Annual report

for the year ended
31 december 2008

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AB.LV
Aizkraukles Banka Latvija

Report of the Council and the Board

Ladies and Gentlemen,
Dear Shareholders, Customers and Business Partners

Despite the prevailing mood in the market, the 2008 results indicate clearly that the management team of Aizkraukles Banka has succeeded in predicting the market situation and changing business strategy of the Group and the Bank accordingly. Therefore, our profitability ratios are among the highest in the Latvian banking industry. The Bank's return on equity (ROE) was 12.15 % as at 31 December 2007, whereas the return on assets (ROA) was 1.0 %.

Aizkraukles Banka has taken into account the projected economic decline, while preparing its 2008 financial plans. Therefore the financial plan was developed with certain caution.

Having evaluated the financial and overall performance of Aizkraukles Banka for the year 2008, the management team is satisfied about the achieved results. The profit of Aizkraukles Banka in 2008 amounted to LVL 10.7 million, which is worthy of note in the current market conditions.

In 2008 the world faced economic recession, and Latvia was no exception. Although the deviations and changes in the economies were anticipated, the fast decline caused severe shocks in financial markets and made financial institutions, as well as state administrations get involved in stabilisation of the situation.

The management is well aware that the global credit and liquidity crisis had an impact on the operations of the Group and the Bank in 2008. As the crisis continues, the impact will remain for 2009 for all the enterprises, including financial institutions not only in Latvia, but also globally. The management has a firm opinion that the Group and the Bank has not been affected more than any other similar profile institution in the banking sector of Latvia. Therefore the management of the Group and the Bank is sure that Aizkraukles Banka is in a strong position to be able to realize assets and discharge liabilities in the normal course of operations for the foreseeable future.

The consequence of the crisis is a lack of trust in the intra-bank market. The banks are very reluctant towards any exposure to any entities, thus causing justified concerns about ability of any financial institution to tap the markets with an aim to obtain external funding.

At the end of the reporting period, the two syndicated facilities of Aizkraukles Banka was equal to EUR 155 million. As both of the 364 day facilities were refinanced through two new successful transactions accordingly in February and July 2008, Aizkraukles Banka has already reduced the exposure from initial EUR 215 million.

In February 2009 the first syndicated loan of EUR 70 million was repaid according to the conditions of the agreement, still having the liquidity ratio well above the regulatory minimum. Before the repayment of the syndicated loan the Bank had a liquidity ratio at 44.41%, which descended to 39.42%.
As far as the loan due in February is concerned, in January 2009 the Bank made a timely decision to confirm its intent to repay the whole loan amount in due time, as set in the agreement, and placed a deposit equal to the full loan principal amount and interest due on the loan with the agent bank coordinating the deal.

Furthermore, Aizkraukles Banka plans to repay the other syndicated loan of EUR 85 million maturing in July 2009. The funds will be made available for repayment in the course of regular banking business.

An important event of year 2008 was issuance of the Bank's subordinated bonds. The bonds issue was successful as applications for bonds exceeded the initial amount. Two issues of subordinated bonds were organised: in US dollars and in euros. The nominal values of the issues were USD 20 million and EUR 12.5 million respectively.
In addition to the issuance of bonds in the last quarter of 2008 the Bank was able to attract a subordinated deposit for 10 years in the amount of USD 15 million as a private placement.

In late 2008 the Bank had to address the downward trend of the liquidity ratio, which was caused by deposit outflow in the fourth quarter, due to meaningful concerns about the economy of the country and the capability of the governmental and regulatory institutions to cope with a non standard situation, particularly issues related to nationalization of one of the largest privately owned banks in Latvia. It was also influenced by regular seasonal fluctuations – which is related to trade activities before the yearend sales and was slightly distorted due to lowered overall consumer activity.

Liquidity ratio at the year-end comprised 41.32%, which is reasonably above the minimum requirements and does not conflict with an efficient use of funds nowadays. The deposit outflow trend significantly influenced the liquidity position of the Group and the Bank in November, while already in December the expected recovery took place. The additional efforts were put into customer relationship management – the information about the regular ongoing deposit campaigns was more actively delivered to the customers. Recent statistics reflects that the customers have gradually regained the pace in the stressed economic environment all around the world. Not only the amount of deposits and their maturities, but also volume of payments and foreign currency exchange transactions has recently increased. By 26th February, 2009, the total amount of deposits has increased approximately 9% when compared to 31st December 2008.

The management has planed certain activities to ensure sufficient liquidity:

- Attraction of new customers and expected increase in deposits:
  - regular deposit campaigns;
  - broadening of agent network;
  - extending range of services;
  - increased efforts to regain customers who left the Bank during the turbulence and uncertainty in global markets in late 2008.
- Aimed activities in decreasing loan portfolio (including potential sale of part of loan portfolio) and restricted lending (in line with other Latvian banks).
- Full repayment of syndicated borrowings in course of regular banking business operations.
- Contemplated plans of selling investment properties in year 2010.
- Stricter expense management.
- The dividend policy of the Bank is to reinvest the major part of profits into the Bank's capital.

The forecasts and projections of the Group and the Bank, taking into account a moderate customer deposits increase, assuming lower loan repayment amounts then contractually proposed and full repayment of all of the syndicated borrowings, show that the Group and the Bank should be able to operate within the sufficient level of liquidity. The Bank has estimated that even in the case of such a highly unlikely scenario containing no loan repayment at all liquidity ratios would remain in range of 35 – 45%, which is reasonably above the regulatory minimum of 30%.

At the close of the year 2008, a new Bank's business strategy was approved. The key goal of the new strategy is to concentrate on less capital intensive and liquidity consuming services. The Bank's strategic target is to become a leading independent private bank in the area that combines conventional banking services, asset management and consulting under an integrated service offer adjusted for the customer's needs. In accordance with the new strategy for 2009–2013, the key objective of Aizkraukles Banka is to achieve that medium and large–sized private businesses and affluent and wealthy individuals in the Baltic States and the CIS should choose the Bank as their prime financial partner and adviser. The Bank's mission is to retain and increase the customer wealth and to provide the relevant financial services and consulting.

The Bank's financial plan for 2009 provides substantial cuts in administrative expense and optimization of the Bank's operations. Taking into account the current situation in economy and financial markets both in Latvia as well as globally, the Bank recognizes that its performance in 2009 might be below the previous year level. This is primarily caused by the sharp decline in the base interest rates, which decreases the Bank's net interest income significantly, since it is not possible to cut fundraising costs under the current lack of confidence in the financial markets.

However, we should emphasize that, despite the foregoing, the main operations of Aizkraukles Banka will continue to yield considerable profit. Potential net loss may occur due to allowances to be established as the Bank plans to continue its conservative approach towards its loan portfolio assessment also in 2009.

Financial results

The Bank's profit in 2008 was LVL 10.7 million, and its assets amounted to LVL 983.4 million as at 31 December 2008.

In 2008, the Bank's total income from main operations before allowances was LVL 57.5 million. It is important to note that the share of net commission and fee income in the total income from the main operations increased from 16% up to 19% over the year. This indicates growing share of less capital intensive and liquidity consuming operations and serves as a basis for the Bank's stable development in the future and confirms the right choice of the Bank's business strategy.

As planned the Bank's gross loan portfolio has decreased considerably – from LVL 690 million at the close of 2007 to LVL 648 million at the close of 2008. In addition to the declining loan portfolio volume, the off-balance loan commitments were reduced by LVL 47 million.
In 2008, the Bank applied conservative and very cautious approach in assessment of the quality of its loan portfolio, which resulted in establishment of considerable allowances. At the close of 2008, the total allowances amounted to LVL 21 million, i.e. 3.2% of the total loan portfolio.

Despite its cautious allowance policy, the Bank's capital adequacy ratio did not grow worse and continued to remain very high, reaching 16.09% at the end of 2008, which exceeded considerably the minimum level of 8% set by the Financial and Capital Market Commission. It should be added that the capital adequacy level determined at the close of 2008 was one of the highest historical levels.

As at 31 December 2008, the shareholders' equity of the Bank was LVL 80.3 million.

Year 2008 has also been profitable for the investment management and brokerage subsidiaries included in the Aizkraukles Banka Group, AB.LV Asset Management and AB.LV Capital Markets.

Improvement of services

In October 2008, AB Konsultācijas, a subsidiary of Aizkraukles Banka Group, opened a new representative office in Tashkent. The other representative offices of AB Konsultācijas are located in Moscow, St. Petersburg, Minsk, Baku and Kyiv with branch in Odessa. Furthermore, Aizkraukles Bank has representative offices in Kiev, Minsk, and Almati. The objective of the representative offices is to supply information about the Aizkraukles Banka Group. Servicing non-resident customers is one of the core business lines.

To continue implementation of the Bank's new business strategy that focuses on individual services for corporate customers and affluent individuals, the Bank has developed a number of new products and services in 2008, including new investment products, remote management of the current accounts, enhancement of the payment card system, as well as better functionality of Internetbank.

In the second half of 2008, Aizkraukles Banka founded another subsidiary AB.LV Transform Investments, which acts as a holding of enterprises with a purpose to separate real estate transactions from the Bank's main business activities.

Aizkraukles Banka for the society

In 2008, Aizkraukles Banka continued to support various projects of public importance. Last year, Aizkraukles Banka donated a total of more than LVL 337 thousand for support of various events and projects.
With the Bank's support, exhibitions of modern Latvian art works were held in Moscow and Brussels, tours of Moscow theatres were organised in Riga, as well as Grand Music Awards in academic genre were presented to Latvian musicians.

It is a tradition now that Aizkraukles Banka takes an active part in supporting festivities on the anniversary of proclamation of the Republic of Latvia organised by the embassies in such cities as Moscow, St. Petersburg, Tashkent, Astana, Minsk, and Baku.

In sport, Aizkraukles Banka continued to support handball events in Latvia. The Latvian men's handball team participated in the European championship qualification games with the Bank's support last year, and the Latvian handball club ASK/AB.LV won the Latvian championship again and started successfully in the Baltic Handball League.

An important contribution to support of projects of public importance was also made by the Bank's corporate AB.LV Charity Fund. In 2008, the Fund assigned more than LVL 300 thousand to development of art, children and youth, urban environment, education and civil society.

We are pleased to take this opportunity and express our gratitude to the Bank's customers for the confidence and loyalty. The management would also like to thank the Bank's employees for the work they have contributed!

Chairman of the Council
Aleksandrs Bergmanis

Chairman of the Board
Ernests Bernis

Riga, 26 February 2009

The Council and the Board

The Council of the Bank

Chairman of the Council:

Aleksandrs Bergmanis

Deputy Chairman of the Council:

Jānis Krīgers

Member of the Council:

Vladimirs Kutovojs

The Board of the Bank	Date of Approval
Chairman of the Board:	
Ernests Bernis	27/12/2007
Deputy Chairman of the Board:	
Oļegs Fiļs	27/12/2007
Members of the Board:	
Aleksandrs Pāže	27/12/2007
Rolands Citajevs	27/12/2007
Vadims Reinfelds	27/12/2007
Edgars Pavlovičs	27/12/2007
Māris Kannenieks	03/04/2008

Chairman of the Council
Aleksandrs Bergmanis

Chairman of the Board
Ernests Bernis

Riga, 26 February 2009

Statement of Responsibility of the Council and the Board

The Council and the Board of the Bank (hereinafter – the Management) are responsible for the preparation of the financial statements of the Bank as well as for the preparation of the consolidated financial statements of the Bank and its subsidiaries (hereinafter – the Group). The financial statements are prepared in compliance with the requirements of the Law of the Republic of Latvia on Credit Institutions, Regulations of the Financial and Capital Market Commission, and other laws of the Republic of Latvia applicable to credit institutions.

The financial statements set out on pages 8 to 65 are prepared in accordance with the source documents and present fairly the financial position of the Bank and the Group as at 31 December 2008 and 2007, and the results of their operations, changes in the shareholders' equity and cash flows for the years then ended.

The aforementioned financial statements are prepared on a going concern basis, consistently applying International Financial Reporting Standards as adopted in the European Union and accounting policies in conformity with such Standards. Prudent and reasonable judgements and estimates have been made by the Management in the preparation of the financial statements.

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

Chairman of the Council
Aleksandrs Bergmanis

Chairman of the Board
Ernests Bernis

Riga, 26 February 2009

Consolidated and Separate Income Statements

for the years ended 31 december 2008 and 2007

	Notes	Group 2008 LVL '000	Group 2007 LVL '000	Bank 2008 LVL '000	Bank 2007 LVL '000
Interest income	4	64,550	56,568	64,550	56,569
Interest expense	4	(30,413)	(25,321)	(30,342)	(25,215)
Net interest income		**34,137**	**31,247**	**34,208**	**31,354**
Commission and fee income	5	14,667	12,007	13,555	10,782
Commission and fee expense	5	(2,491)	(1,702)	(2,380)	(1,629)
Net commission and fee income		**12,176**	**10,305**	**11,175**	**9,153**
Net profit/ (loss) from financial assets and liabilities at fair value through profit or loss	6	9,276	(2,473)	9,276	(2,473)
Net realised (loss)/ profit from available-for-sale financial assets	6	(1,038)	1,152	(1,038)	1,152
Net result from foreign exchange trading and revaluation	6	2,660	18,568	2,669	18,584
Other income		836	568	696	542
Income from dividends		34	53	475	53
Change in allowances for credit losses	7	(17,729)	(2,711)	(17,729)	(2,711)
Operating income		**40,352**	**56,709**	**39,732**	**55,654**
Administrative expense	8	(23,077)	(21,598)	(21,784)	(20,553)
Depreciation		(1,707)	(1,563)	(1,664)	(1,527)
Investment properties	*19*	*(20)*	*(17)*	*(20)*	*(17)*
Property, plant and equipment	*20*	*(1,257)*	*(1,235)*	*(1,221)*	*(1,203)*
Intangible assets	*20*	*(430)*	*(311)*	*(423)*	*(307)*
Other expense		(1,103)	(1,662)	(1,406)	(2,112)
(Loss) from sale of tangible and intangible fixed assets		(71)	(173)	(71)	(173)
Impairment of financial instruments	14, 16	(2,329)	–	(2,329)	–
Total operating expense		**(28,287)**	**(24,996)**	**(27,254)**	**(24,365)**
Profit before corporate income tax		**12,065**	**31,713**	**12,478**	**31,289**
Corporate income tax	9	(1,848)	(4,187)	(1,813)	(4,103)
NET PROFIT FOR THE YEAR		**10,217**	**27,526**	**10,665**	**27,186**
Earnings per share		**0,10**	**0,28**	**0,11**	**0,27**

Attributable to:					
Bank's shareholders		**10,251**	**27,525**		
Minority interest		**(34)**	**1**		
SIA Elizabetes 21a		(31)	(5)		
AS AB Konsultācijas		(3)	6		

Chairman of the Council
Aleksandrs Bergmanis

Chairman of the Board
Ernests Bernis

Riga, 26 February 2009

The accompanying notes form an integral part of these consolidated and separate financial statements.

Consolidated and Separate Balance Sheets and Memorandum Items

as at 31 december 2008 and 2007

ASSETS	Notes	Group 31/12/2008 LVL '000	Group 31/12/2007 LVL '000	Bank 31/12/2008 LVL '000	Bank 31/12/2007 LVL '000
Cash and demand deposits with central banks	12	57,860	63,684	57,860	63,684
Balances due from credit institutions	13	174,664	223,772	174,636	223,765
Financial assets at fair value through profit or loss		4,599	4,952	4,599	4,952
Debt securities and other fixed income securities	*14*	*768*	*3,830*	*768*	*3,830*
Derivatives	*15*	*3,831*	*1,122*	*3,831*	*1,122*
Available-for-sale financial assets		35,081	92,625	35,081	92,625
Debt securities and other fixed income securities	*14*	*31,108*	*86,711*	*31,108*	*86,711*
Shares and other non-fixed income securities	*16*	*3,973*	*5,914*	*3,973*	*5,914*
Loans and receivables		669,872	686,677	669,870	686,674
Loans	*17*	*626,869*	*686,677*	*626,867*	*686,674*
Debt securities and other fixed income securities	*14*	*43,003*	*–*	*43,003*	*–*
Prepaid expense and accrued income		336	195	274	96
Investments in subsidiaries	18	–	–	3,830	2,432
Investment properties	19	19,762	16,514	19,762	16,514
Tangible fixed assets	20	6,374	8,663	6,220	8,542
Intangible fixed assets	20	3,449	2,061	3,291	1,988
Current corporate income tax receivables	9	2,427	590	2,363	590
Deferred income tax	9	4,185	580	3,850	245
Other assets		3,462	2,507	1,751	757
TOTAL ASSETS		**982,071**	**1,102,820**	**983,387**	**1,102,864**
LIABILITIES					
Demand deposits from credit institutions	21	15,690	5,598	15,690	5,598
Financial liabilities at fair value through profit or loss		19,238	9,429	19,238	9,429
Derivatives	*15*	*19,238*	*9,429*	*19,238*	*9,429*
Financial liabilities at amortised cost		865,768	997,874	864,504	996,442
Term deposits from credit institutions	*21*	*112,517*	*152,976*	*109,561*	*149,970*
Deposits	*22*	*712,315*	*823,777*	*714,007*	*825,351*
Subordinated liabilities	*23*	*40,936*	*21,121*	*40,936*	*21,121*
Deferred income and accrued expense		2,128	4,379	2,079	4,312
Current corporate income tax liabilities	9	1	82	–	–
Deferred corporate income tax	9	5	1	–	–
Other liabilities		1,073	1,863	1,594	1,820
TOTAL LIABILITIES		**903,903**	**1,019,226**	**903,105**	**1,017,601**
SHAREHOLDERS' EQUITY					
Paid-in share capital	24	15,000	15,000	15,000	15,000
Share premium		255	255	255	255
Reserve capital and other reserves		1,500	1,500	1,500	1,500
Fair value revaluation reserve of available-for-sale financial assets		(12,932)	(2,286)	(12,932)	(2,286)
Retained earnings brought forward		63,910	41,385	65,794	43,608
Retained earnings for the period		10,251	27,525	10,665	27,186
Attributable to the Bank's shareholders		77,984	83,379	80,282	85,263
Minority interest		184	215	-	-
TOTAL SHAREHOLDERS' EQUITY		**78,168**	**83,594**	**80,282**	**85,263**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**982,071**	**1,102,820**	**983,387**	**1,102,864**
MEMORANDUM ITEMS					
Funds under trust management	26	18,796	49,992	5,138	4,189
Contingent liabilities	26	19,322	19,190	19,322	19,190
Guarantees		*17,436*	*18,262*	*17,436*	*18,262*
Other contingent liabilities		*1,886*	*928*	*1,886*	*928*
Financial commitments	26	20,429	69,428	20,429	69,428
Contractual commitments on purchase of tangible and intangible assets		*349*	*2,100*	*349*	*2,100*
Loan commitments		*20,080*	*67,328*	*20,080*	*67,328*

Chairman of the Council Aleksandrs Bergmanis

Chairman of the Board Ernests Bernis

Riga, 26 February 2009

The accompanying notes form an integral part of these consolidated and separate financial statements.

