12 957	12 957
Loans and receivables from banks	51 062	51 062	23 593	23 593
Financial instruments at fair value through profit and loss	466	466	472	472
Loans and receivables from customers	115 930	115 930	93 813	93 813
Available-for-sale assets	50	50	50	50
Other assets	1 300	1 300	1 115	1 115
	177 582	**177 582**	**131 501**	**131 501**
LIABILITIES				
Financial instruments at fair value through profit and loss	940	940	-	-
Deposits and balances from banks	11 417	11 417	13 048	13 048
Current accounts and deposits from customers	138 148	138 148	89 166	89 166
Mortgage bonds	14 752	14 752	14 757	14 757
	165 257	**165 257**	**116 971**	**116 971**

34 Maturity analysis

The following table shows assets and liabilities by remaining contractual maturity dates as at 31 December 2008.

Group

Assets	Less than 1 month '000 LVL	1 to 3 months '000 LVL	3 months to 1 year '000 LVL	1 to 5 years '000 LVL	More than 5 years '000 LVL	No maturity '000 LVL	Overdue '000 LVL	Total '000 LVL
Cash	1 304	-	-	-	-	-	-	**1 304**
Balances with the Bank of Latvia	8 233	-	-	-	-	-	-	**8 233**
Financial instruments at fair value through profit or loss	465	1	-	-	-	-	-	**466**
Loans and receivables from banks	21 020	2 705	27 337	-	-	-	-	**51 062**
Loans and receivables from customers	2 115	2 297	14 243	47 991	46 408	-	2 113	**115 167**
Available-for-sale assets	-	-	-	-	-	50	-	**50**
Property and equipment	-	-	-	-	-	1 616	-	**1 616**
Intangible assets	-	-	-	-	-	126-	-	**126**
Prepaid income tax	146	-	-	-	-	-	-	**146**
Other assets	2 307	-	-	-	-	1 196	-	**3 503**
Deferred tax asset	-	-	-	-	-	40	-	**40**
Total assets	**35 590**	**5 003**	**41 580**	**47 991**	**46 408**	**3 028**	**2 113**	**181 713**

	Less than 1 month '000 LVL	1 to 3 months '000 LVL	3 months to 1 year '000 LVL	1 to 5 years '000 LVL	More than 5 years '000 LVL	No maturity '000 LVL	Overdue '000 LVL	Total '000 LVL
Liabilities								
Financial instruments at fair value through profit or loss	366	574	-	-	-	-	-	940
Deposits and balances from banks	4 278	-	7 229	-	-	-	-	11 417
Current accounts and deposits from customers	58 324	50 294	23 902	5 628	-	-	-	138 148
Provisions	375	-	-	-	-	-	-	375
Mortgage bonds	-	-	3 419	-	11 333	-	-	14 752
Deferred tax liability	-	-	-	53	-	-	-	53
Corporate income tax	14	-	-	-	-	-	-	14
Other liabilities	-	-	-	-	-	925	-	925
Equity	-	-	-	-		15 089	-	15 089
Total liabilities	**63 357**	**50 868**	**34 460**	**5 681**	**11 333**	**16 014**	**-**	**181 713**
Net position as at 31 December 2008	**(27 767)**	**(45 865)**	**7 120**	**42 310**	**35 075**	**(12 986)**	**2 113**	**-**
Net position as at 31 December 2007	**(14 562)**	**(30 127)**	**(4 713)**	**38 089**	**25 942**	**(14 741)**	**122**	**-**

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Bank

Assets	Less than 1 month '000 LVL	1 to 3 months '000 LVL	3 months to 1 year '000 LVL	1 to 5 years '000 LVL	More than 5 years '000 LVL	No maturity '000 LVL	Overdue '000 LVL	Total '000 LVL
Cash	1 304	-	-	-	-	-	-	1 304
Balances with the Bank of Latvia	8 233	-	-	-	-	-	-	8 233
Financial instruments at fair value through profit or loss	465	1	-	-	-	-	-	466
Loans and receivables from banks	21 020	2 705	27 337	-	-	-	-	51 062
Loans and receivables from customers	2 737	2 213	13 965	49 575	46 233	-	1 207	115 930
Available-for-sale assets	-	-	-	-	-	41	-	41
Investments in subsidiaries	-	-	-	-	-	12	-	12
Property and equipment	-	-	-	-	-	1 488	-	1 488
Intangible assets	-	-	-	-	-	99	-	99
Prepaid income tax	144	-	-	-	-	-	-	144
Other assets	1 492	-	-	-	-	1 198	-	2 690
Total assets	**35 395**	**4 919**	**41 302**	**49 575**	**46 233**	**2 838**	**1 207**	**181 469**