Statements of Changes in Shareholders' Equity of the Group

for the years ended 31 december 2008 and 2007

	Paid-in share capital LVL '000	Share premium LVL '000	Reserve capital LVL '000	Fair value revaluation reserve LVL '000	Retained earnings LVL '000	*Attributable to the Bank's shareholders LVL '000*	*Minority interest LVL '000*	Total shareholders' equity LVL '000
As at 01/01/2007	**15,000**	**255**	**1,500**	**1,726**	**47,385**	***65,866***	***34***	**65,900**
Change in fair value revaluation reserve of available-for-sale financial assets	–	–	–	(3,909)	–	*(3,909)*	–	(3,909)
Charge to income statement as a result of sale of available-for-sale securities	–	–	–	(810)	–	*(810)*	–	(810)
Change in deferred corporate income tax	–	–	–	707	–	*707*	–	707
Total income and expense recognised directly in equity	*–*	*–*	*–*	*(4,012)*	*–*	*(4,012)*	*–*	*(4,012)*
Minority interest	–	–	–	–	–	–	*180*	180
Net profit for the year 2007	–	–	–	–	27,525	*27,525*	*1*	27,526
Total income and expense for the year	*–*	*–*	*–*	*(4,012)*	*27,525*	*23,513*	*181*	*23,694*
Dividends paid	–	–	–	–	(6,000)	*(6,000)*	–	(6,000)
As at 31/12/2007	**15,000**	**255**	**1,500**	**(2,286)**	**68,910**	***83,379***	***215***	**83,594**
Change in fair value revaluation reserve of available-for-sale financial assets	–	–	–	(11,441)	–	*(11,441)*	–	(11,441)
Charge to income statement as a result of sale of available-for-sale securities	–	–	–	(1,084)	–	*(1,084)*	–	(1,084)
Change in deferred corporate income tax	–	–	–	1,879	–	*1,879*	–	1,879
Total income and expense recognised directly in equity	*–*	*–*	*–*	*(10,646)*	*–*	*(10,646)*	*–*	*(10,646)*
Minority interest	–	–	–	–	–	–	*3*	3
Net profit for the year 2008	–	–	–	–	10,251	*10,251*	*(34)*	10,217
Total income and expense for the year	*–*	*–*	*–*	*(10,646)*	*10,251*	*(395)*	*(31)*	*(426)*
Dividends paid	–	–	–	–	(5,000)	*(5,000)*	–	(5,000)
As at 31/12/2008	**15,000**	**255**	**1,500**	**(12,932)**	**74,161**	***77,984***	***184***	**78,168**

The accompanying notes form an integral part of these consolidated and separate financial statements.

Statements of Changes in Shareholders' Equity of the Bank

for the years ended 31 december 2008 and 2007

	Paid-in share capital LVL '000	Share premium LVL '000	Reserve capital LVL '000	Fair value revaluation reserve LVL '000	Retained earnings LVL '000	Total shareholders' equity LVL '000
As at 01/01/2007	**15,000**	**255**	**1,500**	**1,726**	**49,608**	**68,089**
Change in fair value revaluation reserve of available-for-sale financial assets	–	–	–	(3,909)	–	(3,909)
Charge to income statement as a result of sale of available-for-sale securities	–		–	(810)	–	(810)
Change in deferred corporate income tax	–	–	–	707	–	707
Total income and expense recognised directly in equity	–	–	–	*(4,012)*	–	*(4,012)*
Net profit for the year 2007	–	–	–	-	27,186	27,186
Total income and expense for the year	–	–	–	*(4,012)*	*27,186*	*23,174*
Dividends paid	–	–	–	-	(6,000)	(6,000)
As at 31/12/2007	**15,000**	**255**	**1,500**	**(2,286)**	**70,794**	**85,263**
Change in fair value revaluation reserve of available-for-sale financial assets	–	–	–	(11,441)	–	(11,441)
Charge to income statement as a result of sale of available-for-sale securities	–	–	–	(1,084)	–	(1,084)
Change in deferred corporate income tax	–	–	–	1,879	–	1,879
Total income and expense recognised directly in equity	–	–	–	*(10,646)*	–	*(10,646)*
Net profit for the year 2008	–	–	–	–	10,665	10,665
Total income and expense for the year	–	–	–	*(10,646)*	*10,665*	*19*
Dividends paid	–	–	–	–	(5,000)	(5,000)
As at 31/12/2008	**15,000**	**255**	**1,500**	**(12,932)**	**76,459**	**80,282**

The accompanying notes form an integral part of these consolidated and separate financial statements.

Consolidated and Separate Cash Flow Statements

for the years ended 31 december 2008 and 2007

Cash flow from operating activities	Group 2008 LVL '000	Group 2007 LVL '000	Bank 2008 LVL '000	Bank 2007 LVL '000
Profit before corporate income tax	12,065	31,713	12,478	31,289
Amortisation and depreciation of fixed assets	1,707	1,563	1,664	1,527
Increase in allowances for credit losses	17,729	2,711	17,729	2,711
Unrealised loss from revaluation of foreign currency positions	12,848	8,602	12,839	8,586
Net cash flow from operating activities before changes in assets and liabilities	**44,349**	**44,589**	**44,710**	**44,113**
Decrease/ (increase) in loans and advances to customers	42,168	(198,176)	42,167	(198,175)
(Increase) in financial assets at fair value through profit or loss	(2,408)	(1,268)	(2,408)	(1,268)
(Increase) in prepaid expense and accrued income	(141)	(91)	(178)	(6)
(Increase) in other assets	(1,101)	(330)	(1,222)	(193)
(Increase) in balances due from credit institutions	(7,283)	(20,469)	(7,283)	(20,469)
(Decrease)/ increase in deposits from other customers	(111,462)	164,051	(111,344)	164,401
Increase/ (decrease) in balances due to credit institutions	5,288	(4,076)	5,338	(4,080)
Increase in financial liabilities at fair value through profit or loss	9,809	5,917	9,809	5,917
(Decrease)/ increase in deferred income and accrued expense	(2,251)	1,304	(2,234)	1,259
(Decrease)/ increase in other liabilities	(841)	151	(227)	123
Net cash flow from operating activities before corporate income tax	**(23,873)**	**(8,398)**	**(22,872)**	**(8,378)**
(Corporate income tax paid)	(5,334)	(4,911)	(5,156)	(4,910)
Net cash flow from operating activities	**(29,207)**	**(13,309)**	**(28,028)**	**(13,288)**
Cash flow from investing activities				
Decrease/ (increase) in available-for-sale financial assets	4,761	(26,097)	4,761	(26,097)
(Purchase) of fixed assets and investment properties	(4,275)	(6,603)	(4,106)	(6,530)
Sale of fixed assets	221	214	213	258
(Purchase) of equity shares in other entities	-	-	(1,398)	(150)
Sale of equity shares in other entities	-	-	-	180
(Purchase) of equity shares in Group entities	(28)	-	-	-
Net cash flow from investing activities	**679**	**(32,486)**	**(530)**	**(32,339)**
Cash flow from financing activities				
Increase in subordinated liabilities	19,815	1,791	19,815	1,791
Dividends (paid)	(4,999)	(5,999)	(4,999)	(5,999)
Sale of shares in the Group's entity	-	180	-	-
Syndicated loan received	108,935	147,589	108,935	147,589
Syndicated loan (repaid)	(154,682)	(39,668)	(154,682)	(39,668)
Net cash flow from financing activities	**(30,931)**	**103,893**	**(30,931)**	**103,713**
Net cash flow	**(59,459)**	**58,098**	**(59,489)**	**58,086**
Cash and cash equivalents at the beginning of the year	**248,364**	**198,868**	**248,357**	**198,857**
(Loss) from revaluation of foreign currency positions	(12,848)	(8,602)	(12,839)	(8,586)
Cash and cash equivalents at the end of the year *	**176,057**	**248,364**	**176,029**	**248,357**

** See the components of cash and cash equivalents in Note 28.*

Cash flows from interest	Group 2008 LVL '000	Group 2007 LVL '000	Bank 2008 LVL '000	Bank 2007 LVL '000
Interest received	54,522	48,571	54,522	48,571
Interest paid	(25,094)	(20,507)	(25,034)	(20,370)

The accompanying notes form an integral part of these consolidated and separate financial statements.

1. General Information

AS Aizkraukles banka (hereinafter – the Bank) was registered in Aizkraukle, Republic of Latvia, on 17 September 1993, as a joint stock company, under unified registration number 50003149401. At present, the legal address of the Bank is Elizabetes Street 23, Riga.

The Bank operates in accordance with the legislation of the Republic of Latvia and the licence issued by the Bank of Latvia that allows the Bank to render all the financial services specified in the Law on Credit Institutions.

The Bank's main scope of activity is investment services, settlement products, and asset management.

The Group and the Bank operate the central office, two lending centres, one payment centre in Riga, three representation offices of the Bank in Minsk, Kyiv, and Almaty, as well as six representation offices of AS AB Konsultācijas in Moscow, St. Petersburg, Baku, Tashkent, Minsk and Kyiv with branch in Odessa.

The following abbreviations are used in these financial statements: International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), International Financial Reporting Interpretations Committee (IFRIC), Financial and Capital Market Commission (FCMC), European Monetary Union (EMU), European Union (EU), Organisation for Economic Cooperation and Development (OECD).

These consolidated and separate financial statements contain the financial information about the Bank and its subsidiaries (jointly – the Group), as well as separately about the Bank. The Bank's separate financial statements are included in these financial statements to comply with legal requirements.

The consolidated financial statements of the Group and the separate financial statements of the Bank for the year ended 31 December 2008 were approved by the Bank's Board on 26 February 2009.

The Group comprises the following subsidiaries:

Company	Country of incorporation	Registration number	Business profile	Bank's share (% of total share capital)
IPAS AB.LV Asset Management	LV	40003814724	Financial services	100
IBAS AB.LV Capital Market	LV	40003814705	Financial services	100
SIA Elizabetes 21a	LV	50003831571	Real estate transactions	85
AS AB Konsultācijas	LV	40003540368	Consulting services	100
SIA AB.LV Transform Investments	LV	40103191969	Real estate transactions	100

2. Information on Principal Accounting Policies

A summary of the principal accounting policies, all of which have been applied consistently throughout the years ended 31 December 2008 and 2007, is set out below.

a) Statement of compliance

These consolidated and separate financial statements are based on the accounting records prepared in accordance with the legislative requirements. These records are maintained under the historical cost convention, modified for revaluation as disclosed below, made in accordance with the IFRS requirements as adopted in the EU.

The accounting policies are applied consistently by all entities of the Group.

During 2008, the Bank consistently applied accounting policies in line with those disclosed in the prior-year financial statements, except for the changes listed below in *Amended IFRS and IFRIC that came into effect in the reporting period.*

Amended IFRS and IFRIC that came into effect in the reporting period

The following IFRS appendices and IFRIC as adopted in the EU are amended and enter into force starting from 1 January 2008:

IAS 39 *Financial Instruments: Recognition and Measurement* and IFRS 7 Financial Instruments: Disclosures adopted on 13 October 2008 by the International Accounting Standards Board and the EU. The Group and the Bank have applied these amendments in the reporting year, and the respective disclosures are presented in paragraph (v) below.

The Group and the Bank have applied the following IFRIC which are amended or enter into force in the reporting year, but which do not have an impact on the consolidated and separate financial statements:

IFRIC 11 *IFRS 2 Group and Treasury Share Transactions* (effective from 1 March 2008). The interpretation provides guidance on classification of transactions as equity-settled or as cash-settled and also gives guidance on how to account for share-based payment arrangements that involve two or more entities within the same group in the individual financial statements of each group entity.

IFRIC 12 *Service Concession Agreements* (effective once adopted by the EU, but not earlier than for annual periods beginning on or after 1 January 2008). The interpretation addresses how service concession operators should apply existing IFRS to account for the obligations they undertake and rights they receive in service concession arrangements.

IFRIC 14 *IAS 19 The Limit on Defined Benefit Asset, Minimum Funding Requirements and their Interaction* (effective once adopted by the EU, but not earlier than for annual periods beginning on or after 1 January 2008).

IFRIC 16 *Hedges of a Net Investment in a Foreign Operation* (effective once adopted by the EU, but not earlier than for annual periods beginning on or after 1 October 2008). The interpretation provides guidance on the accounting for a hedge of a net investment in a foreign operation.

IFRS and IFRIC that have been issued but are not yet effective

The Standards and Interpretations which have been issued as at the date of these financial statements but will be effective for annual periods beginning on or after 1 January 2009 and which have not been applied by the Group retrospectively:

IFRS 8 *Operating Segments* (effective once adopted by the EU, but not earlier than for annual periods beginning on or after 1 January 2009). The standard sets out requirements for disclosure of information about an entity's operating segments in breakdown by components that management uses to make decisions about operating matters.

IAS 1 *Presentation of Financial Statements* (revised) – Capital Disclosures (effective once adopted by the EU, but not earlier than for annual periods beginning on or after 1 January 2009). This amendment requires the company to make disclosures of the objectives, policies and processes of managing capital.

IAS 23 *Borrowing Costs* (revised) (effective once adopted by the EU, but not earlier than for annual periods beginning on or after 1 January 2009). This Standard shall be applied in accounting for borrowing costs. This Standards prescribes requirements regarding accounting for borrowing costs.

IFRIC 13 *Customer Loyalty Programmes* (effective once adopted by the EU, but not earlier than for annual periods beginning on or after 1 July 2009). The Interpretation deals with the accounting for loyalty credits.

IFRS 3 *Business Combinations* (revised) (effective once adopted by the EU, but not earlier than for annual periods beginning on or after 1 July 2009). IFRS 3R introduces a number of changes in the accounting for business combinations that will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results.

Amendment to IFRS 2 *Share-based Payment* (effective once adopted by the EU, but not earlier than for annual periods beginning on or after 1 January 2009). The amendment clarifies the definition of a vesting condition and prescribes the treatment for an award that is effectively cancelled.

IFRS 3 *Business Combinations* and IAS 27 Consolidated and Separate Financial Statements (revised) (effective once adopted by the EU, but not earlier than for annual periods beginning on or after 1 July 2009). This amendment is related to the presentation of investment changes in separate financial statements.

IAS 32 and IAS 1 *Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation* (revised) (effective once adopted by the EU, but not earlier than for annual periods beginning on or after 1 January 2009).

IFRS 1 *First-time Adoption of International Financial Reporting Standards and IAS 27 Consolidated and Separate Financial Statement*s (revised) (effective once adopted by the EU, but not earlier than for annual periods beginning on or after 1 January 2009). This amendment is related to the presentation of dividends of subsidiaries in the parent's separate financial statements.

Improvement to IFRS (2008) (effective once adopted by the EU, but not earlier than for annual periods beginning on or after 1 January 2009).

IFRIC 15 *Agreement for the Construction of Real Estate* (effective once adopted by the EU, but not earlier than for annual periods beginning on or after 1 January 2009).

IFRIC 17 *Distributions of Non-cash Assets to Owners* (effective once adopted by the EU, but not earlier than for annual periods beginning on or after 1 July 2009). The Interpretation provides guidance on the appropriate accounting treatment when an entity distributes assets other than cash as dividends to its shareholders.

The Group and the Bank expect that the initial application of the pronouncements listed above will have no significant impact on the financial statements.

Significant accounting estimates and assumptions

The preparation of financial statements in accordance with IFRS as adopted by the EU requires the management to make estimates and assumptions that affect the reported amounts of assets, liabilities, income and expense, and disclosure of contingencies. Future events occur which cause the assumptions used in arriving at the estimates to change. Such estimates and assumptions are based on most reliable information available to the management in respect to specific events and actions. The effect of any changes in estimates will be recorded in the financial statements when determinable. The significant areas of estimation and assumptions relate to depreciation rates of tangible fixed assets, intangible fixed assets, and investment properties, determining the allowance for credit losses, the collateral value, the fair value of financial assets and liabilities, as well as the value of investment properties.

b) Basis of Preparation

These consolidated and separate financial statements are reported in thousands of lats (LVL'000), unless otherwise stated which is functional and presentation currency of the Group and the Bank.

These consolidated and separate financial statements are prepared on a historical cost basis, except for assets and liabilities which are reported at fair value (see Note 30).

The monetary unit used in the financial statements is lat (LVL), the monetary unit of the Republic of Latvia, unless otherwise stated, which is the functional and presentation currency of the Bank.

The principal rates of exchange (LVL for one foreign currency unit) fixed by the Bank of Latvia and used in the preparation of the Bank's and the Group's balance sheet were as follows:

Reporting date	USD	EUR	RUB
31 December 2008	0,495	0,7028	0,0171
31 December 2007	0,484	0,7028	0,0197

Information given herein in brackets represents comparative figures for the year ended 31 December 2007, unless otherwise stated.

As described in the *Report of the Council and the board* (pages 2 to 5), the current economic environment is challenging, however the management of the Bank does not believe that uncertainties in Global financial markets and Latvian economy, as related to its operations, are any more significant than those of similar enterprises in Latvia and has a reasonable expectation that the Group and the Bank have adequate resources to continue in operational existence for the foreseeable future.

Accordingly, these consolidated and separate financial statements for the year ended 31 December 2008 are prepared on a going concern basis, consistently applying International Financial Reporting Standards as adopted in the European Union and the FCMC Regulations on the Preparation of Annual Reports and Consolidated Annual Reports of Banks, Investment Brokerage Companies, and Investment Management Companies.

c) Basis of Consolidation

Consolidated financial statements include all subsidiaries controlled by the parent. Subsidiaries are consolidated from the date on which control is transferred to the parent and are no longer consolidated from the date that control ceases. Control is presumed to exist when the parent controls more than half of the voting power of the subsidiary, or owns the power to govern the financial and operating policies of the subsidiary or the power to appoint or remove the majority of the members of the board of the subsidiary.

The Bank's and its subsidiaries' financial statements are consolidated in the Group's financial statements using the full consolidation method, by adding together like items of assets and liabilities at the period end, as well as income and expenses. For the purposes of consolidation, intragroup balances and intragroup transactions, including interest income and expense, and unrealised profit and loss resulting from intragroup transactions are eliminated, unless there exists any indication of impairment.

The Bank's subsidiaries comply with the Bank's policies and hedging methods.

Investments in subsidiaries are presented in the Bank's separate financial statements in accordance with the cost method.

In the consolidated financial statements, the acquisition price of a subsidiary is attributed to the fair value of the subsidiary's assets, liabilities, and contingent liabilities upon acquisition. An acquisition price, which exceeds the fair value of the subsidiary's assets and liabilities, is recorded as goodwill.

d) Recognition and Derecognition of Financial Assets and Liabilities

A financial asset is any asset that is cash, an equity instrument of another entity, a contractual right to receive cash or another financial asset from another entity or to exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity; or a contract that will or may be settled in the entity's own equity instruments and is a non-derivative for which the entity is or may be obliged to receive a variable number of the entity's own equity instruments or a derivative that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments. For this purpose the entity's own equity instruments do not include instruments that are themselves contracts for the future receipt or delivery of the entity's own equity instruments.

A financial liability is any liability that is a contractual obligation to deliver cash or another financial asset to another entity or to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the entity; or a contract that will or may be settled in the entity's own equity instruments and is a non-derivative for which the entity is or may be obliged to deliver a variable number of the entity's own equity instruments or a derivative that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments. For this purpose the entity's own equity instruments do not include instruments that are themselves contracts for the future receipt or delivery of the entity's own equity instruments.

The Group recognises financial assets and liabilities on its balance sheet when, and only when, the Group or the Bank becomes a party to the contractual provisions of the instrument.

A financial asset is derecognised only when the contractual rights to receive cash flows from the asset have expired, or the Group and the Bank have transferred the financial asset and all the risks and rewards of the asset to the counterparty.

A financial liability is derecognised only when the obligation under the liability is discharged according to the contract or cancelled or expires.

All purchases and sales of financial assets, except for loans issued to non-bank customers, are recognised and derecognised on the settlement date. Loans to non-bank customers are recognised on the balance sheet when cash is transferred to the customer's current account.

e) Fair Value of Financial Assets and Liabilities

Fair value is the amount for which an asset could be exchanged or a liability settled between a knowledgeable, willing buyer and a knowledgeable, willing seller in an arm's length transaction. The best evidence of fair value of financial assets and liabilities is quoted prices in an active market. If the market for a financial asset or liability is inactive, fair value is established by using a valuation technique, including discounted cash flow analysis, recent transactions that are substantially the same, as well as management estimates and assumptions. The comparison of carrying amounts and fair values of the Group's and Bank's financial assets and liabilities is presented in Note 30.

f) Income and Expense Recognition

All major income and expense items are recognised on an accrual basis.

Interest income/ expense is recognised in the income statement for financial assets/ liabilities measured at amortised cost using the effective interest method.

Commission and fee income and expense are included in the income statement over the period or at a specific time, except for commission and fee income and expense directly attributable to financial assets/ liabilities measured at amortised cost – for these assets/ liabilities the respective commission and fee income and expense form an integral part of the effective interest rate.

Commission and fee income received once in a year for the whole reporting period is recognised in the income statement systematically on a straight-line basis during the period.

g) Foreign Currency Translation

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

h) Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method less the allowance for credit losses (impairment) as presented in Note 7. Gains or losses are recognised in the income statement upon derecognition or impairment of these assets, as well as through amortisation. Gains and losses are recognised in the income statement as interest income/ expense when the liabilities are derecognised through the amortisation process. Loans and receivables include loans and fixed income securities. Fixed income securities to be included in the respective portfolio are defined by a separate policy of the Bank.

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

Securities included in the loans and receivables portfolio are held for the foreseeable future or to maturity with the purpose of generating profit from coupon and principal payments.

i) Available-for-Sale Portfolio

The Group and the Bank acquire available-for-sale securities to hold them for an undefined period and generate interest income and/or profit from the increase in prices of securities. The available-for-sale portfolio includes fixed income securities, investments in shares and investment funds.

After initial recognition at fair value, including direct transaction costs, available-for-sale securities are restated also at fair value. The revaluation result is charged to the shareholders' equity as fair value revaluation reserve of available-for-sale financial assets. Financial assets having no quoted prices available and whose fair value cannot be determined reliably using other models are stated at cost.

For available-for-sale securities acquired at a discount (premium), the respective discount (premium) amount is amortised on a systematic basis, using the effective interest method. Amortised amounts are charged to the income statement as interest income from debt securities.

Any gain or loss resulting from disposal of available-for-sale securities and the fair value revaluation reserve accrued until such disposal are included in the income statement as net realised profit/ (loss) from available-for-sale financial assets.

Available-for-sale securities are divided into two portfolios:

- liquidity portfolio, which is aimed at forming the Bank's liquidity reserve with a minimum interest rate risk and credit risk;
- investments' held for undefined period portfolio, which is aimed at gaining maximum profit from long-term investments in financial assets.

j) Financial Assets at Fair Value Through Profit or Loss

Financial assets at fair value through profit or loss are assets that are held for trading. Financial assets held for trading are included in the trading portfolio. Fixed income securities of the trading portfolio are held by the Group and the Bank for the purpose of selling and/or acquired for generating profit in the near term from the expected spread between purchasing and selling prices. The financial assets and liabilities to be included in the trading portfolio are defined by the Bank's trading portfolio policy.

Securities held for trading purposes are initially stated at fair value and further marked-to-market on the basis of quoted market prices. Any gain or loss resulting from revaluation of securities at fair value as well as any gain or loss resulting from disposal of the above securities is included in the income statement under "Net profit/ (loss) from financial assets at fair value through profit or loss".

k) Finance Leases – Where the Bank is Lessor

Finance lease receivables are recognised as assets at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Income from finance leases is recognised over the lease term to produce a constant periodic return on the remaining balance of the liability.

Lease payments are charged to the income statement on a straight-line basis over the lease term.

l) Derivatives

In the ordinary course of business, the Group and the Bank use derivative financial instruments: currency swaps, futures, and forward foreign exchange rate contracts.

Derivative financial instruments acquired are carried at cost and restated at fair value at the date of recognition and beyond. Derivative financial instruments are presented in a separate balance sheet caption "Derivatives" under assets and liabilities respectively. The mark-to-market value is defined based on the quoted market prices or discounted cash flow models. Any gain or loss resulting from revaluation of derivatives is recognised in the income statement as "Net profit/ (loss) from financial assets at fair value through profit or loss".

m) Off-balance Sheet Instruments

In the ordinary course of business, the Group and the Bank are involved in off-balance sheet financial instruments comprising loan and credit line commitments, financial guarantees, as well as commercial letters of credit. Such financial instruments do not involve outflow of the Bank's economic benefits, thus they are not recorded as the Bank's liabilities. These financial instruments are presented in the financial statements as memorandum items upon the conclusion of the respective agreements. The methodology for provisioning against off-balance sheet instruments is consistent with that adopted for establishing allowances on loans and advances to customers as described in paragraph (n) below.

n) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money 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.

Allowances for financial assets and financial commitments

Non-performing debts are defined as financial assets and financial commitments with regard to which, based on the monitoring activities performed or other information obtained, the Management of the Group and the Bank believe that the contractual interest and principal due might not be collected or customers might default on other contractual conditions, which might result in an outflow of resources embodying economic benefits. According to the approved impairment assessment policy, the Group and the Bank determine individual and collective impairment.

The individual impairment allowance is determined after individually reviewing all credits for potentially uncollectable amounts. Individual assessment is made for credits that individually have objective evidence of impairment, based on the borrower's financial position, value of collateral, fulfilment of the loan agreement, and compliance with the credit exposure limits determined by the FCMC.

The collective (portfolio) allowance relates to existing credit losses, as well as to the impairment losses 'incurred, but not yet known to the Bank'. The collective impairment allowance is estimated based upon historical pattern of losses in the loan portfolio, as well as taking into account changes in collateral values, credit concentration risk, general economic and market conditions or events that have occurred prior to the reporting date and that indicate an adverse impact on the future cash flows from certain loans and receivable balances outstanding. This method permits to attribute each group of loans to historical loss experience for groups of assets with similar credit characteristics and observable market data reflecting current circumstances.

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

The above estimates are reviewed periodically. As changes of the allowance become necessary as a result of the review made, respective allowance changes are taken to the income statement of the reporting period. The Management of the Group and the Bank have made their best estimates of losses and believe the estimates presented in the financial statements to be reasonable in the light of the available facts and information.

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

During the reporting period, the Bank changed its impairment allowance policy. Allowance rates for mortgage loans issued to private individuals have been re-introduced, and the methods for establishing collective impairment allowances for business loans have been improved. Allowance rates for housing loans issued to private individuals (having indications of quality deterioration) have been determined considering the decrease in the collateral value. For business loans, homogeneous loan pools have been determined, which permits identification of non-performing loans, and the collective impairment allowance is established on the basis of such pools.

The Group/ Bank assesses on a regular basis whether there is any objective evidence that a financial asset or group of financial assets is impaired. Based on the estimates of the Management of the Group/ Bank, a decline in the fair value of the instrument by more than 20% below its cost or for more than one financial year is treated as objective evidence of significant and prolonged impairment of available-for-sale financial instruments. If any such evidence exists, the cumulative loss measured as the difference between the acquisition cost and current fair value, less any impairment loss previously recognised in profit or loss, is removed from equity and recognised in profit or loss.

Impairment loss recognised in profit or loss is not reversed through profit or loss. If, in a subsequent period, the fair value of a financial instrument 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.

o) Intangible Fixed Assets

Intangible fixed assets comprise the purchased software that does not constitute an integral part of hardware, and licences. Amortisation is provided using the straight-line method over the period of acquired rights or over the estimated useful life of the asset.

The Group and the Bank have applied the annual rate of 20% to amortise their intangible assets.

p) Tangible Fixed Assets

Tangible fixed assets are recorded at cost less accumulated depreciation. Depreciation is provided using the straight-line method over the estimated useful life of the asset. Fixed assets, including leasehold improvements under construction and preparation, are not depreciated. Land is not subject to depreciation.

The Group and the Bank have applied the following depreciation rates:

Category	Annual rate
Buildings and property improvements	5,5%
Transport vehicles	20%
EDP equipment and software	16-33%
Office equipment	10-33%

Costs of maintenance and repair are charged to the income statement as incurred.

Leasehold improvements are capitalised and amortised over the remaining period of lease contracts on a straight-line basis.

q) Investment Properties

Investment properties comprise land and buildings, as well as costs of the investment property development project in progress, that are not used by the Group and the Bank, and are held with the main purpose to earn rentals, as well as gain on value appreciation. Such investments are classified as investment property and are accounted for using the cost model of accounting for investment properties. Investment properties are carried in the balance sheet at their cost value less accumulated depreciation. The annual depreciation rate applied to investment properties is 5%.

r) Employee Benefits

Short-term employee benefits, including salary, statutory social insurance contributions, bonuses and allowances, are charged to the income statement as administrative expense in the period when the services are provided.

The accrual for employee vacation pay is estimated for the Group's or Bank's personnel based on the total number of vacation days earned but not taken, multiplied by the average daily remuneration expense pursuant to the Latvian Labour Law, and adding the related statutory social insurance contributions payable by the employer.

s) Corporate Income Tax

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

Deferred taxation arising from temporary differences in the timing of the recognition of items in the tax returns and these financial statements is calculated using the liability method. Deferred taxation relates to the future tax consequences of all events that have been recognised in the Bank's financial statements or tax returns. The deferred taxation liability is determined based on the tax rates that are expected to apply when the temporary differences reverse. The principal temporary differences arise from differing rates of accounting and tax depreciation on fixed assets, accrual for employee vacation pay, and revaluation of balance sheet items, including securities revaluation and fair value revaluation reserve.

t) Impairment of Non-financial Assets

The Bank assesses at each reporting date or more frequently if events or changes in circumstances indicate that there is an indication that a non-financial asset may be impaired. If any such indication exists, the Bank makes an estimate of the asset's recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount, the asset is written down to its recoverable amount. This written down amount constitutes an impairment loss.

For non-financial assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If any such indication exists, the recoverable amount is estimated.

A previously recognised impairment loss is reversed only if there has been a change in the estimate used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. This increase amount constitutes reversal of impairment losses.

u) Cash and Cash Equivalents

Cash and cash equivalents comprise cash on hand, demand deposits, and balances due from central banks and other credit institutions with a contractual original maturity of three months or less. The cash balance is reduced by the amount of demand deposits from the above institutions. Cash and cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to an insignificant risk of change in value (see Note 28).

v) Reclassification

Following the amendments to IAS 39 introduced in the reporting year, the Group and the Bank reclassified part of the securities from the trading portfolio and the available-for-sale portfolio to loans and receivables, as the Group and the Bank had a clear change of intent to hold these debt securities to exit or trade. The intent of the Management in respect of these securities was affected by an inactive market for most financial instruments caused by the global economic recession.

The Management of the Group and the Bank has assessed carefully the securities of the trading and available-for-sale portfolios and resolved to reclassify to loans and receivables those securities in respect of which the Group and the Bank had a clear change of intent.

Fixed income securities in the amount of LVL 2,550 thousand and LVL 36,717 thousand have been reclassified from the trading portfolio and the available-for-sale portfolio respectively to loans and receivables.

As at the reclassification date, i.e. 1 July 2008, the weighted average effective interest rate on the securities reclassified from the trading portfolio before and after the reclassification was 11.06% and 8.55% respectively, while that on the securities reclassified from the available-for-sale portfolio was 11.60% and 9.62% before and after the reclassification respectively.

According to the policy approved for loans and receivables, the fixed income securities included in this portfolio are carried in the balance sheet at amortised cost, which, based on the Management's assumptions, does not differ materially from their fair value.

The effect of the reclassification of financial instruments on the Group's and Bank's income statement and equity is as follows:

	01/07/2008 Before reclassification LVL '000	01/07/2008 After reclassification LVL '000	31/12/2008 After reclassification LVL '000
(Loss)/ profit on revaluation of financial assets at fair value through profit or loss	63	34	(748)
Fair value revaluation reserve of available-for-sale financial assets	(4,139)	(1,524)	(12,867)
Revaluation reserve of financial instruments reclassified to loans and receivables	-	(2,615)	(2,347)

3. Risk management

Risks are inherent in the Group's and Bank's business and risk management is one of the Group's and Bank's strategic values, which is based on the confidence that efficient risk management is critical for the success of the Group and the Bank. Managing risks permits keeping the Group's and Bank's exposure at a level meeting their willingness and ability to assume risks.

In the ordinary course of business, the Group and the Bank are exposed to various risks, the most significant of them being credit risk, liquidity risk, and market risks (including interest rate risk, currency risk), as well as operational risk.

Risk management means identification, assessment and control of potential risks.

The risk management process includes the following:

- identification, assessment and measurement of significant risks;
- setting restrictions and limits defining the maximum permissible exposure;
- regular monitoring of the compliance with the risk management policies and procedures and with any limits set;
- defining the risk assessment procedures and limits before commencing new transactions;
- quantitative risk assessment for the Group and the Bank;
- regular revision and improvement of the policies and instructions following the market changes.

For the purpose of managing risks, risk management policies have been developed and approved by the Council. The introduction and efficiency of such policies are controlled by the Board and the Chief Risk Officer, while the practical implementation is provided by the respective business structural units, including the Risk Management Division and the Loan Administration Division whose functions are strictly segregated from the business functions.

The goal of the risk management policies is to ensure efficient risk management, identify and analyse the risks inherent in the Group's and Bank's business, set relevant limits, introduce reliable control procedures, as well as control risk and exposure compliance with the applicable limits using administrative and IT resources.

The risk management system has been constantly improved following the Group's and Bank's operational and financial market development; the improvement process is controlled by the Internal Audit Department on a regular basis.

To create a highly disciplined, conservative, and constructive risk management and control environment, training seminars for the staff are being organised regularly.

Considering the prevailing market situation, in 2008 the Group and the Bank were specifically focusing on liquidity risk and credit risk, as well as proper arrangement of the operational risk management environment.

4. Interest Income and Expense

Interest income	Group 2008 LVL '000	Group 2007 LVL '000	Bank 2008 LVL '000	Bank 2007 LVL '000
on loans and advances to customers	51,430	42,591	51,430	42,592
non-impaired	*49,214*	*42,057*	*49,214*	*42,058*
impaired	*2,216*	*534*	*2,216*	*534*
on debt securities and other fixed income securities	7,186	6,947	7,186	6,947
financial assets at fair value through profit or loss	*188*	*255*	*188*	*255*
available-for-sale financial assets	*3,602*	*6,692*	*3,602*	*6,692*
loans and receivables	*3,396*	-	*3,396*	-
on balances due from credit institutions	3,738	5,677	3,738	5,677
on balances due from the Bank of Latvia	2,061	1,234	2,061	1,234
other interest income	135	119	135	119
Total interest income	**64,550**	**56,568**	**64,550**	**56,569**
Interest expense				
on deposits from non-bank customers	17,923	15,289	17,923	15,289
on balances due to credit institutions and central banks	8,753	6,857	8,682	6,751
on subordinated liabilities	2,004	1,814	2,004	1,814
other interest expense	1,733	1,361	1,733	1,361
Total interest expense	**30,413**	**25,321**	**30,342**	**25,215**

5. Commission and Fee Income and Exense

Commission and fee income	Group 2008 LVL '000	Group 2007 LVL '000	Bank 2008 LVL '000	Bank 2007 LVL '000
commission on payment transfers on behalf of customers	9,203	7,028	9,203	7,028
commission on transactions with settlement cards	1,525	1,231	1,525	1,231
service fees	1,387	1,273	1,387	1,273
commission on trust transactions	749	1,036	60	68
commission on brokerage operations	575	252	195	34
commission on documentary transactions	323	285	323	285
other commission and fee income	905	902	862	863
Total commission and fee income	**14,667**	**12,007**	**13,555**	**10,782**
Commission and fee expense				
correspondent bank service charges	1,708	1,052	1,708	1,052
commission on transactions with settlement cards	613	539	613	539
other commission and fee expense	170	111	59	38
Total commission and fee expense	**2,491**	**1,702**	**2,380**	**1,629**

The accompanying notes form an integral part of these consolidated and separate financial statements.

6. Net Profit/ Loss on Financial Assets

	Group 2008 LVL '000	Group 2007 LVL '000	Bank 2008 LVL '000	Bank 2007 LVL '000
(Loss) from revaluation of financial assets and liabilities at fair value through profit or loss	(12,445)	(576)	(12,445)	(576)
Revaluation of derivatives	*(11,697)*	*(251)*	*(11,697)*	*(251)*
Revaluation of debt securities	*(748)*	*(325)*	*(748)*	*(325)*
Profit/ (loss) from trading with financial assets and liabilities at fair value through profit or loss	21,721	(1,897)	21,721	(1,897)
Trading with derivatives	*21,699*	*(1,927)*	*21,699*	*(1,927)*
Trading with debt securities	*22*	*30*	*22*	*30*
Net profit/ (loss) from financial assets and liabilities at fair value through profit or loss	**9,276**	**(2,473)**	**9,276**	**(2,473)**
(Loss)/ profit from sale of available-for-sale securities	(1,038)	1,152	(1,038)	1,152
Net realised (loss)/ profit from available-for-sale financial assets	**(1,038)**	**1,152**	**(1,038)**	**1,152**
Profit from foreign currency exchange	15,508	27,170	15,508	27,170
(Loss) from revaluation of foreign currency positions	(12,848)	(8,602)	(12,839)	(8,586)
Net result from foreign exchange trading and revaluation	**2,660**	**18,568**	**2,669**	**18,584**

The result of foreign exchange transactions mainly represents currency exchange loss or gain.