	Less than 1 month '000 LVL	1 to 3 months '000 LVL	3 months to 1 year '000 LVL	1 to 5 years '000 LVL	More than 5 years '000 LVL	No maturity '000 LVL	Overdue '000 LVL	Total '000 LVL
Liabilities								
Financial instruments at fair value through profit or loss	366	574	-	-	-	-	-	940
Deposits and balances from banks	4 278	-	7 139	-	-	-	-	11 417
Current accounts and deposits from customers	58 576	50 294	23 902	5 628	-	-		138 400
Provisions	372	-	-	-	-	-	-	372
Mortgage bonds	-	-	3 419	-	11 333	-	-	14 752
Deferred tax liability	-	-	-	53	-	-	-	53
Other liabilities	-	-	-	-	-	898	-	898
Equity	-	-	-	-	-	14 637	-	14 637
Total liabilities	**63 592**	**50 868**	**34 460**	**5 681**	**11 333**	**15 535**	**-**	**181 469**
Net position as at 31 December 2008	**(28 197)**	**(45 949)**	**6 842**	**43 894**	**34 900**	**(12 697)**	**1 207**	**-**
Net position as at 31 December 2007	**(15 592)**	**(30 140)**	**(4 589)**	**38 796**	**25 086**	**(14 186)**	**625**	**-**

NOTES TO BANK AND CONSOLIDATED FINANCIAL STATEMENTS

The following table shows assets and liabilities by remaining contractual maturity dates as at 31 December 2007.

Group

Assets	Less than 1 month '000 LVL	1 to 3 months '000 LVL	3 months to 1 year '000 LVL	1 to 5 years '000 LVL	More than 5 years '000 LVL	No maturity '000 LVL	Overdue '000 LVL	Total '000 LVL
Cash	1 283	-	-	-	-	-	-	**1 283**
Balances with the Bank of Latvia	11 674	-	-	-	-	-	-	**11 674**
Financial instruments at fair value through profit or loss	472	-	-	-	-	-	-	**472**
Loans and receivables from banks	20 411	-	3 182	-	-	-	-	**23 593**
Loans and receivables from customers	1 849	806	8 702	44 555	37 280	-	122	**93 314**
Available-for-sale assets	-	-	-	-	-	50	-	**50**
Property and equipment	-	-	-	-	-	1 930	-	**1 930**
Intangible assets	-	-	-	-	-	109	-	**109**
Prepaid income tax	20	-	-	-	-	-	-	**20**
Other assets	2 288	-	-	-	-	473	-	**2 761**
Total assets	**37 997**	**806**	**11 884**	**44 555**	**37 280**	**2 562**	**122**	**135 206**

	Less than 1 month '000 LVL	1 to 3 months '000 LVL	3 months to 1 year '000 LVL	1 to 5 years '000 LVL	More than 5 years '000 LVL	No maturity '000 LVL	Overdue '000 LVL	Total '000 LVL
Liabilities								
Deposits and balances from banks	749	8 785	3 514	-	-	-	-	13 048
Current accounts and deposits from customers	50 966	22 148	13 083	2 969	-	-	-	89 166
Provisions	321	-	-	-	-	-	-	321
Mortgage bonds	-	-	-	3 419	11 338	-	-	14 757
Deferred tax liability	-	-	-	78	-	-	-	78
Corporate income tax	20	-	-	-	-	-	-	20
Other liabilities	513	-	-	-	-	2 244	-	2 757
Equity	-	-	-	-		15 059	-	15 059
Total liabilities	**52 569**	**30 933**	**16 597**	**6 466**	**11 338**	**17 303**	**-**	**135 206**
Net position as at 31 December 2007	**(14 562)**	**(30 127)**	**(4 713)**	**38 089**	**25 942**	**(14 741)**	**122**	**-**
Net position as at 31 December 2006	**(17 125)**	**(3 206)**	**15 520**	**33 484**	**(35)**	**(28 830)**	**192**	**-**

Bank

Assets	Less than 1 month '000 LVL	1 to 3 months '000 LVL	3 months to 1 year '000 LVL	1 to 5 years '000 LVL	More than 5 years '000 LVL	No maturity '000 LVL	Overdue '000 LVL	Total '000 LVL
Cash	1 283	-	-	-	-	-	-	1 283
Balances with the Bank of Latvia	11 674	-	-	-	-	-	-	11 674
Financial instruments at fair value through profit or loss	472	-	-	-	-	-	-	472
Loans and receivables from banks	20 411	-	3 100	-	82	-	-	23 593
Loans and receivables from customers	912	795	8 908	45 231	36 342	-	625	92 813
Available-for-sale assets	-	-	-	-	-	41	-	41
Investments in subsidiaries	-	-	-	-	-	16	-	16
Property and equipment	-	-	-		-	1 461	-	1 461
Intangible assets	-	-	-	-	-	100	-	100
Prepaid income tax	20	-	-	-	-	-	-	20
Other assets	2 237	-	-	-	-	473	-	2 710
Total assets	**37 009**	**795**	**12 008**	**45 231**	**36 424**	**2 091**	**625**	**134 183**

	Less than 1 month '000 LVL	1 to 3 months '000 LVL	3 months to 1 year '000 LVL	1 to 5 years '000 LVL	More than 5 years '000 LVL	No maturity '000 LVL	Overdue '000 LVL	Total '000 LVL
Liabilities								
Deposits and balances from banks	749	8 785	3 514	-	-	-	-	13 048
Current accounts and deposits from customers	51 048	22 148	13 083	2 969	-	-	-	89 248
Provisions	276	-	-	-	-	-	-	276
Mortgage bonds	-	-	-	3 419	11 338	-	-	14 757
Deferred tax liability		-	-	47	-	-	-	47
Other liabilities	528	2	-	-	-	1 684	-	2 214
Equity	-	-	-	-	-	14 593	-	14 593
Total liabilities	**52 601**	**30 935**	**16 597**	**6 435**	**11 338**	**16 277**	**-**	**134 183**
Net position as at 31 December 2007	**(15 592)**	**(30 140)**	**(4 589)**	**38 796**	**25 086**	**(14 186)**	**625**	**-**
Net position as at 31 December 2006	**(17 107)**	**(3 227)**	**15 817**	**33 858**	**(599)**	**(28 847)**	**105**	**-**

35 Currency analysis

The following table shows the currency structure of assets and liabilities at 31 December 2008:

Group

	LVL '000 LVL	USD '000 LVL	EUR '000 LVL	Other currencies '000 LVL	Total '000 LVL
Assets					
Cash	730	189	383	2	1 304
Balances with the Bank of Latvia	7 474	-	759	-	8 233
Loans and receivables from banks	1 351	44 585	3 823	1 303	51 062
Financial instruments at fair value through profit or loss	29	237	200		466
Loans and receivables from customers	11 482	3 445	100 240		115 167
Available-for-sale assets	50	-	-	-	50
Intangible assets	126	-	-	-	126
Property and equipment	1 541	1	74	-	1 616
Prepaid income tax	146	-	-	-	146
Other assets	3 130	61	312	-	3 503
Deferred tax asset	40	-	-	-	40
Total assets	**26 099**	**48 518**	**105 791**	**1 305**	**181 713**
Liabilities					
Financial instruments at fair value through profit or loss	-	940	-	-	940
Deposits and balances from banks	181	1 668	8585	983	11 417
Current accounts and deposits from customers	24 576	75 542	37 706	324	138 148
Mortgage bonds	-	-	14 752	-	14 752
Provisions	366	-	9	-	375
Corporate income tax payable	14				14
Other liabilities	925	-	-	-	925
Deferred tax liability	17	-	36	-	53
Total liabilities	**26 079**	**78 150**	**61 088**	**1 307**	**166 624**
Equity	**15 089**	**-**	**-**	**-**	**15 089**
Net on balance sheet position as of 31 December 2008	**(15 069)**	**(29 632)**	**44 703**	**(2)**	**-**
Net off balance sheet position as of 31 December 2008	**15 508**	**30 048**	**(45 651)**	**95**	**-**
Net on and off balance sheet position as of 31 December 2008	**439**	**416**	**(948)**	**93**	**-**