7. Allowances for credit losses

The table below presents changes in allowances for credit losses of the Group and the Bank in 2008:

	Mortgage loans LVL '000	Business loans LVL '000	Consumer loans LVL '000	Other loans LVL '000	Other assets LVL '000	Available-for-sale fixed income securities LVL '000	**Total LVL '000**
Individual allowance at the beginning of the year	85	1,215	80	–	–	–	1,380
Collective allowance at the beginning of the year	931	1,261	–	–	–	–	2,192
Total allowances at the beginning of the year	**1,016**	**2,476**	**80**	**–**	**–**	**–**	**3,572**
Individual allowance charged to income statement	773	4,129	24	55	72	17	5,070
Collective allowance charged to income statement	12,699	2	481	414	–	–	13,596
Asset write-off expenses	–	–	16	–	–	–	16
Total allowances charged to income statement	**13,472**	**4,131**	**521**	**469**	**72**	**17**	**18,682**
Release of previously established individual allowance	(2)	(109)	(15)	(5)	–	–	(131)
Release of previously established collective allowance	–	(802)	(17)	–	–	–	(819)
Recovery of written-off assets	–	–	(3)	–	–	–	(3)
Total release of previously established allowances	**(2)**	**(911)**	**(35)**	**(5)**	**–**	**–**	**(953)**
Total allowance expense, net	**13,470**	**3,220**	**486**	**464**	**72**	**17**	**17,729**
Recovery of write-offs/ asset write-off (expenses)	–	–	13	–	–	–	13
(Decrease) in allowance due to currency fluctuations	(9)	(6)	–	–	–	–	(15)
(Decrease) of individual allowance due to write-offs	(22)	(122)	(12)	–	–	–	(156)
Total change in allowances for the year	**13,439**	**3,092**	**487**	**464**	**72**	**17**	**17,571**
Individual allowance at the end of the year	825	5,107	77	50	72	17	6,148
Collective allowance at the end of the year	13,630	461	464	414	–	–	14,969
Total allowances at the end of the year	**14,455**	**5,568**	**541**	**464**	**72**	**17**	**21,117**

As at 31 December 2008 and 2007, the Group's and Bank's financial assets were not past due, except for loans and advances to customers and one coupon payment from the security of other country central government in the amount of LVL 17 (0) thousand.

The accompanying notes form an integral part of these consolidated and separate financial statements.

The table below presents changes in allowances for credit losses of the Group and the Bank in 2007:

	Mortgage loans LVL '000	Business loans LVL '000	Consumer loans LVL '000	Total LVL '000
Individual allowance at the beginning of the year	26	229	18	273
Collective allowance at the beginning of the year	217	359	–	576
Total allowances at the beginning of the year	**243**	**588**	**18**	**849**
Individual allowance charged to income statement	125	1,077	65	1,267
Collective allowance charged to income statement	839	902	–	1,741
Asset write-off expenses	–	13	–	13
Total allowances charged to income statement	**964**	**1,992**	**65**	**3,021**
Release of previously established individual allowance	(63)	(89)	(3)	(155)
Release of previously established collective allowance	(125)	–	–	(125)
Recovery of written-off assets	–	(30)	–	(30)
Total release of previously established allowances	**(188)**	**(119)**	**(3)**	**(310)**
Total allowance expense, net	**776**	**1,873**	**62**	**2,711**
Recovery of write-offs/ asset write-off (expenses)	–	17	–	17
(Decrease) in allowance due to currency fluctuations	(3)	(2)	–	(5)
Total change in allowances for the year	**773**	**1,888**	**62**	**2,723**
Individual allowance at the end of the year	85	1,215	80	1,380
Collective allowance at the end of the year	931	1,261	–	2,192
Total allowances at the end of the year	**1,016**	**2,476**	**80**	**3,572**

8. Administrative expense

	Group 2008 LVL '000	Group 2007 LVL '000	Bank 2008 LVL '000	Bank 2007 LVL '000
Remuneration to personnel	12,718	10,884	12,097	10,391
Statutory social insurance contributions	2,784	2,079	2,663	2,002
Rent of premises, repairs and maintenance costs	1,315	1,250	1,279	1,161
Equipment maintenance expense and stationery	1,138	1,042	1,123	1,038
Remuneration to the Council and the Board	979	1,224	771	1,034
Advertising and marketing expense	656	990	652	983
Communication expense	594	477	564	417
Donations	337	1,105	337	1,105
Training expense	193	203	186	197
Investment property maintenance costs	122	189	122	166
Other administrative expense	2,241	2,155	1,990	2,059
Total administrative expense	**23,077**	**21,598**	**21,784**	**20,553**

In 2008, the Group and the Bank employed an average of 587 (550) and 558 (528) persons.

The following table specifies employees of the Group and the Bank as at 31 December 2008 and 2007: :

	Group 31/12/2008 number	Group 31/12/2007 number	Bank 31/12/2008 number	Bank 31/12/2007 number
Management	15	15	10	9
Heads of divisions and departments	101	109	91	99
Other personnel	470	463	451	455
Total	**586**	**587**	**552**	**563**

The accompanying notes form an integral part of these consolidated and separate financial statements.

9. Taxation

	Group 2008 LVL '000	Group 2007 LVL '000	Bank 2008 LVL '000	Bank 2007 LVL '000
Profit before corporate income tax	12,065	31,713	12,478	31,289
Group's profit adjustments for corporate income tax	651	122	–	–
Theoretical corporate income tax	**1,907**	**4,775**	**1,872**	**4,693**
Permanent differences	171	207	171	207
Temporary differences	1,722	172	1,726	173
Tax rebates	(287)	(922)	(287)	(922)
Actual corporate income tax expense for the reporting year	**3,513**	**4,232**	**3,482**	**4,151**
Adjustments to prior year corporate income tax	(99)	(103)	(99)	(103)
Tax paid abroad	156	228	156	228
Deferred corporate income tax	(1,722)	(170)	(1,726)	(173)
Total corporate income tax expense for the reporting year	**1,848**	**4,187**	**1,813**	**4,103**

Deferred corporate income tax calculation:

	Group 31/12/2008 Amounts subject to temporary differences LV '000	Group 31/12/2007 Amounts subject to temporary differences LV '000	Bank 31/12/2008 Amounts subject to temporary differences LV '000	Bank 31/12/2007 Amounts subject to temporary differences LV '000
Accumulated excess of tax depreciation over accounting depreciation	3,332	3,079	3,285	3,056
Fair value revaluation reserve	(15,214)	(2,689)	(15,214)	(2,689)
Collective (portfolio) allowance and other accrued liabilities	(1,965)	(1,737)	(1,951)	(1,723)
Revaluation of assets, net	(11,785)	(277)	(11,785)	(277)
Deferred tax asset on intra-group transactions	(2,235)	(2,235)	–	–
Basis for calculation of deferred corporate income tax	**(27,867)**	**(3,859)**	**(25,665)**	**(1,633)**
Tax rate	15%	15%	15%	15%
Deferred corporate income tax (asset)/	**(4,185)**	**(580)**	**(3,850)**	**(245)**
liability	**5**	**1**	**–**	**–**

	Group 2008 LVL '000	Group 2007 LVL '000	Bank 2008 LVL '000	Bank 2007 LVL '000
Deferred corporate income tax at the beginning of the year	(579)	300	(245)	635
(Decrease)/ increase charged to income statement during the year	(1,722)	(172)	(1,726)	(173)
(Decrease)/ increase attributable to fair value revaluation reserve under equity	(1,879)	(707)	(1,879)	(707)
Deferred corporate income tax (asset)/	**(4,185)**	**(580)**	**(3,850)**	**(245)**
liability at the end of the year	**5**	**1**	**–**	**–**

The Group's and Bank's management believes that there is reasonable certainty that future taxable profit will be sufficient to fully recover the recognised deferred tax asset in the taxation periods following the reporting year.

The movements in the Group's tax accounts can be specified as follows:

	Corporate income tax LVL '000	Personal income tax LVL '000	Statutory social insurance contributions LVL '000	Value added tax LVL '000	Real estate tax LVL '000
Receivable/	**1**	**–**	**–**	**1**	**–**
(payable) as at 01/01/2007	**(273)**	**–**	**(113)**	**–**	**–**
Calculated	(4,234)	(2,430)	(2,680)	(58)	(91)
Prior year adjustments	103	–	8	27	–
Paid	4,911	2,429	2,661	328	91
Receivable/	**590**	**–**	**–**	**298**	**–**
(payable) as at 31/12/2007	**(82)**	**(1)**	**(124)**	**–**	**–**
Calculated	(3,515)	(3,586)	(3,572)	(30)	(93)
Prior year adjustments	99	–	36	(11)	–
Paid	5,334	3,587	3,385	123	93
Receivable/	**2,427**	**–**	**9**	**397**	**–**
(payable) as at 31/12/2008	**(1)**	**–**	**(284)**	**(17)**	**–**

The movements in the Bank's tax accounts can be specified as follows:

	Corporate income tax LVL '000	Personal income tax LVL '000	Statutory social insurance contributions LVL '000	Value added tax LVL '000	Real estate tax LVL '000
(Payable) as at 01/01/2007	**(273)**	**-**	**(113)**	**(5)**	**-**
Calculated	(4,150)	(2,334)	(2,559)	(13)	(85)
Prior year adjustments	103	-	-	27	-
Paid	4,910	2,333	2,542	259	85
Receivable/ (payable) as at 31/12/2007	**590**	**(1)**	**(130)**	**268**	**-**
Calculated	(3,482)	(3,453)	(3,410)	75	(87)
Prior year adjustments	99	-	13	(8)	-
Paid	5,156	3,454	3,243	20	87
Receivable/ (payable) as at 31/12/2008	**2,363**	**-**	**(284)**	**355**	**-**

The accompanying notes form an integral part of these consolidated and separate financial statements.

10. Classification of financial and non-financial instruments

The table below presents the Group's financial assets and liabilities by categories as at 31 December 2008:

Assets	At fair value through profit or loss LVL `000	Available-for-sale LVL `000	At amortised cost LVL `000	Total LVL `000
Cash and demand deposits with central banks	–	–	57,860	**57,860**
Balances due from credit institutions	–	–	174,664	**174,664**
Fixed income securities	768	31,108	43,003	**74,879**
Shares and other non-fixed income securities	–	3,973	–	**3,973**
Derivatives	3,831	–	–	**3,831**
Loans and receivables	–	–	626,869	**626,869**
Total financial assets	**4,599**	**35,081**	**902,396**	**942,076**
Non-financial assets	–	–	–	**39,995**
Total assets	**4,599**	**35,081**	**902,396**	**982,071**
Liabilities				
Balances due to credit institutions	–	–	128,207	**128,207**
Derivatives	19,238	–	–	**19,238**
Deposits	–	–	712,315	**712,315**
Subordinated liabilities	–	–	40,936	**40,936**
Total financial liabilities	**19,238**	**–**	**881,458**	**900,696**
Non-financial liabilities	–	–	–	**3,207**
Shareholders' equity	–	–	–	**78,168**
Total liabilities and shareholders' equity	**19,238**	**–**	**881,458**	**982,071**

The table below presents the Group's financial assets and liabilities by categories as at 31 December 2007:

Assets	At fair value through profit or loss LVL `000	Available-for-sale LVL `000	At amortised cost LVL `000	Total LVL `000
Cash and demand deposits with central banks	–	–	63,684	**63,684**
Balances due from credit institutions	–	–	223,772	**223,772**
Fixed income securities	3,830	86,711	–	**90,541**
Shares and other non-fixed income securities	–	5,914	–	**5,914**
Derivatives	1,122	–	–	**1,122**
Loans and receivables	–	–	686,677	**686,677**
Total financial assets	**4,952**	**92,625**	**974,133**	**1,071,710**
Non-financial assets	–	–	–	**31,110**
Total assets	**4,952**	**92,625**	**974,133**	**1,102,820**
Liabilities				
Balances due to credit institutions	–	–	158,574	**158,574**
Derivatives	9,429	–	–	**9,429**
Deposits	–	–	823,777	**823,777**
Subordinated liabilities	–	–	21,121	**21,121**
Total financial liabilities	**9,429**	**–**	**1,003,472**	**1,012,901**
Non-financial liabilities	–	–	–	**6,325**
Shareholders' equity	–	–	–	**83,594**
Total liabilities and shareholders' equity	**9,429**	**–**	**1,003,472**	**1,102,820**

The table below presents the Bank's financial assets and liabilities by categories as at 31 December 2008:

Assets	At fair value through profit or loss LVL `000	Available-for-sale LVL `000	At amortised cost LVL `000	**Total LVL `000**
Cash and demand deposits with central banks	–	–	57,860	**57,860**
Balances due from credit institutions	–	–	174,636	**174,636**
Fixed income securities	768	31,108	43,003	**74,879**
Shares and other non-fixed income securities	–	3,973	–	**3,973**
Derivatives	3,831	–	–	**3,831**
Loans and receivables	–	–	626,867	**626,867**
Total financial assets	**4,599**	**35,081**	**902,366**	**942,046**
Non-financial assets	–	–	–	**41,341**
Total assets	**4,599**	**35,081**	**902,366**	**983,387**
Liabilities				
Balances due to credit institutions	–	–	125,251	**125,251**
Derivatives	19,238	–	–	**19,238**
Deposits	–	–	714,007	**714,007**
Subordinated liabilities	–	–	40,936	**40,936**
Total financial liabilities	**19,238**	**–**	**880,194**	**899,432**
Non-financial liabilities	–	–	–	**3,673**
Shareholders' equity	–	–	–	**80,282**
Total liabilities and shareholders' equity	**19,238**	**–**	**880,194**	**983,387**

The table below presents the Bank's financial assets and liabilities by categories as at 31 December 2007:

Assets	At fair value through profit or loss LVL `000	Available-for-sale LVL `000	At amortised cost LVL `000	**Total LVL `000**
Cash and demand deposits with central banks	–	–	63,684	**63,684**
Balances due from credit institutions	–	–	223,765	**223,765**
Fixed income securities	3,830	86,711	–	**90,541**
Shares and other non-fixed income securities	–	5,914	–	**5,914**
Derivatives	1,122	–	–	**1,122**
Loans and receivables	–	–	686,674	**686,674**
Total financial assets	**4,952**	**92,625**	**974,123**	**1,071,700**
Non-financial assets	–	–	–	**31,164**
Total assets	**4,952**	**92,625**	**974,123**	**1,102,864**
Liabilities				
Balances due to credit institutions	–	–	155,568	**155,568**
Derivatives	9,429	–	–	**9,429**
Deposits	–	–	825,351	**825,351**
Subordinated liabilities	–	–	21,121	**21,121**
Total financial liabilities	**9,429**	**–**	**1,002,040**	**1,011,469**
Non-financial liabilities	–	–	–	**6,132**
Shareholders' equity	–	–	–	**85,263**
Total liabilities and shareholders' equity	**9,429**	**–**	**1,002,040**	**1,102,864**

The accompanying notes form an integral part of these consolidated and separate financial statements.

11. Financial assets by risk ratings

The tables below demonstrate the Group's and Bank's financial assets in breakdown by risk ratings. Higher-rating financial assets are standard assets, while lower-rating financial assets are those assets which have doubtful credit quality and require close monitoring by the Group and the Bank.

Financial assets of the Group by risk rating:

	31/12/2008					31/12/2007				
Financial assets	Higher rating LVL '000	Lower rating LVL '000	**Gross financial assets LVL '000**	Allowance for credit losses LVL '000	**Net financial assets LVL '000**	Higher rating LVL '000	Lower rating LVL '000	**Gross financial assets LVL '000**	Allowance for credit losses LVL '000	**Net financial assets LVL '000**
Cash and demand deposits with central banks	57,860	–	**57,860**	–	**57,860**	63,684	–	**63,684**	–	**63,684**
Balances due from credit institutions	174,664	–	**174,664**	–	**174,664**	223,772	–	**223,772**	–	**223,772**
Financial assets at fair value through profit or loss	4,599	–	**4,599**	–	**4,599**	4,952	–	**4,952**	–	**4,952**
Available-for-sale financial assets	35,081	–	**35,081**	–	**35,081**	92,625	–	**92,625**	–	**92,625**
Loans and receivables	639,420	51,480	**690,900**	(21,028)	**669,872**	681,798	8,451	**690,249**	(3,572)	**686,677**
Incl. debt securities	*43,003*	–	***43,003***	–	***43,003***	–	–	–	–	–
loans and advances to customers	*596,417*	*51,480*	***647,897***	*(21,028)*	***626,869***	*681,798*	*8,451*	***690,249***	*(3,572)*	***686,677***
Mortgage loans	*419,337*	*29,849*	*449,186*	*(14,455)*	*434,731*	*446,075*	*2,239*	*448,314*	*(1,226)*	*447,088*
Business loans	*172,757*	*20,389*	*193,146*	*(5,568)*	*187,578*	*233,336*	*5,971*	*239,307*	*(2,277)*	*237,030*
Consumer loans	*2,143*	*745*	*2,888*	*(541)*	*2,347*	*1,771*	*241*	*2,012*	*(69)*	*1,943*
Other loans	*2,180*	*497*	*2,677*	*(464)*	*2,213*	*616*	–	*616*	–	*616*
Total financial assets	**911,624**	**51,480**	**963,104**	**(21,028)**	**942,076**	**1,066,831**	**8,451**	**1,075,282**	**(3,572)**	**1,071,710**

The accompanying notes form an integral part of these consolidated and separate financial statements.

Financial assets of the Bank by risk rating:

Financial assets	31/12/2008 Higher rating LVL '000	Lower rating LVL '000	Gross financial assets LVL '000	Allowance for credit losses LVL '000	Net financial assets LVL '000	31/12/2007 Higher rating LVL '000	Lower rating LVL '000	Gross financial assets LVL '000	Allowance for credit losses LVL '000	Net financial assets LVL '000
Cash and demand deposits with central banks	57,860	–	**57,860**	–	**57,860**	63,684	–	**63,684**	–	**63,684**
Balances due from credit institutions	174,636	–	**174,636**	–	**174,636**	223,765	–	**223,765**	–	**223,765**
Financial assets at fair value through profit or loss	4,599	–	**4,599**	–	**4,599**	4,952	–	**4,952**	–	**4,952**
Available-for-sale financial assets	35,081	–	**35,081**	–	**35,081**	92,625	–	**92,625**	–	**92,625**
Loans and receivables	639,418	51,480	**690,898**	(21,028)	**669,870**	681,795	8,451	**690,246**	(3,572)	**686,674**
Incl. debt securities	*43,003*	–	***43,003***	–	***43,003***	–	–	**–**	–	**–**
loans and advances to customers	*596,415*	*51,480*	***647,895***	*(21,028)*	***626,867***	*681,795*	*8,451*	***690,246***	*(3,572)*	***686,674***
Mortgage loans	*419,337*	*29,849*	*449,186*	*(14,455)*	*434,731*	*446,075*	*2,239*	*448,314*	*(1,226)*	*447,088*
Business loans	*172,757*	*20,389*	*193,146*	*(5,568)*	*187,578*	*233,336*	*5,971*	*239,307*	*(2,277)*	*237,030*
Consumer loans	*2,143*	*745*	*2,888*	*(541)*	*2,347*	*1,771*	*241*	*2,012*	*(69)*	*1,943*
Other loans	*2,178*	*497*	*2,675*	*(464)*	*2,211*	*613*	–	*613*	–	*613*
Total financial assets	**911,594**	**51,480**	**963,074**	**(21,028)**	**942,046**	**1,066,821**	**8,451**	**1,075,272**	**(3,572)**	**1,071,700**

12. Cash and demand deposits with central banks

	Group/ Bank 31/12/2008 LVL '000	Group/ Bank 31/12/2007 LVL '000
Cash	4,927	2,697
Deposits with the Bank of Latvia	52,933	60,987
Total cash and demand deposits with central banks	**57,860**	**63,684**

In accordance with the resolution of the Council of the Bank of Latvia, credit institutions have to comply with the obligatory reserve requirement. As at 31 December 2008, the obligatory reserve requirement for liabilities with the original maturity above two years was 3% (8%), while for other liabilities included in the reserve basis it was 5% (8%). The Group and the Bank were in compliance with this requirement as at 31 December 2008.

13. Balances due from credit institutions

As at 31 December 2008, the Bank had established correspondent relationships with 25 (25) credit institutions registered in the OECD area (including EMU and EU countries), 6 (6) credit institutions registered in Latvia, and 24 (25) credit institutions incorporated in other countries.

Balances due from credit institutions to the Group by geographical area and structure in 2008:

	Latvia LVL '000	EMU countries LVL '000	Other EU Member States LVL '000	Other OECD countries LVL '000	Other countries LVL '000	Total LVL '000
Demand deposits with credit institutions						
Correspondent account balances	1,454	27,426	4,202	39,875	6,096	79,053
Overnight deposits	3,218	–	–	7,425	–	10,643
Total demand deposits with credit institutions	**4,672**	**27,426**	**4,202**	**47,300**	**6,096**	**89,696**
Other balances due from credit institutions						
Security deposits	1,428	7,439	13,660	–	–	22,527
Term deposits	–	27,868	17,248	17,325	–	62,441
Total other balances due from credit institutions	**1,428**	**35,307**	**30,908**	**17,325**	**–**	**84,968**
Total balances due from credit institutions	**6,100**	**62,733**	**35,110**	**64,625**	**6,096**	**174,664**

Balances due from credit institutions to the Group by geographical area and structure in 2007:

	Latvia LVL '000	EMU countries LVL '000	Other EU Member States LVL '000	Other OECD countries LVL '000	Other countries LVL '000	Total LVL '000
Demand deposits with credit institutions						
Correspondent account balances	2,149	36,252	4,985	97,089	23,517	163,992
Overnight deposits	5,327	4,842	–	7,260	–	17,429
Total demand deposits with credit institutions	**7,476**	**41,094**	**4,985**	**104,349**	**23,517**	**181,421**
Other balances due from credit institutions						
Security deposits	807	8,434	22,744	–	–	31,985
Term deposits	1,671	–	–	–	8,695	10,366
Total other balances due from credit institutions	**2,478**	**8,434**	**22,744**	**–**	**8,695**	**42,351**
Total balances due from credit institutions	**9,954**	**49,528**	**27,729**	**104,349**	**32,212**	**223,772**

Balances due from credit institutions to the Bank by geographical area and structure in 2008:

	Latvia LVL '000	EMU countries LVL '000	Other EU Member States LVL '000	Other OECD countries LVL '000	Other countries LVL '000	Total LVL '000
Demand deposits with credit institutions						
Correspondent account balances	1,441	27,426	4,202	39,875	6,081	79,025
Overnight deposits	3,218	–	–	7,425	–	10,643
Total demand deposits with credit institutions	**4,659**	**27,426**	**4,202**	**47,300**	**6,081**	**89,668**
Other balances due from credit institutions						
Security deposits	1,428	7,439	13,660	–	–	22,527
Term deposits	–	27,868	17,248	17,325	–	62,441
Total other balances due from credit institutions	**1,428**	**35,307**	**30,908**	**17,325**	**–**	**84,968**
Total balances due from credit institutions	**6,087**	**62,733**	**35,110**	**64,625**	**6,081**	**174,636**

The accompanying notes form an integral part of these consolidated and separate financial statements.

Balances due from credit institutions to the Bank by geographical area and structure in 2007:

	Latvia LVL '000	EMU countries LVL '000	Other EU Member States LVL '000	Other OECD countries LVL '000	Other countries LVL '000	Total LVL '000
Demand deposits with credit institutions						
Correspondent account balances	2,149	36,252	4,985	97,089	23,510	163,985
Overnight deposits	5,327	4,842	–	7,260	–	17,429
Total demand deposits with credit institutions	**7,476**	**41,094**	**4,985**	**104,349**	**23,510**	**181,414**
Other balances due from credit institutions						
Security deposits	807	8,434	22,744	–	–	31,985
Term deposits	1,671	–	–	–	8,695	10,366
Total other balances due from credit institutions	**2,478**	**8,434**	**22,744**	**–**	**8,695**	**42,351**
Total balances due from credit institutions	**9,954**	**49,528**	**27,729**	**104,349**	**32,205**	**223,765**

As at 31 December 2007, term deposits included the syndicated loan of EUR 1 million. The Group and the Bank had no such deposits as at 31 December 2008.

Concentration of balances due from credit institutions by geographical area:

	Group 31/12./2008 number	Group 31/12/2007 number	Bank 31/12/2008 number	Bank 31/12/2007 number
Balances over LVL 15,000,000				
due from credit institutions registered in OECD area	3	4	3	4
Balances from LVL 5,000,000 to LVL 15,000,000				
due from credit institutions registered in OECD area	6	2	6	2
due from credit institutions registered in other countries	–	3	–	3
Balances up to LVL 5,000,000				
due from credit institutions registered in OECD area	34	32	34	32
due from credit institutions registered in other countries	24	13	24	13
due from credit institutions registered in Latvia	7	10	6	9
Total				
due from credit institutions registered in OECD area	43	38	43	38
due from credit institutions registered in other countries	24	16	24	16
due from credit institutions registered in Latvia	7	10	6	9

14. Debt securities and other fixed income securities

The Group's and Bank's investments in debt securities are classified by the investment type as follows:

	Group/ Bank 31/12/2008			Group/ Bank 31/12/2007	
	At fair value LVL '000	Available-for-sale LVL '000	Loans and receivables LVL '000	At fair value LVL '000	Available-for-sale LVL '000
Latvian government debt securities	–	12,113	3,348	–	4,931
Latvian credit institutions debt securities	–	15	176	–	1,440
Debt securities issued in OECD area					
Issued by municipalities	–	–	1,132	–	–
Issued by credit institutions	546	10,664	16,956	–	16,408
Issued by corporate companies	50	2,252	8,386	–	388
Debt securities issued in other countries					
Government and central bank debt securities	–	1,687	1,477	–	5,507
Issued by municipalities	–	225	–	–	2,051
Issued by financial institutions	–	254	973	–	1,066
Issued by state-owned companies	–	15	–	–	2,125
Issued by credit institutions	129	2,155	3,406	3,507	34,370
Issued by corporate companies	43	1,745	7,149	323	18,425
Gross debt securities and other fixed income securities	**768**	**31,125**	**43,003**	**3,830**	**86,711**
Less allowance for losses	–	(17)	–	–	–
Total debt securities and other fixed income securities	**768**	**31,108**	**43,003**	**3,830**	**86,711**

In 2008, impairment of one security of other country central government was recognised in the amount of LVL 274 thousand.

The available-for-sale securities are classified as follows:

	Group/ Bank 31/12/2008		Group/ Bank 31/12/2007	
	Liquidity portfolio LVL '000	Investments' held for undefined period portfolio LVL '000	Liquidity portfolio LVL '000	Investments' held for undefined period portfolio LVL '000
Debt securities issued in Latvia				
Latvian government debt securities	12,113	–	1,385	3,546
Latvian credit institutions debt securities	–	15	915	525
Debt securities issued in OECD area				
Issued by credit institutions	2,216	8,448	16,408	–
Issued by corporate companies	–	2,252	–	388
Debt securities issued in other countries				
Government and central bank debt securities	–	1,687	–	5,507
Issued by municipalities	–	225	–	2,051
Issued by financial institutions	–	254	–	1,066
Issued by state-owned companies	–	15	–	2,125
Issued by credit institutions	–	2,155	–	34,370
Issued by corporate companies	–	1,745	–	18,425
Total available-for-sale securities, gross	**14,329**	**16,796**	**18,708**	**68,003**
Less allowance for losses	–	(17)	–	–
Total available-for-sale securities, net	**14,329**	**16,779**	**18,708**	**68,003**

As at 31 December 2008, the following securities were not listed on stock exchanges: available-for-sale securities issued by companies of OECD countries of LVL 349 (0) thousand and other countries of LVL 1,375 (1,453) thousand and available-for-sale securities issued by credit institutions of OECD countries of LVL 103 (0) thousand and other countries of LVL 38 (1,002) thousand belonging to the Bank's investments' held for undefined period portfolio, and fixed income securities issued by companies of other countries of LVL 50 (0) thousand and LVL 43 (73) thousand and fixed income securities issued by credit institutions of other countries of LVL 0 (251) thousand belonging to the Bank's trading portfolio. In 2008, the average interest rate of fixed income securities was 6.36% (7.45%).

The accompanying notes form an integral part of these consolidated and separate financial statements.

15. Derivatives

The table below presents the notional amounts of foreign currency exchange contracts and other derivative financial instruments and their fair values. The notional amount of foreign currency exchange contracts is the amount receivable. The notional amount of other derivative financial instruments is the value of the underlying assets of these instruments.

	Group/ Bank		Group/ Bank		Group/ Bank	
	31/12/2008	31/12/2007	31/12/2008		31/12/2007	
	Notional amount		Fair value			
	LVL '000	LVL '000	Assets LVL '000	Liabilities LVL '000	Assets LVL '000	Liabilities LVL '000
Foreign currency exchange contracts						
Forwards	6,934	11,502	1,235	105	133	10
Swaps	130,996	256,191	2,596	7,437	932	9,112
Futures, sold	126,103	–	–	11,345	–	–
Total foreign currency exchange contracts	**264,033**	**267,693**	**3,831**	**18,887**	**1,065**	**9,122**
Interest rate derivatives						
Futures, sold	25,565	44,476	–	351	55	307
Total interest rate derivatives	**25,565**	**44,476**	**–**	**351**	**55**	**307**
Options						
Options, sold	187	183	–	–	2	–
Total options	**187**	**183**	**–**	**–**	**2**	**–**
Total derivatives			**3,831**	**19,238**	**1,122**	**9,429**

16. Shares and other non-fixed income securities

As at 31 December 2008 and 2007, all the Group's and Bank's investments in shares and investment funds are classified as available-for-sale financial assets.

	Group/ Bank			Group/ Bank		
	31/12/2008			31/12/2007		
	Listed LVL '000	Non-listed LVL '000	Total LVL '000	Listed LVL '000	Non-listed LVL '000	Total LVL '000
Equity shares in foreign corporate entities	1,281	8	1,289	3,062	38	3,100
Investments in funds	–	2,475	2,475	–	2,420	2,420
Equity shares in foreign financial institutions	147	31	178	181	111	292
Equity shares in Latvian corporate entities	31	–	31	102	–	102
Total shares and other non-fixed income securities	**1,459**	**2,514**	**3,973**	**3,345**	**2,569**	**5,914**

In the end of 2008, the Management of the Group and the Bank recognised impairment of equity shares in the amount of LVL 2,055 thousand.

17. Loans and advances to customers

The breakdown of loans and advances issued by the Group and the Bank by customer profile:

Customer profile	Group 31/12/2008 LVL '000	Group 31/12/2007 LVL '000	Bank 31/12/2008 LVL '000	Bank 31/12/2007 LVL '000
Other private individuals	474,390	488,733	474,390	488,733
Corporate companies	164,893	193,785	164,891	193,782
Bank's employees	6,567	7,252	6,567	7,252
Financial institutions	2,047	479	2,047	479
Total loans and advances to customers	**647,897**	**690,249**	**647,895**	**690,246**
Less allowance for credit losses	(21,028)	(3,572)	(21,028)	(3,572)
Total loans and advances to customers, net	**626,869**	**686,677**	**626,867**	**686,674**

The Latvian banking legislation requires that any credit exposure to a non-related entity or a group of non-related entities may not exceed 25% of credit institution's equity. The total credit exposure to all related parties may not exceed 15% of Bank's equity.

As at 31 December 2008, the Bank was in compliance with the above requirements for the non-zero risk credit exposures to related parties and non-related entities.

The industry analysis of loans and advances to customers granted by the Group and the Bank and the maximum and minimum exposure are provided below:

	Group		Group		Bank		Bank	
	31/12/2008		31/12/2007		31/12/2008		31/12/2007	
Industry profile*	Gross maximum exposure LVL '000	Net maximum exposure LVL '000	Gross maximum exposure LVL '000	Net maximum exposure LVL '000	Gross maximum exposure LVL '000	Net maximum exposure LVL '000	Gross maximum exposure LVL '000	Net maximum exposure LVL '000
Private individuals (mortgage loans)	449,186	65,825	448,314	49,269	449,186	65,825	448,314	49,269
Private individuals (other loans)	31,772	18,943	47,671	16,138	31,772	18,943	47,671	16,138
Trade	49,910	7,614	81,391	18,190	49,910	7,614	81,391	18,190
Real estate management	45,035	2,648	43,368	4,112	45,035	2,648	43,368	4,112
Construction	36,971	4,179	31,415	639	36,971	4,179	31,415	639
Manufacturing	16,434	1,815	18,574	531	16,434	1,815	18,574	531
Transport and logistics	10,514	519	14,002	2,657	10,514	519	14,002	2,657
Other service industries	4,899	362	4,114	312	4,899	362	4,114	312
Financial intermediaries	2,280	214	479	479	2,280	214	479	479
Agriculture and forestry	541	541	316	316	541	541	316	316
Other industries	355	355	605	605	353	353	602	602
Total loans and advances to customers, gross	**647,897**	**103,015**	**690,249**	**93,248**	**647,895**	**103,013**	**690,246**	**93,245**
Less allowance for credit losses	(21,028)	(21,028)	(3,572)	(3,572)	(21,028)	(21,028)	(3,572)	(3,572)
Total loans and advances to customers, net	**626,869**	**81,987**	**686,677**	**89,676**	**626,867**	**81,985**	**686,674**	**89,673**

* The industry profile of loans with the original maturity of up to one year is determined by the Bank based on the industry where the borrower operates, while for loans with the original maturity exceeding one year – based on the purpose of the loan granted (by the industry for the development of which the loan has been issued).

Credit quality analysis for the Group is as follows:

	31/12/2008		31/12/2007	
	Loans, total LVL '000	Incl. past due payments LVL '000	Loans, total LVL '000	Incl. past due payments LVL '000
Not individualy impaired loans				
Mortgage loans	418,714	4,288	446,075	948
Business loans	159,501	1,512	233,336	131
Consumer loans	2,143	–	1,771	5
Other loans	2,180	–	616	–
Total non-impaired loans, gross	**582,538**	**5,800**	**681,798**	**1,084**
Impaired loans				
Mortgage loans	30,472	26,185	2,239	1,871
Business loans	33,645	14,524	5,971	1,367
Consumer loans	745	540	241	82
Other loans	497	456	–	–
Total impaired loans, gross	**65,359**	**41,705**	**8,451**	**3,320**
Total loans, gross	**647,897**	**47,505**	**690,249**	**4,404**
Less allowance for credit losses	(21,028)		(3,572)	
Total loans, net	**626,869**	**47,505**	**686,677**	**4,404**

Credit quality analysis for the Bank is as follows:

	31/12/2008		31/12/2007	
	Loans, total LVL '000	Incl. past due payments LVL '000	Loans, total LVL '000	Incl. past due payments LVL '000
Non-impaired loans				
Mortgage loans	418,714	4,288	446,075	948
Business loans	159,501	1,512	233,336	131
Consumer loans	2,143	–	1,771	5
Other loans	2,178	–	613	–
Total non-impaired loans, gross	**582,536**	**5,800**	**681,795**	**1,084**
Impaired loans				
Mortgage loans	30,472	26,185	2,239	1,871
Business loans	33,645	14,524	5,971	1,367
Consumer loans	745	540	241	82
Other loans	497	456	–	–
Total impaired loans, gross	**65,359**	**41,705**	**8,451**	**3,320**
Total loans, gross	**647,895**	**47,505**	**690,246**	**4,404**
Less allowance for credit losses	(21,028)		(3,572)	
Total loans, net	**626,867**	**47,505**	**686,674**	**4,404**

The table below provides the aging analysis of past due loans and advances to customers of the Group and the Bank as at 31 December 2008:

Days past due	Mortgage loans LVL '000	Business loans LVL '000	Consumer loans LVL '000	Other loans LVL '000	Total LVL '000
Less than 30 days	458	1,966	30	–	2,454
31 - 59 days	412	1,517	32	–	1,961
60 - 89 days	1,933	957	62	–	2,952
More than 90 days	27,670	11,596	416	456	40,138
Total past due loans	**30,473**	**16,036**	**540**	**456**	**47,505**

The table below provides the aging analysis of past due loans and advances to customers of the Group and the Bank as at 31 December 2007:

Days past due	Mortgage loans LVL '000	Business loans LVL '000	Consumer loans LVL '000	Other loans LVL '000
Less than 30 days	219	20	3	242
31 - 59 days	152	1,339	2	1,493
60 - 89 days	46	16	12	74
More than 90 days	2,402	123	70	2,595
Total past due loans	**2,819**	**1,498**	**87**	**4,404**

As at 31 December 2008, the gross amount of loans having the maturity date for principal or interest changed was LVL 145,768 (51,275) thousand. These changes were made on the basis of the agreements between the Group or the Bank and customers amending respective loan conditions, as otherwise the loans might be past due.