35 Currency analysis, continued

Bank

	LVL '000 LVL	USD '000 LVL	EUR '000 LVL	Other currencies '000 LVL	Total '000 LVL
Assets					
Cash	730	189	383	2	1 304
Balances with the Bank of Latvia	7 474	-	759	-	8 233
Loans and receivables from banks	1 351	44 585	3 823	1 303	51 062
Financial instruments at fair value through profit or loss	29	237	200	-	466
Loans and receivables from customers	12 245	3 445	100 240	-	115 930
Available-for-sale assets	41	-	-	-	41
Investments in subsidiaries	12	-	-	-	12
Property and equipment	1 413	1	74	-	1 488
Intangible assets	99	-	-	-	99
Prepaid income tax	144				144
Other assets	2 317	61	312	-	2 690
Total assets	**25 855**	**48 518**	**105 791**	**1 305**	**181 469**
Liabilities					
Financial instruments at fair value through profit or loss	-	940	-	-	940
Deposits and balances from banks	181	1 668	8 585	983	11 417
Current accounts and deposits from customers	24 828	75 542	37 706	324	138 400
Mortgage bonds	-	-	14752	-	14 752
Other liabilities	898	-	-	-	898
Provisions	363	-	9	-	372
Deferred tax liability	17	-	36	-	53
Total liabilities	**26 287**	**78 150**	**61 088**	**1 307**	**166 832**
Equity	**14 637**	**-**	**-**	**-**	**14 637**
Net on balance sheet position as of 31 December 2008	**(15 069)**	**(29 632)**	**44 703**	**(2)**	**-**
Net off balance sheet position as of 31 December 2008	**15 508**	**30 048**	**(45 651)**	**95**	**-**
Net on and off balance sheet position as of 31 December 2008	**439**	**416**	**(948)**	**93**	**-**

35 Currency analysis, continued

The following table shows the currency structure of assets and liabilities at 31 December 2007:

Group

	LVL '000 LVL	USD '000 LVL	EUR '000 LVL	Other currencies '000 LVL	Total '000 LVL
Assets					
Cash	786	171	236	90	1 283
Balances with the Bank of Latvia	11 090	-	584	-	11674
Loans and receivables from banks	405	14 988	6 990	1 210	23 593
Financial instruments at fair value through profit or loss	188	-	284	-	472
Loans and receivables from customers	25 066	1 976	66 272	-	93 314
Available-for-sale assets	50	-	-	-	50
Property and equipment	1 879	1	50	-	1 930
Intangible assets	109	-	-	-	109
Prepaid income tax	20	-	-	-	20
Other assets	1 285	1 315	161	-	2 761
Total assets	**40 878**	**18 451**	**74 577**	**1 300**	**135 206**
Liabilities					
Deposits and balances from banks	11	257	12 728	52	13 048
Current accounts and deposits from customers	13 537	54 538	20 732	359	89 166
Mortgage bonds	-	-	14 757	-	14757
Other liabilities	1 289	440	888	140	2 757
Corporate income tax payable	20	-	-	-	20
Provisions	319	-	2	-	321
Deferred tax liability	78	-	-	-	78
Total liabilities	**15 254**	**55 235**	**49 107**	**551**	**120 147**
Equity	**15 059**				**15 059**
Net on balance sheet position as of 31 December 2007	**10 565**	**(36 784)**	**25 472**	**749**	**-**
Net off balance sheet position as of 31 December 2007	**(11 385)**	**36 631**	**(25 755)**	**110**	**-**
Net on and off balance sheet position as of 31 December 2007	**(820)**	**(153)**	**(283)**	**859**	**-**
Net on and off balance sheet position as of 31 December 2006	99	65	(387)	223	-

35 Currency analysis, continued

Bank

	LVL '000 LVL	USD '000 LVL	EUR '000 LVL	Other currencies '000 LVL	Total '000 LVL
Assets					
Cash	786	171	236	90	1 283
Balances with the Bank of Latvia	11 090	-	584	-	11 674
Loans and receivables from banks	405	14 988	6 990	1 210	23593
Financial instruments at fair value through profit or loss	188	-	284	-	472
Loans and receivables from customers	24 565	1 976	66 272	-	92 813
Available-for-sale assets	41	-	-	-	41
Investments in subsidiaries	16	-	-	-	16
Property and equipment	1 410	1	50	-	1 461
Intangible assets	100	-	-	-	100
Prepaid income tax	20	-	-	-	20
Other assets	1 234	1 315	161	-	2 710
Total assets	**39 855**	**18 451**	**74 577**	**1 300**	**134 183**
Liabilities					
Deposits and balances from banks	11	257	12 728	52	13 048
Current accounts and deposits from customers	13 619	54 538	20 732	359	89 248
Mortgage bonds	-	-	14 757	-	14 757
Other liabilities	746	440	888	140	2 214
Provisions	274	-	2	-	276
Deferred tax liability	47	-	-	-	47
Total liabilities	**14 697**	**55 235**	**49 107**	**551**	**119 590**
Equity	**14 593**				**14 593**
Net on balance sheet position as of 31 December 2007	**10 565**	**(36 784)**	**25 470**	**749**	**-**
Net off balance sheet position as of 31 December 2007	**(11 105)**	**36 629**	**(25 634)**	**110**	**-**
Net on and off balance sheet position as of 31 December 2007	**(540)**	**(155)**	**(164)**	**859**	**-**
Net on and off balance sheet position as of 31 December 2006	(336)	65	48	223	-

36 Credit risk

The table below shows the Group's maximum exposure to credit risk for the components of the balance-sheet, including the derivatives. Exposures are based on net carrying amounts as reported in the balance sheet.

The Group's maximum credit exposures are shown both gross, i.e. without taking into account of any collateral and other credit enhancement, and net, i.e. after taking into account any collateral and other credit enhancement. The details on type and amounts of collateral held are disclosed in the respective notes.

The Bank's maximum exposure to credit risk has not been presented as the difference to the Group's analysis is insignificant.

	Gross maximum credit exposure		**Net maximum credit exposure**	
	31.12.2008 LVL'000	**31.12.2007 LVL'000**	**31.12.2008 LVL'000**	**31.12.2007 LVL'000**
Balances with the Bank of Latvia	9 537	12 957	9 537	12 957
Loans and receivables from banks	51 062	23 593	51 062	23 593
Financial instruments at fair value through profit or loss	466	472	466	472
Loans and receivables from customers	115 167	93 314	7 972	3 192
Total balance sheet items	**176 232**	**130 336**	**69 037**	**40 214**
Other commitments	772	553	772	553
Total off-balance-sheet items	**772**	**553**	**772**	**553**
Total credit exposure	**177 004**	**130 889**	**69 809**	**40 767**

37 Classification of assets and liabilities

LVL '000	Loans and receivables/ financial liabilities at amortised cost		Held–for-trading		Available-for-sale		Non-financial assets/ liabilities		Total	
	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
Assets										
Cash and balances with the Bank of Latvia	9 537	12 957	-	-	-	-	-	-	9 537	12 957
Loans and receivables from banks	51 062	23 593	-	-	-	-	-	-	51 062	23 593
Loans and receivables from customers	115 167	93 314	-	-	-	-	-	-	115 167	93 314
Available-for-sale assets	-	-	-	-	50	50	-	-	50	50
Financial instruments at fair value through profit or loss	-	-	466	472	-	-	-	-	466	472
Intangible assets	-	-	-	-	-	-	126	109	126	109
Property and equipment	-	-	-	-	-	-	1 616	1 930	1 616	1 930
Prepaid income tax	146	20	-	-	-	-	-	-	146	20
Other assets	1 244	1 095	-	-	-	-	2 259	1 666	3 503	2 761
Deferred tax asset	-	-	-	-	-	-	40	-	40	-
Total assets	**177 156**	**130 979**	**466**	**472**	**-**	**50**	**4 041**	**3 705**	**181 713**	**135 206**
Liabilities										
Deposits and balances from banks	11 417	13 048	-	-	-	-	-	-	11 417	13 048
Financial instruments at fair value through profit or loss	-	-	940	-	-	-	-	-	940	-
Current accounts and deposits from customers	138 148	89 166	-	-	-	-	-	-	138 148	89 166
Mortgage bonds	14 752	14 757	-	-	-	-	-	-	14 752	14 757
Provisions	-	-	-	-	-	-	375	321	375	321
Deferred tax liabilities	-	-	-	-	-	-	53	78	53	78
Corporate income tax payable	14	20	-	-	-	-	-	-	14	20
Other liabilities	-	-	-	-	-	-	925	2 757	925	2 757
Total liabilities	**164 331**	**116 991**	**940**	**-**	**-**	**-**	**1 353**	**3 156**	**166 624**	**120 147**

38 Interest rate repricing analysis

Interest rate risk relates to the changes in the value of the financial instrument as a result of changes in the market rates. The period when the interest rate of the financial instruments is constant determines how it is exposed to the interest rate risk. In accordance with the practice among Latvian banks, the period in which the interest rate is adjusted to market rates, corresponds to the expiry date of the respective financial instrument, which is disclosed in the below table.