18. Investments in subsidiaries

As at 31 December 2008, the Bank held shares in the following subsidiaries:

Company	Country of incorporation	Business profile	Share capital	Equity	Bank's share (% of total share capital)	Share capital	Equity	Bank's share (% of total share capital)
			31/12/2008			31/12/2007		
			LVL '000	LVL '000	(%)	LVL '000	LVL '000	(%)
IPAS AB.LV Asset Management	LV	Financial services	700	886	100	700	720	100
IBAS AB.LV Capital Market	LV	Financial services	700	445	100	700	440	100
SIA Elizabetes 21a	LV	Real estate transactions	1,400	995	85	1,200	1,005	85
AS AB Konsultācijas	LV	Consulting services	240	281	100	40	58	30
SIA AB.LV Transform Investments	LV	Real estate transactions	1,000	1,008	100	–	–	–
		Total:	**4,040**	**3,615**		**2,640**	**2,223**	

In 2008, the Bank's share in the capital of subsidiary AS AB Konsultācijas was increased to 100%, and the subsidiary's share capital was increased to LVL 240 thousand. In September 2008, the Bank increased the share capital of SIA Elizabetes 21a by LVL 200 thousand and, as a result, the subsidiary's share capital is LVL 1,400 thousand.

In the reporting year, the Bank established its subsidiary SIA AB.LV Transform Investments with share capital of LVL 1,000,000. The business goal of SIA AB.LV Transform Investments is to operate on the secondary real estate market, acquire properties through auctions, as well as manage and prepare the properties so acquired for resale.

As at 31 December 2008, funds of the customers of AB.LV Asset Management managed by the said company based on the customers' authorisation amounted to LVL 13,658 (45,803) thousand. The value of financial instruments of the AB.LV Capital Market customers as at 31 December 2008 was LVL 69,349 (71,801) thousand.

19. Investment properties

	Group 31/12/2008 LVL '000	Group 31/12/2007 LVL '000	Bank 31/12/2008 LVL '000	Bank 31/12/2007 LVL '000
Investment properties	17,260	14,277	17,260	14,277
Prepayments for investment properties	2,502	2,237	2,502	2,237
Total investment properties	**19,762**	**16,514**	**19,762**	**16,514**

The movements in the Group's and Bank's investment properties in 2008 are as follows:

	Group			Bank		
	Land LVL '000	Buildings LVL '000	Total, less prepayments LVL '000	Land LVL '000	Buildings LVL '000	Total, less prepayments LVL '000
Acquisition value as at 01/01/2008	**13,923**	**404**	**14,327**	**13,923**	**404**	**14,327**
Additions	3,003	–	3,003	3,003	–	3,003
Acquisition value as at 31/12/2008	**16,926**	**404**	**17,330**	**16,926**	**404**	**17,330**
Accumulated depreciation as at 01/01/2008	**–**	**50**	**50**	**–**	**50**	**50**
Depreciation charge	–	20	20	–	20	20
Accumulated depreciation as at 31/12/2008	**–**	**70**	**70**	**–**	**70**	**70**
Net carrying amount as at 01/01/2008	**13,923**	**354**	**14,277**	**13,923**	**354**	**14,277**
Net carrying amount as at 31/12/2008	**16,926**	**334**	**17,260**	**16,926**	**334**	**17,260**

The movements in the Group's and Bank's investment properties in 2007 are as follows:

	Group			Bank		
	Land LVL '000	Buildings LVL '000	Total, less pre-payments LVL '000	Land LVL '000	Buildings LVL '000	Total, less pre-payments LVL '000
Acquisition value as at 01/01/2007	**13,923**	**327**	**14,250**	**13,923**	**327**	**14,250**
Additions	–	77	77	–	77	77
Acquisition value as at 31/12/2007	**13,923**	**404**	**14,327**	**13,923**	**404**	**14,327**
Accumulated depreciation as at 01/01/2007	**–**	**33**	**33**	**–**	**33**	**33**
Depreciation charge	–	17	17	–	17	17
Accumulated depreciation as at 31/12/2007	**–**	**50**	**50**	**–**	**50**	**50**
Net carrying amount as at 01/01/2007	**13,923**	**294**	**14,217**	**13,923**	**294**	**14,217**
Net carrying amount as at 31/12/2007	**13,923**	**354**	**14,277**	**13,923**	**354**	**14,277**

The market value of the Group's and Bank's investment properties as at 31 December 2008 was LVL 26 (71) million.

The Management of the Bank and the Group believe that the most credible market value of investment properties was identified based on the evaluations presented by independent valuers. The selling value of the investment properties may differ from the market value as defined, as the market of such kind of properties is not developed enough.

Rentals from investment properties in 2008 amounted to LVL 281 (255) thousand, whereas the related property maintenance expense was LVL 192 (177) thousand, including direct operating expenses arising from investment properties that did not generate rental income amounting to LVL 10 (5) thousand.

20. Intangible and tangible fixed assets

	Group 31/12/2008 LVL '000	Group 31/12/2007 LVL '000	Bank 31/12/2008 LVL '000	Bank 31/12/2007 LVL '000
Intangible fixed assets	1,558	975	1,400	955
Prepayments for intangible fixed assets	1,891	1,086	1,891	1,033
Total intangible fixed assets	**3,449**	**2,061**	**3,291**	**1,988**
Land	129	129	129	129
Buildings and property improvements	3,702	3,894	3,702	3,894
Leasehold improvements	246	430	246	430
Transport vehicles	557	282	447	187
Office equipment	1,672	1,994	1,628	1,968
EDP equipment	*984*	*1,025*	*967*	*1,016*
Other tangible fixed assets	*688*	*969*	*661*	*952*
Prepayments for tangible fixed assets	68	1,934	68	1,934
Total tangible fixed assets	**6,374**	**8,663**	**6,220**	**8,542**
Total net carrying amount of fixed assets	**9,823**	**10,724**	**9,511**	**10,530**

The movements in the Group's intangible and tangible fixed assets in 2008 are as follows:

	Intangible fixed assets LVL '000	Land LVL '000	Buildings and property improvements LVL '000	Leasehold improvements LVL '000	Transport vehicles LVL '000	Office equipment LVL '000	**Total,** less prepayments LVL '000
Acquisition value as at 01/01/2008	**2,246**	**129**	**4,874**	**793**	**625**	**6,140**	**14,807**
Additions	1,013	–	85	27	421	522	2,068
Disposals	(72)	–	(153)	(167)	(167)	(605)	(1,164)
Acquisition value as at 31/12/2008	**3,187**	**129**	**4,806**	**653**	**879**	**6,057**	**15,711**
Accumulated depreciation as at 01/01/2008	**1,271**	**–**	**980**	**363**	**343**	**4,146**	**7,103**
Depreciation charge	430	–	220	114	139	784	1,687
Disposals	(72)	–	(96)	(70)	(160)	(545)	(943)
Accumulated depreciation as at 31/12/2008	**1,629**	**–**	**1,104**	**407**	**322**	**4,385**	**7,847**
Net carrying amount as at 01/01/2008	**975**	**129**	**3,894**	**430**	**282**	**1,994**	**7,704**
Net carrying amount as at 31/12/2008	**1,558**	**129**	**3,702**	**246**	**557**	**1,672**	**7,864**

The movements in the Group's intangible and tangible fixed assets in 2007 are as follows:

	Intangible fixed assets LVL '000	Land LVL '000	Buildings and property improvements LVL '000	Leasehold improvements LVL '000	Transport vehicles LVL '000	Office equipment LVL '000	**Total,** less prepayments LVL '000
Acquisition value as at 01/01/2007	**2,018**	**129**	**4,867**	**721**	**699**	**5,120**	**13,554**
Additions	466	–	7	72	–	1,338	1,883
Disposals	(238)	–	–	–	(74)	(318)	(630)
Acquisition value as at 31/12/2007	**2,246**	**129**	**4,874**	**793**	**625**	**6,140**	**14,807**
Accumulated depreciation as at 01/01/2007	**1,009**	**–**	**757**	**270**	**289**	**3,652**	**5,977**
Depreciation charge	311	–	223	93	116	803	1,546
Disposals	(49)	–	–	–	(62)	(309)	(420)
Accumulated depreciation as at 31/12/2007	**1,271**	**–**	**980**	**363**	**343**	**4,146**	**7,103**
Net carrying amount as at 01/01/2007	**1,009**	**129**	**4,110**	**451**	**410**	**1,468**	**7,577**
Net carrying amount as at 31/12/2007	**975**	**129**	**3,894**	**430**	**282**	**1,994**	**7,704**

As at 31 December 2008, the Group and the Bank owned intangible and tangible fixed assets having the net carrying amount of 0 and the cost value of LVL 3,202 (2,678) thousand.

The movements in the Bank's intangible and tangible fixed assets in 2008 are as follows:

	Intangible fixed assets LVL '000	Land LVL '000	Buildings and property improvements LVL '000	Leasehold improvements LVL '000	Transport vehicles LVL '000	Office equipment LVL '000	**Total,** less prepayments LVL '000
Acquisition value as at 01/01/2008	**2,222**	**129**	**4,874**	**793**	**498**	**6,098**	**14,614**
Additions	868	–	85	27	373	493	1,846
Disposals	(72)	–	(153)	(167)	(162)	(603)	(1,157)
Acquisition value as at 31/12/2008	**3,018**	**129**	**4,806**	**653**	**709**	**5,988**	**15,303**
Accumulated depreciation as at 01/01/2008	**1,267**	**–**	**980**	**363**	**311**	**4,130**	**7,051**
Depreciation charge	423	–	220	114	109	778	1,644
Disposals	(72)	–	(96)	(70)	(158)	(548)	(944)
Accumulated depreciation as at 31/12/2008	**1,618**	**–**	**1,104**	**407**	**262**	**4,360**	**7,751**
Net carrying amount as at 01/01/2008	**955**	**129**	**3,894**	**430**	**187**	**1,968**	**7,563**
Net carrying amount as at 31/12/2008	**1,400**	**129**	**3,702**	**246**	**447**	**1,628**	**7,552**

The accompanying notes form an integral part of these consolidated and separate financial statements.

The movements in the Bank's intangible and tangible fixed assets in 2007 are as follows:

	Intangible fixed assets LVL '000	Land LVL '000	Buildings and property improvements LVL '000	Leasehold improvements LVL '000	Transport vehicles LVL '000	Office equipment LVL '000	**Total, less prepayments** LVL '000
Acquisition value as at 01/01/2007	**2,006**	**129**	**4,867**	**721**	**611**	**5,087**	**13,421**
Additions	454	–	7	72	–	1,334	1,867
Disposals	(238)	–	–	–	(113)	(323)	(674)
Acquisition value as at 31/12/2007	**2,222**	**129**	**4,874**	**793**	**498**	**6,098**	**14,614**
Accumulated depreciation as at 01/01/2007	**1,008**	**–**	**757**	**270**	**281**	**3,641**	**5,957**
Depreciation charge	307	–	223	93	92	795	1,510
Disposals	(48)	–	–	–	(62)	(306)	(416)
Accumulated depreciation as at 31/12/2007	**1,267**	**–**	**980**	**363**	**311**	**4,130**	**7,051**
Net carrying amount as at 01/01/2007	**998**	**129**	**4,110**	**451**	**330**	**1,446**	**7,464**
Net carrying amount as at 31/12/2007	**955**	**129**	**3,894**	**430**	**187**	**1,968**	**7,563**

The information about contractual commitments on purchase of intangible and tangible fixed assets is disclosed in Note 26.

21. Balances due to credit institutions

	Group 31/12/2008 LVL '000	Group 31/12/2007 LVL '000	Bank 31/12/2008 LVL '000	Bank 31/12/2007 LVL '000
Other term deposits	112,517	152,976	109,561	149,970
Demand deposits from credit institutions:	15,690	5,598	15,690	5,598
Balances repayable on demand	*1,087*	*5,598*	*1,087*	*5,598*
Overnight deposits	*14,603*	-	*14,603*	-
Total balances due to credit institutions and central banks	**128,207**	**158,574**	**125,251**	**155,568**

Other term deposits include syndicated loans of EUR 155 (210) million.

22. Deposits

Customer profile	Group 31/12/2008 LVL '000	Group 31/12/2007 LVL '000	Bank 31/12/2008 LVL '000	Bank 31/12/2007 LVL '000
Corporate companies	615,873	723,353	617,565	724,927
Private individuals	73,831	74,954	73,831	74,954
State-owned enterprises	10,981	17,448	10,981	17,448
Financial institutions	10,139	4,336	10,139	4,336
Municipalities	931	2,048	931	2,048
Non-profit institutions serving private individuals	560	1,638	560	1,638
Total deposits from customers	**712,315**	**823,777**	**714,007**	**825,351**

Geographical profile of customer residence	Group 31/12/2008 LVL '000	Group 31/12/2007 LVL '000	Bank 31/12/2008 LVL '000	Bank 31/12/2007 LVL '000
Other countries	401,311	507,828	401,311	507,828
Other OECD countries	101,292	106,051	101,292	106,051
Other EU Member States	83,631	122,440	83,631	122,440
Latvia	68,658	82,174	70,350	83,748
EMU countries	57,423	5,284	57,423	5,284
Total deposits from customers	**712,315**	**823,777**	**714,007**	**825,351**

23. Subordinated liabilities

At the financial year end Concern and Bank subordinated liabilities 40,936 (21,121) thousand lats contains from subordinated bonds 11,894 (0) thousand lats and subordinated loans 29,042 (21,121) thousand lats.

In 2008, the Bank initiated two subordinated bond issues - in US dollars and euros – with the original issue amount of USD 20 million and EUR 10 million respectively. As at 31 December 2008, the carrying amount of the subordinated bonds so issued was USD 12.6 million and EUR 7.7 million. The issue of these subordinated bonds was closed and these bonds are not registered with Riga Stock Exchange. The bonds were acquired by both private individuals and legal entities.

The bonds mature on 1 October 2018. Starting from 1 October 2013, the Bank has the right to redeem the subordinated bonds early provided the issue conditions are met. If the Bank does not exercise this right, the annual coupon at the rate of 13% will be calculated and paid from 1 October 2013.

The Bank received also subordinated loans for the total amount of USD 53.6 (38.6) million and EUR 3.3 (3.4) million. Subordinated loans are included in the second tier of equity calculation. According to the provisions of the subordinated loan agreements, the lenders have no right to demand anticipatory repayment of the loans and capitalise the subordinated loans into the Bank's share capital.

The analysis of subordinated loans as at 31 December 2008:

Lenders	Sum of the loan LVL '000	Accumulated interest LVL '000	% of total subordinated capital (%)	Interest rate	Currency	Date of the agreement	Date of maturity
Boriss Teterevs	7,425	53	25,71	8,90	USD	14.08.2008.	19.08.2018.
Multicross LLC	4,950	39	17,14	8,27	USD	19.03.2007.	02.04.2017.
Euro swiss LLC	4,950	39	17,14	8,27	USD	19.03.2007.	02.04.2017.
Reynolds holding Ltd	2,475	5	8,57	7,40	USD	09.11.2006.	20.11.2011.
Major lenders in total	**19,800**	**136**	**68,56**				
Other lenders							
residents	223	1	0,76	8,13 – 8,39	USD		
non-residents	6,492	18	22,48	7,40 – 8,39	USD		
residents	35	–	0,12	7,14	EUR		
non-residents	2,333	4	8,08	6,31 – 7,14	EUR		
Other lenders in total	**9,083**	**23**	**31,44**				
Total	**28,883**	**159**	**100,00**				

The proportionate share of other lenders (for each individual lender) does not exceed 10% of the total amount of the subordinated capital. Their weighted average maturity is 5.96 years.

24. Paid-in share capital

As at 31 December 2008, the registered and paid-in share capital of the Bank amounted to LVL 15 million (15 million). The share capital consists of ordinary shares with voting rights only. All the shares have the par value of LVL 150 (150) each.

As at 31 December 2008, the Bank had 106 (108) shareholders, including 17 (18) legal entities and 89 (90) private individuals, holding the total of 100,000 shares.

The members of the Board directly hold 93.81% (93.15%) of the share capital, while the members of the Council – 3.35% (3.35%) of the share capital.

The major shareholders of the Bank and the groups of related shareholders are as follows:

	31/12/2008		31/12/2007	
	Paid-in share capital LVL '000	% of total paid-in share capital (%)	Paid-in share capital LVL '000	% of total paid-in share capital (%)
Oļegs Fiļs	7,056	47,04	7,053	47,02
Group of related shareholders				
Ernests Bernis	6,902	46,01	6,899	45,99
Nika Berne	154	1,03	154	1,03
Total group of related shareholders	7,056	47,04	7,053	47,02

25. Dividends declared and paid

	Group/ Bank 2008 LVL '000	Group/ Bank 2007 LVL '000
Dividends declared	5,000	6,000
Dividends paid	4,999	5,999

	Group/ Bank 2008 LVL	Group/ Bank 2007 LVL
Dividends declared per share	50	60
Dividends paid per share	50	60

26. Memorandum items

Contingent liabilities	Group/ Bank 31/12/2008 LVL '000	Group/ Bank 31/12/2007 LVL '000
Outstanding guarantees	17,436	18,262
Letters of credit	1,886	928
Total contingent liabilities	**19,322**	**19,190**
Financial commitments		
Loan commitments	11,347	49,689
Unutilised credit lines	4,555	13,874
Undrawn credit facilities on settlement cards	4,178	3,765
Contractual commitments on purchase of intangible assets	92	1,200
Contractual commitments on purchase of other tangible assets	257	900
Total financial commitments	**20,429**	**69,428**
Total contingent liabilities and financial commitments	**39,751**	**88,618**

As at 31 December 2008, funds under trust management by the Group amounted to LVL 18,796 (49,992) thousand, while funds under trust management by the Bank amounted to LVL 5,138 (4,189) thousand. The Bank's funds under trust management comprise loans issued from the funds specifically assigned by customers to the Bank. Meanwhile, the Group's funds under trust management include also funds of the customers of AB.LV Asset Management managed by the said company based on the customers' authorisation.

The related credit risk and all other risks remain fully with the customer, which provided these funds to the Group and/or the Bank.

27. Related party disclousures

Related parties are defined as shareholders who have the ability to exercise significant influence over the Group and the Bank, members of the Council and the Board, key management personnel, their close relatives, and companies in which they have a controlling interest, as well as subsidiaries and associates of the Group.

	Group		Group	
	31/12/2008		31/12/2007	
Loans issued to related parties	Amount LVL '000	Terms	Amount LVL '000	Terms
Management	254	5%-10%	180	5%-10%
Related legal entities	3,647	6%-18%	3,156	6%-18%
Other related private individuals	686	5%-24%	819	5%-21%
Total loans issued to related parties	**4,587**		**4,155**	
Loan commitments and other memorandum items	639	5%-24%	1,736	5%-21%
Less allowance for credit losses	(5)		(33)	
Net loans, loan commitments and other memorandum items	**5,221**		**5,858**	
Percentage of equity, % (see Note 29)	5,08		6,20	

	Bank		Bank	
	31/12/2008		31/12/2007	
Loans issued to related parties	Amount LVL '000	Terms	Amount LVL '000	Terms
Management	141	5%-10%	180	5%-10%
Related legal entities	3,647	6%-18%	3,156	6%-18%
Other related private individuals	686	5%-24%	819	5%-21%
Total loans issued to related parties	**4,474**		**4,155**	
Loan commitments and other memorandum items	639	5%-24%	1,736	5%-21%
Less allowance for credit losses	(5)		(33)	
Net loans, loan commitments and other memorandum items	**5,108**		**5,858**	
Percentage of equity, % (see Note 29)	4,86		6,09	

As at 31 December 2008, the deposits of related parties with the Group amounted to LVL 3,496 (2,047) thousand, while those with the Bank amounted to LVL 5,387 (3,600) thousand.

All related party deposits bear standard interest rates offered by the Bank.

Interest income and expense from transactions with related parties:

	Group 2008 LVL '000	Group 2007 LVL '000	Bank 2008 LVL '000	Bank 2007 LVL '000
Interest income	259	212	259	212
Interest expense	166	135	259	170

28. Cash and cash equivalents

	Group 31/12/2008 LVL '000	Group 31/12/2007 LVL '000	Bank 31/12/2008 LVL '000	Bank 31/12/2007 LVL '000
Cash and deposits with the Bank of Latvia	57,860	63,684	57,860	63,684
Balances due from credit institutions	133,887	190,278	133,859	190,271
Balances due to credit institutions	(15,690)	(5,598)	(15,690)	(5,598)
Total cash and cash equivalents	**176,057**	**248,364**	**176,029**	**248,357**

29. Capital management and capital adequacy

The primary objective of the Group's and Bank's capital management is to ensure that the Group and the Bank comply with externally imposed capital requirements (i.e. FCMC regulations and IFRS) and that the Group and the Bank maintain healthy capital ratios in order to support their business and maximise the shareholders' value.

The goals of the Group's and Bank's capital management are consistent with those of the previous years, while the capital management procedures and the procedure for calculating capital adequacy were materially affected by the new Basel II requirements regarding minimum capital requirements for banks. During the reporting year, the methodology for calculating the capital requirement for operational risk was introduced, and significant changes were made to the methodology for calculating the capital requirement for credit risk. According to the capital adequacy rules of Basel II, the Group and the Bank have resolved to apply the standardised approach to calculate the capital requirements for credit risk and market risks and the basic indicator approach to calculate the capital requirement for operational risk.

Capital adequacy refers to the sufficiency of the Group's and Bank's capital resources to cover the credit risk, operational risk, and market risks.

As at 31 December 2008, the Bank's capital adequacy ratio in accordance with the FCMC requirements was 16.09% (13.48%), while the Group's capital adequacy ratio was 15.78% (13.24%).

The Group's and Bank's equity consists of Tier 1 and Tier 2. Tier 1 comprises paid-in share capital, share premium, reserve capital, retained earnings, including current year's profit which is not to be paid in dividends, less negative fair value revaluation reserve of available-for-sale financial assets and intangible fixed assets. Tier 2 includes subordinated capital and positive fair value revaluation reserve of available-for-sale financial assets (55%).

The reserve capital is the value of the Group's and Bank's property, which, following the defined procedure, is accrued to cover unexpected losses or for other financing needs, based on the decision of the shareholders' meeting. There are no legal restrictions on utilisation of the reserves.

The capital adequacy ratio of the Group and the Bank is calculated in accordance with the FCMC requirements.

Tier 1	Group 31/12/2008 LVL '000	Group 31/12/2007 LVL '000	Bank 31/12/2008 LVL '000	Bank 31/12/2007 LVL '000
paid-in share capital	15,000	15,000	15,000	15,000
share premium	255	255	255	255
reserve capital	1,500	1,500	1,500	1,500
retained earnings	63,910	41,385	65,794	43,608
intangible fixed assets	(3,449)	(2,061)	(3,291)	(1,988)
minority interest	184	215	–	–
current year's audited profit (not subject to distribution of dividends)	10,251	22,525	10,665	22,186
negative fair value revaluation reserve of available-for-sale financial assets	(12,932)	(2,286)	(12,932)	(2,286)
decrease in Tier 1 by the difference between the allowances pursuant to the FCMC requirements and those pursuant to IFRS (50%)	(3,510)	–	(3,510)	–
Total Tier 1	**71,209**	**76,533**	**73,481**	**78,275**
Tier 2				
decrease in Tier 2 by the difference between the allowances pursuant to the FCMC requirements and those pursuant to IFRS (50%)	(3,510)	–	(3,510)	–
subordinated capital (based on the remaining maturity, with the adjustment rate of 40%-100%)	35,094	17,990	35,094	17,990
Total Tier 2	**31,584**	**17,990**	**31,584**	**17,990**
Total eligible capital	**102,793**	**94,523**	**105,065**	**96,265**
Capital charge for credit risk on banking book	43,235	55,327	43,373	55,365
Total capital charge for market risks on trading book	2,318	1,773	2,318	1,773
capital charge for foreign currency risk	*720*	*476*	*720*	*476*
capital charge for position risk	*1,410*	*1,274*	*1,410*	*1,274*
capital charge for counterparty risk	*188*	*23*	*188*	*23*
Capital charge for operational risk	6,554	–	6,559	–
Total capital charge 8%	**52,107**	**57,100**	**52,250**	**57,138**
Capital adequacy ratio (%)	**15,78**	**13,24**	**16,09**	**13,48**
Minimum capital adequacy ratio (%)	8,00	8,00	8,00	8,00

30. Fair value of financial instruments

The Group and the Bank disclose the fair values of each category of financial assets and financial liabilities in such a manner so as to be able to compare the fair values with the carrying amounts. The breakdown of the Group's and Bank's financial assets and financial liabilities by categories is presented in Note 10.

The carrying amounts and fair values of the Group's financial assets and financial liabilities are as follows:

	31/12/2008		31/12/2007	
Financial assets	Carrying amount LVL '000	Fair value LVL '000	Carrying amount LVL '000	Fair value LVL '000
Cash and demand deposits with central banks	57,860	57,860	63,684	63,684
Balances due from credit institutions	174,664	174,664	223,772	223,772
Financial assets at fair value through profit or loss	4,599	4,599	4,952	4,952
Available-for-sale financial assets	35,081	35,081	92,625	92,625
Loans and receivables	669,872	658,686	686,677	686,133
Total financial assets	**942,076**	**930,890**	**1,071,710**	**1,071,166**
Financial liabilities				
Demand deposits from credit institutions	15,690	15,690	5,598	5,598
Financial liabilities at fair value through profit or loss	19,238	19,238	9,429	9,429
Financial liabilities at amortised cost	865,768	866,989	997,874	997,546
Total financial liabilities	**900,696**	**901,917**	**1,012,901**	**1,012,573**

The carrying amounts and fair values of the Bank's financial assets and financial liabilities are as follows:

	31/12/2008		31/12/2007	
Financial assets	Carrying amount LVL '000	Fair value LVL '000	Carrying amount LVL '000	Fair value LVL '000
Cash and demand deposits with central banks	57,860	57,860	63,684	63,684
Balances due from credit institutions	174,636	174,636	223,765	223,765
Financial assets at fair value through profit or loss	4,599	4,599	4,952	4,952
Available-for-sale financial assets	35,081	35,081	92,625	92,625
Loans and receivables	669,870	658,684	686,674	686,130
Total financial assets	**942,046**	**930,860**	**1,071,700**	**1,071,156**
Financial liabilities				
Demand deposits from credit institutions	15,690	15,690	5,598	5,598
Financial liabilities at fair value through profit or loss	19,238	19,238	9,429	9,429
Financial liabilities at amortised cost	864,504	865,725	996,442	996,114
Total financial liabilities	**899,432**	**900,653**	**1,011,469**	**1,011,141**

Key principles for determining the fair value of financial assets and financial liabilities

The Group and the Bank assume that the fair value of liquid financial assets and financial liabilities or financial assets and financial liabilities having short maturities (less than three months) approximates to their carrying amount. This assumption refers also to demand deposits and saving accounts. Basically, the fair value of the Group's and Bank's financial assets and financial liabilities is determined on the basis of the official price quotations on an active market. The fair value of financial instruments that have no official price quotations on an active market is determined on the basis of the market inputs, by questioning market participants. Meanwhile, the fair value of financial assets and financial liabilities having contractual interest rates fixed is determined by discounting future cash flows.

The analysis of the key principles applied to determine the fair value of the Group's financial assets and financial liabilities is as follows:

	31/12/2008					31/12/2007				
		Market observable inputs		Non market observable inputs			Market observable inputs		Non market observable inputs	
Financial assets	Quoted market prices LVL '000	Available market data LVL '000	Discounted cash flow LVL '000	LVL '000	Total LVL '000	Quoted market prices LVL '000	Available market data LVL '000	Discounted cash flow LVL '000	LVL '000	Total LVL '000
Cash and demand deposits with central banks	–	232,524	–	–	232,524	–	287,456	–	–	287,456
Financial assets at fair value through profit or loss	324	444	3,831	–	4,599	3,563	324	1,065	–	4,952
Available-for-sale financial assets	8,690	23,916	–	2,475	35,081	83,197	7,008	–	2,420	92,625
Loans and receivables	–	412,087	257,663	122	669,872	–	361,946	324,595	136	686,677
Total financial assets	**9,014**	**668,971**	**261,494**	**2,597**	**942,076**	**86,760**	**656,734**	**325,660**	**2,556**	**1,071,710**
Financial liabilities										
Demand deposits from credit institutions	–	15,687	–	3	15,690	–	5,595	–	3	5,598
Financial liabilities at fair value through profit or loss	11,696	–	7,542	–	19,238	307	–	9,122	–	9,429
Financial liabilities at amortised cost	–	646,187	217,093	2,488	865,768	–	795,157	200,186	2,531	997,874
Total financial liabilities	**11,696**	**661,874**	**224,635**	**2,491**	**900,696**	**307**	**800,752**	**209,308**	**2,534**	**1,012,901**

The analysis of the key principles applied to determine the fair value of the Bank's financial assets and financial liabilities is as follows:

	31/12/2008					31/12/2007				
		Market observable inputs		Non market observable inputs			Market observable inputs		Non market observable inputs	
Financial assets	Quoted market prices LVL '000	Available market data LVL '000	Discounted cash flow LVL '000	LVL '000	Total LVL '000	Quoted market prices LVL '000	Available market data LVL '000	Discounted cash flow LVL '000	LVL '000	Total LVL '000
Cash and demand deposits with central banks	–	232,496	–	–	232,496	–	287,449	–	–	287,449
Financial assets at fair value through profit or loss	324	444	3,831	–	4,599	3,563	324	1,065	–	4,952
Available-for-sale financial assets	11,165	23,916	–	2,475	37,556	83,197	7,008	–	2,420	92,625
Loans and receivables	–	412,207	257,663	120	669,990	–	361,945	324,595	134	686,674
Total financial assets	**11,489**	**669,063**	**261,494**	**2,595**	**942,046**	**86,760**	**656,726**	**325,660**	**2,554**	**1,071,700**
Financial liabilities										
Demand deposits from credit institutions	–	15,687	–	3	15,690	–	5,595	–	3	5,598
Financial liabilities at fair value through profit or loss	11,696	–	7,542	–	19,238	307	–	9,122	–	9,429
Financial liabilities at amortised cost	–	644,923	217,093	2,488	864,504	–	793,725	200,186	2,531	996,442
Total financial liabilities	**11,696**	**660,610**	**224,635**	**2,491**	**899,432**	**307**	**799,320**	**209,308**	**2,534**	**1,011,469**

The accompanying notes form an integral part of these consolidated and separate financial statements.

31. Credit risk

Credit risk is exposure to potential losses in case the Group's or Bank's counterparty or debtor will be unable to pay the contractual obligations to the Group or the Bank.

Credit risk management framework

Credit risk is managed according to the credit policy. Before entering into any cooperation with the customers, the Group and the Bank perform a comprehensive review of the customer's solvency and collateral.

To assess solvency of private individuals, the Bank has developed an internal rating system whereby customers are divided in categories on the basis of their income level and quality of their credit histories.

The Group and the Bank assess creditworthiness of corporate customers by conducting the financial due diligence for each new customer; subsequently, the borrower's financial position is reviewed on an annual basis. Corporate customers are granted risk/ monitoring factors, and any instances of non-compliance with these factors indicate that credit risk might have increased before the financial position of such customer is reviewed.

Collateral is appraised by an independent appraiser accepted by the Group and the Bank. The Bank may adjust (reduce) the value defined by the independent appraiser if, in the Bank's opinion, the appraiser has not considered certain risk factors. For the purposes of loan collateral, the Bank considers such reduced value. As collateral, the Bank may accept real estate, new and used vehicles, commercial vehicles, goods held at customs or customer's warehouse, securities, technological equipment and machinery, receivables as an aggregation of property, factoring receivables, etc. Based on the collateral type and liquidity, the Group and the Bank apply the maximum acceptable proportion of the loan to be issued.

For effective credit risk management, the Assets Evaluation Committee performs a regular analysis of assets and memorandum items, i.e., their recoverability. Depending on the results of such analysis, the amount of the allowance for credit losses (impairment) is determined. For the purposes of such analysis, both specific and collective (portfolio) risks are considered.

In the event that the Group and the Bank consider that the risk related to the loan issued to a corporate customer might have increased (payments are past due and/or the Group and the Bank obtain other information about customer's creditworthiness), the Group and the Bank review the customer's financial position and assess the risk of potential loss. The Bank analyses the quality of the respective loan portfolio. The age of past due loans is used as one of the quality criteria.

The Group and the Bank believe that their exposure to credit risk arises mainly from loans and advances to customers, investments in fixed income securities, and balances due from credit institutions.

The maximum exposure to credit risk is assessed without taking into account collateral and other credit enhancements. The maximum exposure of the Group's and Bank's assets and memorandum items is shown in the credit risk concentration analysis.

Credit risk concentration

The Group and the Bank place limits on the amount of risk for individual borrowers, and for geographical and industry concentrations. The exposure to any single borrower, including banks and brokers, is further restricted by sub-limits.

The credit risk concentration is analysed also by estimating the credit exposure ratio to equity. According to the Law on Credit Institutions, the Group and the Bank treat as high the credit exposure exceeding 10% of equity. Pursuant to the statutory requirements, the total credit exposure cannot be more than eight times as large as equity.

As at 31 December 2008 and 2007, the Group and the Bank were in compliance with this requirement. Ten major exposures as at 31 December 2008 amounted to 8.6% (9.9%) of the total Group's and Bank's gross loan portfolio.

The credit risk concentration and maximum exposure by industry sectors are presented in Note 17.

In the event that any loan category is affected by economic factors deteriorating the condition of all loans belonging to this category, it is decided to place certain limits on lending in the specific industry, and potential credit losses are identified. The most significant part of the Bank's loan portfolio affected by economic processes in the country is the real estate development project portfolio. The Group and the Bank have reviewed this part of the loan portfolio.

Low activity was still observed on the real estate market in 2008, which affected customer financing in this sector. Currently, loans issued under programmes related to real estate development have less liquid collaterals. Measures taken by the Bank in this connection include property revaluation and assessment of alternative sources of income for customers and, if any of these factors is inadequate for loan security or servicing purposes, respective allowances are established. No financing options for new real estate development projects are being considered at present.

As at 31 December 2008, the amount of those immovable properties which had been taken over during the loan restructuring process carried out by the Group/ Bank with the purpose of selling those properties to recover the debts was LVL 686 (0) thousand.

The analysis of maximum geographical concentration for the Group as at 31 December 2008:

Assets	Latvia LVL '000	EMU countries LVL '000	Other EU Member States LVL '000	Other OECD countries LVL '000	Other countries LVL '000	Total LVL '000
Cash and demand deposits with central banks	54,226	3,357	39	238	–	57,860
Balances due from credit institutions	6,100	62,733	35,110	64,625	6,096	174,664
Financial assets at fair value through profit or loss	1,437	–	–	2,386	776	4,599
Available-for-sale financial assets	12,161	396	699	2,234	19,591	35,081
Loans and receivables	582,723	1,526	11,049	4,575	69,999	669,872
Total financial assets	**656,647**	**68,012**	**46,897**	**74,058**	**96,462**	**942,076**
Non-financial assets	39,874	8	–	47	66	39,995
Total assets	**696,521**	**68,020**	**46,897**	**74,105**	**96,528**	**982,071**
Contingent liabilities	16,909	200	824	191	1,198	19,322
Financial commitments	13,920	62	451	505	5,491	20,429
Total geographical concentration of assets and memorandum items	**727,350**	**68,282**	**48,172**	**74,801**	**103,217**	**1,021,822**

The analysis of maximum geographical concentration for the Group as at 31 December 2007:

Assets	Latvia LVL '000	EMU countries LVL '000	Other EU Member States LVL '000	Other OECD countries LVL '000	Other countries LVL '000	Total LVL '000
Cash and demand deposits with central banks	62,222	870	127	465	–	63,684
Balances due from credit institutions	9,961	49,528	27,729	104,349	32,205	223,772
Financial assets at fair value through profit or loss	179	458	76	399	3,840	4,952
Available-for-sale financial assets	6,473	4,869	5,375	6,840	69,068	92,625
Loans and receivables	606,434	1,674	10,113	9,288	59,168	686,677
Total financial assets	**685,269**	**57,399**	**43,420**	**121,341**	**164,281**	**1,071,710**
Non-financial assets	31,090	–	–	8	12	31,110
Total assets	**716,359**	**57,399**	**43,420**	**121,349**	**164,293**	**1,102,820**
Contingent liabilities	17,098	–	848	252	992	19,190
Financial commitments	55,036	21	270	90	14,011	69,428
Total geographical concentration of assets and memorandum items	**788,493**	**57,420**	**44,538**	**121,691**	**179,296**	**1,191,438**

The analysis of maximum geographical concentration for the Bank as at 31 December 2008:

Assets	Latvia LVL '000	EMU countries LVL '000	Other EU Member States LVL '000	Other OECD countries LVL '000	Other countries LVL '000	**Total** LVL '000
Cash and demand deposits with central banks	54,226	3,357	39	238	–	57,860
Balances due from credit institutions	6,087	62,733	35,110	64,625	6,081	174,636
Financial assets at fair value through profit or loss	1,437	–	–	2,386	776	4,599
Available-for-sale financial assets	12,161	396	699	2,234	19,591	35,081
Loans and receivables	582,721	1,526	11,049	4,575	69,999	669,870
Total financial assets	**656,632**	**68,012**	**46,897**	**74,058**	**96,447**	**942,046**
Non-financial assets	41,220	8	–	47	66	41,341
Total assets	**697,852**	**68,020**	**46,897**	**74,105**	**96,513**	**983,387**
Contingent liabilities	16,909	200	824	191	1,198	19,322
Financial commitments	13,920	62	451	505	5,491	20,429
Total geographical concentration of assets and memorandum items	**728,681**	**68,282**	**48,172**	**74,801**	**103,202**	**1,023,138**

The analysis of maximum geographical concentration for the Bank as at 31 December 2007:

Assets	Latvia LVL '000	EMU countries LVL '000	Other EU Member States LVL '000	Other OECD countries LVL '000	Other countries LVL '000	**Total** LVL '000
Cash and demand deposits with central banks	62,222	870	127	465	-	63,684
Balances due from credit institutions	9,954	49,528	27,729	104,349	32,205	223,765
Financial assets at fair value through profit or loss	179	458	76	399	3,840	4,952
Available-for-sale financial assets	6,473	4,869	5,375	6,840	69,068	92,625
Loans and receivables	606,431	1,674	10,113	9,288	59,168	686,674
Total financial assets	**685,259**	**57,399**	**43,420**	**121,341**	**164,281**	**1,071,700**
Non-financial assets	31,144	–	–	8	12	31,164
Total assets	**716,403**	**57,399**	**43,420**	**121,349**	**164,293**	**1,102,864**
Contingent liabilities	17,098	–	848	252	992	19,190
Financial commitments	55,036	21	270	90	14,011	69,428
Total geographical concentration of assets and memorandum items	**788,537**	**57,420**	**44,538**	**121,691**	**179,296**	**1,191,482**

The issuers incorporated in a country only for the purpose of attraction of funds are disclosed as attributable to the country or region where the guarantors of the issue are located.