As at 31 December 2008, the interest rate repricing categories were:

Group

	Within 1 month	From 1 to 6 months	From 6 months to one year	From 1 to 5 years	Over 5 years	Non-interest bearing assets and liabilities	Total
	LVL '000	LVL '000	LVL '000	LVL'000	LVL'000	LVL '000	LVL '000
Assets							
Cash and balances with the Bank of Latvia	-	-	-	-	-	9 537	9 537
Loans and receivables from banks	586	8 290	22 303	-	-	19 883	51 062
Loans and receivables from customers	47 315	37 049	4 922	6 603	19 278	-	115 167
Available-for-sale assets	-	-	-	-	-	50	50
Financial instruments at fair value through profit or loss	-	-	-	-	-	466	466
Intangible assets	-	-	-	-	-	126	126
Property, plant and equipment	-	-	-	-	-	1 616	1 616
Deferred expense and accrued income	-	-	-	-	-	40	40
Prepaid income tax	-	-	-	-	-	146	146
Other assets	-	-	-	-	-	3 503	3 503
Total assets	**47 901**	**45 339**	**27 225**	**6 603**	**19 278**	**35 367**	**181 713**
Liabilities and shareholders' equity							
Deposits and balances from banks	3 833	7 028	-	-	-	556	11 417
Financial instruments at fair value through profit or loss	-	-	-	-	-	940	940 -
Current accounts and deposits from customers	23 063	58 959	15 810	5 035	-	35 281	138 148
Mortgage bonds	-	-	14 664	-	-	88	14 752
Provisions	-	-	-	-	-	375	375
Deferred tax liabilities	-	-	-	-	-	53	53
Corporate income tax payable	-	-	-	-	-	14	14
Other liabilities	-	-	-	-	-	925	925
Equity	-	-	-	-	-	15 089	15 089
Total liabilities and equity	**26 896**	**65 987**	**30 474**	**5 035**	-	**53 321**	**181 713**
Interest rate risk	**21 005**	**(20 648)**	**(3 249)**	**1 568**	**19 278**	**(17 954)**	-

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Bank

	Within 1 month	From 1 to 6 months	From 6 months to one year	From 1 to 5 years	Over 5 years	Non-interest bearing assets and liabilities	Total
	LVL '000	LVL '000	LVL '000	LVL'000	LVL'000	LVL '000	LVL '000
Assets							
Cash and balances with the Bank of Latvia	-	-	-	-	-	9 537	9 537
Loans and receivables from banks	586	8 290	22 303	-	-	19 883	51 062
Loans and receivables from customers	48 078	37 049	4 922	6 603	19 278	-	115 930
Investments in subsidiaries	-	-	-	-	-	12	12
Available-for-sale assets	-	-	-	-	-	41	41
Financial instruments at fair value through profit or loss	-	-	-	-	-	466	466
Intangible assets	-	-	-	-	-	99	99
Property and equipment	-	-	-	-	-	1 488	1 488
Prepaid income tax	-	-	-	-	-	144	144
Other assets	-	-	-	-	-	2 690	2 690
Total assets	**48 664**	**45 339**	**27 225**	**6 603**	**19 278**	**34 360**	**181 469**
Liabilities and shareholders' equity							
Deposits and balances from banks	3 833	7 028	-	-	-	556	11 417
Financial instruments at fair value through profit or loss	-	-	-	-	-	940	9400
Current accounts and deposits from customers	23 063	58 959	15 810	5 035	-	35 533	138 400
Mortgage bonds	-	-	14 664	-	-	88	14 752
Provisions	-	-	-	-	-	372	372
Deferred tax liabilities	-	-	-	-	-	53	53
Other liabilities	-	-	-	-	-	898	898
Equity	-	-	-	-	-	14 637	14 637
Total liabilities and equity	**26 896**	**65 987**	**30 474**	**5 035**	**-**	**53 077**	**181 469**
Interest rate risk	**21 768**	**(20 648)**	**(3 249)**	**1 568**	**19 278**	**(18 717)**	**-**

As at 31 December 2007, the interest rate repricing categories were:

Group

Assets	**Within 1 month LVL '000**	**From 1 to 6 months LVL '000**	**From 6 months to one year LVL '000**	**From 1 to 5 years LVL'000**	**Over 5 years LVL'000**	**Non-interest bearing assets and liabilities LVL '000**	**Total LVL '000**
Cash and balances with the Bank of Latvia	-	-	-	-	-	12 957	12 957
Loans and receivables from banks	2 373	-	3 100	-	-	18 120	23 593
Loans and receivables from customers	33 198	53 880	2 192	2 220	497	1 327	93 314
Available-for-sale assets	-	-	-	-	-	50	50
Financial instruments at fair value through profit or loss	-	-	-	-	-	472	472
Intangible assets	-	-	-	-	-	109	109
Property and equipment	-	-	-	-	-	1 930	1 930
Prepaid income tax	-	-	-	-	-	20	20
Other assets	-	-	-	-	-	2 761	2 761
Total assets	**35 571**	**53 880**	**5 292**	**2 220**	**497**	**37 746**	**135 206**
Liabilities and shareholders' equity							
Deposits and balances from banks	17	12 299	-	-	-	732	13 048
Financial instruments at fair value through profit or loss	-	-	-	-	-	-	-
Current accounts and deposits from customers	20 210	27 195	7 807	2 931	-	31 023	89 166
Mortgage bonds	-	-	14 664	-	-	93	14 757
Provisions	-	-	-	-	-	321	321
Deferred tax liabilities	-	-	-	-	-	78	78
Corporate income tax payable	-	-	-	-	-	20	20
Other liabilities	-	-	-	-	-	2 757	2 757
Equity		-	-	-	-	15 059	15 059
Total liabilities and equity	**20 227**	**39 494**	**22 471**	**2 931**	**-**	**50 083**	**135 206**
Interest rate risk	**15 344**	**14 386**	**(17 179)**	**(711)**	**497**	**(12 337)**	**-**

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Bank

Assets	Within 1 month LVL '000	From 1 to 6 months LVL '000	From 6 months to one year LVL '000	1 to 5 years LVL '000	Over 5 years	Non-interest bearing assets and liabilities LVL '000	Total LVL '000
Cash and balances with the Bank of Latvia	-	-	-	-	-	12 957	12 957
Loans and receivables from banks	2 373	-	3 100	-	-	18 120	23 593
Loans and receivables from customers	45 433	41 919	2 192	2 220	497	552	92 813
Available-for-sale assets	-	-	-	-	-	41	41
Financial instruments at fair value through profit or loss	-	-	-	-	-	472	472
Investments in subsidiaries	-	-	-	-	-	16	16
Intangible assets	-	-	-	-	-	100	100
Property and equipment	-	-	-	-	-	1 461	1 461
Prepaid income tax	-	-	-	-	-	20	20
Other assets	-	-	-	-	-	2 710	2 710
Total assets	**48 806**	**41 919**	**5 292**	**2 220**	**497**	**36 449**	**134 183**
Liabilities and shareholders' equity							
Deposits and balances from banks	17	12 299	-	-	-	732	13 048
Financial instruments at fair value through profit or loss	-	-	-	-	-	-	-
Current accounts and deposits from customers	20 210	27 195	7 807	2 931	-	31 105	89 248
Available-for-sale assets	-	-	14 664	-	-	93	14 757
Provisions	-	-	-	-	-	276	276
Deferred tax liabilities	-	-	-	-	-	47	47
Other liabilities	-	-	-	-	-	2 214	2 214
Equity	-	-	-	-	-	14 593	14 593
Total liabilities and equity	**20 227**	**39 494**	**22 471**	**2 931**	**-**	**49 060**	**134 183**
Interest rate risk	**28 579**	**2 425**	**(17 179)**	**(711)**	**497**	**(12 611)**	**-**

Sensitivity analysis

The following demonstrates the sensitivity to reasonably possible changes in the interest rates of the Bank's income statement. The analysis assumes that all other variables, in particular foreign currency rates, remain constant.

The sensitivity of the income statement is the effect of the assumed changes in the interest rates on the net interest income for one year, following the balance sheet date, based on the floating rate non-trading financial assets and financial liabilities held at 31 December 2008 and 31 December 2007.

There were no financial instruments held by the Bank at 31 December 2008 and 31 December 2007, for which there would be any effect on equity resulting from changes in interest rates.

The Group's interest rate sensitivity analysis has not been presented as the difference to the Bank's analysis is insignificant.

An increase and decrease of the interest rates by 100 basis points would result in the following change to the income statement, the effect on the equity would be the same:

	Sensitivity of net interest income by increase in basis points LVL'000	**Sensitivity of net interest income by decrease in basis points LVL'000**
31 December 2008	288	(288)
EUR	(58)	58
LVL	(298)	298
USD	(68)	68
Total effect	**288**	**(288)**
31 December 2007		
EUR	63	(63)
LVL	12	(12)
USD	1	(1)
Total effect	**76**	**(76)**

39 Assets and liabilities by geographic region

The assets and liabilities as of 31 December 2008 by geographic region are as follows:

	Group				Bank			
LVL '000	Latvia	OECD countries	Other non-OECD countries	Total	Latvia	OECD countries	Non-OECD countries	Total
Assets								
Cash and balances with the Bank of Latvia	9 524	-	13	**9 537**	9 524	-	13	**9 537**
Loans and receivables from banks	1 464	49 043	555	**51 062**	1 464	49 043	555	**51 062**
Loans and receivables from customers	113 128	962	1 077	**115 167**	113 891	962	1 077	**115 930**
Financial instruments at fair value through profit or loss	311	154	1	**466**	311	154	1	**466**
Deferred tax	40	-	-	**40**	-	-	-	-
Available-for-sale assets	50	-	-	**50**	41	-	-	**41**
Investments in subsidiaries	-	-	-	-	12	-	-	**12**
Intangible assets	126	-	-	**126**	99	-	-	**99**
Property and equipment	1 616	-	-	**1 616**	1 488	-	-	**1 488**
Prepaid income tax	146	-	-	**146**	144	-	-	**144**
Other assets	3 049	141	313	**3 503**	2 236	141	313	**2 690**
	129 143	**50 300**	**1 959**	**181 713**	**129 210**	**50 300**	**1 959**	**181 469**
Liabilities								
Deposits and balances from banks	455	7 181	3 781	11 417	455	7 181	3 781	11 417
Financial instruments at fair value through profit or loss	917	23	-	940	917	23	-	940
Current accounts and deposits from customers	47 204	60 011	30933	138 148	47456	60 011	30 933	138 400
Available-for-sale assets	14 752	-	-	14 752	14 752	-	-	14 752
Provisions	375	-	-	375	372	-	-	372
Corporate income tax payable	14	-	-	14	-	-	-	-
Other liabilities	364	-	561	925	337	-	561	898
Deferred tax liabilities	53	-	-	53	53	-	-	53
Equity	15 089	-	-	15 089	14 637	-	-	14 637
	79 223	**67 215**	**35 275**	**181 713**	**78 979**	**67 215**	**35 275**	**181 469**
Commitments and Contingencies	1 980	223	1 084	3 287	1 980	223	1 084	3 287

The assets and liabilities as of 31 December 2007 by geographic region are as follows:

	Group				Bank			
LVL '000	Latvia	OECD countries	Other non-OECD countries	Total	Latvia	OECD countries	Non-OECD countries	Total
Assets								
Cash and balances with the Bank of Latvia	12 460	10	487	12 957	12 460	10	487	12 957
Loans and receivables from banks	2 524	19 604	1 465	23 593	2 524	19 604	1 465	23 593
Loans and receivables from customers	92 118	473	723	93 314	91 617	473	723	92 813
Available-for-sale assets	9	41	-	50	-	41	-	41
Financial instruments at fair value through profit or loss	240	195	37	472	240	195	37	472
Investments in subsidiaries	-	-	-	-	16	-	-	16
Intangible assets	109	-	-	109	100	-	-	100
Property and equipment	1 930	-	-	1 930	1 461	-	-	1 461
Prepaid income tax	20	-	-	20	20	-	-	20
Other assets	1 489	1 234	38	2 761	1 458	1 234	18	2 710
	110 899	**21 557**	**2 750**	**135 206**	**109 896**	**21 557**	**2 730**	**134 183**
Liabilities								
Deposits and balances from banks	130	3 570	9 348	13 048	130	3 570	9 348	13 048
Financial instruments at fair value through profit or loss	-	-	-	-	-	-	-	-
Current accounts and deposits from customers	23 919	43 593	21 654	89 166	24 001	43 593	21 654	89 248
Available-for-sale assets	14 757	-	-	14 757	14 757	-	-	14 757
Provisions	321	-	-	321	276	-	-	276
Other liabilities	1 397	131	1 249	2 777	834	131	1 249	2 214
Deferred tax liabilities	78	-	-	78	47	-	-	47
Equity	755	564	13 740	15 059	260	564	13 769	14 593
	41 357	**47 858**	**45 991**	**135 206**	**40 305**	**47 858**	**46 020**	**134 183**
Commitments and Contingencies	1 914	50	27	1 991	1 914	50	27	1 991

40 Events subsequent to the balance sheet date

1) On 13 March 2009 the Bank concluded loan agreement on Subordinated Capital.

Creditor	Facility	Period	Interest rate
UNIMAIN HOLDINGS LIMITED	13 million USD	18 March 2009 – 18 March 2016	6.00%

2) On 17 March 2009 the Bank concluded cession agreement with related party for sale of a group of doubtful loans. Total carrying amount of loans as at 31 December 2008 was 1 709 thousand LVL (2 431 thousand EUR). The consideration received amounts to 1 709 thousand LVL (2 431 thousand EUR).