The credit risk inherent in the Group's and Bank's securities portfolios is reflected by the credit rating granted to respective securities and issuers.

The Group's and Bank's securities portfolios by the credit rating classes:

	Group/ Bank				Group/ Bank		
	31/12/2008				31/12/2007		
Credit ratings	Trading portfolio LVL `000	Liquidity portfolio LVL `000	Investments' held for undefined period portfolio LVL `000	Loans and receivables LVL `000	Trading portfolio LVL `000	Liquidity portfolio LVL `000	Investments' held for undefined period portfolio LVL `000
AAA to AA-	–	2,216	921	–	–	10,643	–
A+ to A-	–	–	–	1,458	–	6,680	–
BBB+ to BBB-	–	12,113	1,753	10,292	–	1,385	6,383
BB+ to BB-	86	–	3,605	11,808	772	–	20,447
B+ to B-	460	–	7,413	18,407	2,843	–	36,438
Below B-	–	–	559	863	–	–	277
No rating	222	–	2,545	175	215	–	4,458
Shares and investments in funds	–	–	3,973	–	–	–	5,914
Securities portfolio, gross	**768**	**14,329**	**20,769**	**43,003**	**3,830**	**18,708**	**73,917**
Less allowance for losses	–	–	(17)	–	–	–	–
Securities portfolio, net	**768**	**14,329**	**20,752**	**43,003**	**3,830**	**18,708**	**73,917**

32. Financial risks

a) Liquidity risk

Liquidity is the Group's and Bank's ability to maintain or ensure sufficient cash and cash equivalents to meet the expected (everyday) or sudden (critical) legally justified claims of its creditors. This means the Group's and Bank's ability to turn their assets into cash with minimal loss or ensure reasonably priced credit facilities.

The Chief Financial Officer (CFO) is responsible for liquidity management, and the Financial Markets Division is responsible for ensuring the required liquidity level and compliance with the set limits according to the policies and instructions adopted. The Chief Risk Officer (CRO) is responsible for liquidity risk management.

The key principles and procedures to timely identify, analyse and control liquidity risk are laid down in the liquidity management policy.

For ordinary liquidity risk management purposes, the Bank applies the following indicators having certain limits and restrictions set:

- net liquidity positions by all currencies in total and by each separate currency;
- liquidity ratios for different maturity bands;
- major deposits on demand ratio to liquid assets on demand;
- sum of term deposits of one customer (group of related customers).

Contingency liquidity risk

Contingency liquidity risk relates to the organisation and planning for liquidity management in times of stress. Within Bank a specific crisis team is responsible for the liquidity management in times of crisis. This crisis team consists of the CEO, CRO, CFO, Financial Market Division and Risk management Division. The Group and the Bank have defined principles to identify liquidity crisis stages and actions to overcome crisis situations. The main objective of Bank's contingency plans is to enable senior management to act effectively and efficiently at times of crisis. The contingency plans are established for addressing temporary and long-term liquidity disruptions caused by a general event in the market or Bank specific event. These plans ensure that all roles and responsibilities are clearly defined and all necessary management information is in place.

According to the internal classification of the Group and the Bank, several liquidity crisis stages are distinguished: potential liquidity crisis, short-term and long-term liquidity crisis.

The main indicators of an actual or potential liquidity crisis are as follows:

- The liquidity ratio "Less than 30 days" is below 45%.
- Counterparties reduce limits applicable to the transactions with the Bank.
- Interbank refinancing has become more difficult.
- Mass media report negative information, which may cause deposit outflow from the Group and the Bank.
- Mass media report negative information, which may indicate that a significant portion of the Group's and Bank's assets might be jeopardised (funds may be frozen with insolvent banks, issuers of securities may default on the obligations listed in the issue prospectuses, etc.)

If any of the crisis stages is established, the Group and the Bank implement the following measures:

- Information available about financial institutions facing difficulties is updated daily to prevent transfers of the Group's and Bank's as well as customers' cash to accounts with such institutions.
- The Group and the Bank do not use the services of the credit institutions referred to above as payment intermediaries.
- The limits assigned to counterparties are revised to achieve concentration of the Group's and Bank's transactions and cash with credit institutions which, based on the Bank's assessment, are treated as safe.
- The distribution of assets and liabilities into maturity bands is reviewed and analysed carefully to find solutions how assets may be restructured to enhance their liquidity.
- Considering that gravest adverse consequences might be related to deposit outflow, the Group and the Bank have commenced working actively to maintain and enhance customer confidence and loyalty, as well as bring in new customers.

To assess the efficiency of the measures taken and be able to respond proactively to the changes of the situation, the Group's and Bank's internal indicators used to manage liquidity risk are controlled on a daily basis.

The last quarter of 2008 saw the global financial crisis growing all over the world, which lead to the deterioration in liquidity of the whole range of banks, including also Latvian banks. Given the existing situation, the management of the Group/ Bank were focusing specifically on liquidity issues. The Bank faced withdrawal of deposits for several weeks after the liquidity problems of AS Parex banka had been announced officially on 8 November 2008, and on 27 November 2008 the liquidity ratio of "less than 30 days" reached the historically lowest level of 32.1%. Owing to the successful implementation of the measures provided in the plan to overcome the liquidity crisis, the Bank's liquidity ratio rose to 41.32% (50.98%) at the end of 2008.

The FCMC stipulates that the Bank should maintain the sufficient amount of liquid assets to meet its contractual liabilities, but no less than 30% of the Bank's total current liabilities.

Liquidity ratios of the Group and the Bank:

	Group/ Bank			Group/ Bank		
	31/12/2008			31/12/2007		
Liquidity ratio	Highest %	Lowest %	Average %	Highest %	Lowest %	Average %
on demand	44,9	25,2	33,2	36,9	21,0	30,1
less than 30 days (the FCMC stipulates)	57,7	32,1	44,6	54,9	35,6	46,7
less than 90 days	59,1	39,9	48,5	59,0	38,6	50,7

The distribution of the Group's assets, liabilities and memorandum items into maturity bands based on the remaining period of the contractual maturity date as at 31 December 2008:

Assets	Overdue LVL '000	On demand LVL '000	Up to 1 month LVL '000	1-12 months LVL '000	*Up to 1 year, total LVL '000*	1-5 years LVL '000	More than 5 years LVL '000	Undated LVL '000	*More than 1 year, total LVL '000*	Pledged assets LVL '000	Total LVL '000
Cash and demand deposits with central banks	–	57,860			*57,860*	–	–	–	–	–	57,860
Balances due from credit institutions	–	142,496	545	25,339	*168,380*	6,284	–	–	*6,284*	–	174,664
Financial assets at fair value through profit or loss	–	–	2,520	2,079	*4,599*	–	–	–	–	–	4,599
Available-for-sale financial assets	–	–	16,624	3,837	*20,461*	2,506	–	–	*2,506*	12,114	35,081
Loans and receivables	31,426	31,654	21,568	103,365	*188,013*	252,029	226,632	–	*478,661*	3,198	669,872
Other assets	–	44	–	6,612	*6,656*	–	–	33,339	*33,339*	–	39,995
Total assets	**31,426**	**232,054**	**41,257**	**141,232**	***445,969***	**260,819**	**226,632**	**33,339**	***520,790***	**15,312**	**982,071**

Liabilities	Overdue LVL '000	On demand LVL '000	Up to 1 month LVL '000	1-12 months LVL '000	*Up to 1 year, total LVL '000*	1-5 years LVL '000	More than 5 years LVL '000	Undated LVL '000	*More than 1 year, total LVL '000*	Secured by pledge of assets LVL '000	Total LVL '000
Financial liabilities at fair value through profit or loss	–	–	1,731	17,507	*19,238*	–	–	–	–	–	19,238
Financial liabilities at amortised cost	–	392,580	114,154	303,024	*809,758*	27,067	28,943		*56,010*	–	865,768
Other liabilities	–	3,207	–	–	*3,207*	–	–	–	–	–	3,207
Total liabilities	**–**	**396,874**	**115,888**	**320,531**	***833,293***	**27,067**	**28,943**	**–**	***56,010***	**14,600**	**903,903**
Shareholders' equity	–	–	–	–	–	–	–	78,168	*78,168*	–	78,168
Total liabilities and shareholders' equity	**–**	**396,874**	**115,888**	**320,531**	***833,293***	**27,067**	**28,943**	**78,168**	***134,178***	**14,600**	**982,071**
Total memorandum items	**–**	**16,936**	**26**	**8,534**	***25,496***	**14,240**	**15**	**–**	***14,255***	**–**	**39,751**
Net liquidity position	x	(181,756)	(74,657)	(187,833)	*(412,820)*	219,512	197,674	(44,829)	*372,357*	x	x
Total liquidity position	x	(181,756)	(256,413)	(444,246)	*x*	(224,734)	(27,060)	(71,889)	*x*		x

The accompanying notes form an integral part of these consolidated and separate financial statements.

The distribution of the Group's assets, liabilities and memorandum items into maturity bands based on the remaining period of the contractual maturity date as at 31 December 2007:

Assets	Overdue LVL '000	On demand LVL '000	Up to 1 month LVL '000	1-12 months LVL '000	*Up to 1 year, total LVL '000*	1-5 years LVL '000	More than 5 years LVL '000	Undated LVL '000	*More than 1 year, total LVL '000*	Total LVL '000
Cash and demand deposits with central banks	–	63,684	–	–	*63,684*	–	–	–	–	63,684
Balances due from credit institutions	–	164,736	28,498	24,822	*218,056*	5,716	–	–	*5,716*	223,772
Financial assets at fair value through profit or loss	–	83	4,034	835	*4,952*	–	–	–	–	4,952
Available-for-sale financial assets	–	–	84,119	6,030	*90,149*	2,476	–	–	*2,476*	92,625
Loans and receivables	2,292	23,451	12,526	148,394	*186,663*	293,687	206,327	–	*500,014*	686,677
Other assets	–	162	–	1,170	*1,332*	–	–	29,778	*29,778*	31,110
Total assets	**2,292**	**252,116**	**129,177**	**181,251**	***564,836***	**301,879**	**206,327**	**29,778**	***537,984***	**1,102,820**

Liabilities	Overdue LVL '000	On demand LVL '000	Up to 1 month LVL '000	1-12 months LVL '000	*Up to 1 year, total LVL '000*	1-5 years LVL '000	More than 5 years LVL '000	Undated LVL '000	*More than 1 year, total LVL '000*	Total LVL '000
Financial liabilities at fair value through profit or loss	–	–	2,514	6,915	*9,429*	–	–	–	–	9,429
Financial liabilities at amortised cost	–	447,961	140,360	371,160	*959,481*	28,649	9,744	–	*38,393*	997,874
Other liabilities	–	6,325	–	–	*6,325*	–	–	–	–	6,325
Total liabilities	**–**	**459,884**	**142,874**	**378,075**	***980,833***	**28,649**	**9,744**	**–**	***38,393***	**1,019,226**
Shareholders' equity	–	–	–	–	–	–	–	83,594	*83,594*	83,594
Total liabilities and shareholders' equity	**–**	**459,884**	**142,874**	**378,075**	***980,833***	**28,649**	**9,744**	**83,594**	***121,987***	**1,102,820**
Total memorandum items	**–**	**69,958**	**568**	**3,071**	***73,597***	**13,616**	**–**	**–**	***13,616***	**87,213**
Net liquidity position	x	(277,726)	(14,265)	(199,895)	*(489,594)*	259,614	196,583	(53,816)	*402,381*	x
Total liquidity position	x	(277,726)	(291,991)	(491,886)	*x*	(232,272)	(35,689)	(89,505)	*x*	x

The accompanying notes form an integral part of these consolidated and separate financial statements.

The distribution of the Bank's assets, liabilities and memorandum items into maturity bands based on the remaining period of the contractual maturity date as at 31 December 2008:

Assets	Overdue LVL '000	On demand LVL '000	Up to 1 month LVL '000	1-12 months LVL '000	*Up to 1 year, total LVL '000*	1-5 years LVL '000	More than 5 years LVL '000	Undated LVL '000	*More than 1 year, total LVL '000*	Pledged assets LVL '000	Total LVL '000
Cash and demand deposits with central banks	–	57,860	–	–	*57,860*	–	–	–	–	–	57,860
Balances due from credit institutions	–	142,468	545	25,339	*168,352*	6,284	–	–	*6,284*	–	174,636
Financial assets at fair value through profit or loss	–	–	2,520	2,079	*4,599*	–	–	–	–	–	4,599
Available-for-sale financial assets	–	–	16,624	3,837	*20,461*	2,506	–	–	*2,506*	12,114	35,081
Loans and receivables	31,426	31,652	21,568	103,365	*188,011*	252,029	226,632	–	*478,661*	3,198	669,870
Other assets	–	44	–	6,213	*6,257*	–	–	35,084	*35,084*	–	41,341
Total assets	**31,426**	**232,024**	**41,257**	**140,833**	***445,540***	**260,819**	**226,632**	**35,084**	***522,535***	**15,312**	**983,387**

Liabilities	Overdue LVL '000	On demand LVL '000	Up to 1 month LVL '000	1-12 months LVL '000	*Up to 1 year, total LVL '000*	1-5 years LVL '000	More than 5 years LVL '000	Undated LVL '000	*More than 1 year, total LVL '000*	Secured by pledge of assets LVL '000	Total LVL '000
Financial liabilities at fair value through profit or loss	–	–	1,731	17,507	*19,238*	–	–	–	–	–	19,238
Financial liabilities at amortised cost	–	392,708	115,718	300,068	*808,494*	27,067	28,943	–	*56,010*	–	864,504
Other liabilities	–	3,673	–	–	*3,673*	–	–	–	–	–	3,673
Total liabilities	**–**	**397,468**	**117,452**	**317,575**	***832,495***	**27,067**	**28,943**	**–**	***56,010***	**14,600**	**903,105**
Shareholders' equity	–	–	–	–	–	–	–	80,282	*80,282*	–	80,282
Total liabilities and share-holders' equity	**–**	**397,468**	**117,452**	**317,575**	***832,495***	**27,067**	**28,943**	**80,282**	***136,292***	**14,600**	**983,387**
Total memorandum items	**–**	**16,936**	**26**	**8,534**	***25,496***	**14,240**	**15**	**–**	***14,255***	**–**	**39,751**
Net liquidity position	x	(182,380)	(76,221)	(185,276)	*(412,451)*	219,512	197,674	(45,198)	*371,988*	x	x
Total liquidity position	x	(182,380)	(258,601)	(443,877)	*x*	(224,365)	(26,691)	(71,889)	*x*		x

The accompanying notes form an integral part of these consolidated and separate financial statements.

The distribution of the Bank's assets, liabilities and memorandum items into maturity bands based on the remaining period of the contractual maturity date as at 31 December 2007:

Assets	Overdue LVL '000	On demand LVL '000	Up to 1 month LVL '000	1-12 months LVL '000	*Up to 1 year, total LVL '000*	1-5 years LVL '000	More than 5 years LVL '000	Undated LVL '000	*More than 1 year, total LVL '000*	Total LVL '000
Cash and demand deposits with central banks	–	63,684	–	–	*63,684*	–	–	–	–	63,684
Balances due from credit institutions	–	164,729	28,498	24,822	*218,049*	5,716	–	–	*5,716*	223,765
Financial assets at fair value through profit or loss	–	83	4,034	835	*4,952*	–	–	–	–	4,952
Available-for-sale financial assets	–	–	84,119	6,030	*90,149*	2,476	–	–	*2,476*	92,625
Loans and receivables	2,292	23,448	12,526	148,394	*186,660*	293,687	206,327	–	*500,014*	686,674
Other assets	–	162	–	835	*997*	–	–	30,167	*30,167*	31,164
Total assets	**2,292**	**252,106**	**129,177**	**180,916**	***564,491***	**301,879**	**206,327**	**30,167**	***538,373***	**1,102,864**

Liabilities	Overdue LVL '000	On demand LVL '000	Up to 1 month LVL '000	1-12 months LVL '000	*Up to 1 year, total LVL '000*	1-5 years LVL '000	More than 5 years LVL '000	Undated LVL '000	*More than 1 year, total LVL '000*	Total LVL '000
Financial liabilities at fair value through profit or loss	–	–	2,514	6,915	*9,429*	–	–	–	–	9,429
Financial liabilities at amortised cost	–	448,075	141,805	371,160	*961,040*	25,658	9,744	–	*35,402*	996,442
Other liabilities	–	6,132	–	–	*6,132*	–	–	–	–	6,132
Total liabilities	**–**	**459,805**	**144,319**	**378,075**	***982,199***	**25,658**	**9,744**	**–**	***35,402***	**1,017,601**
Shareholders' equity	–	–	–	–	–	–	–	85,263	*85,263*	85,263
Total liabilities and shareholders' equity	**–**	**459,805**	**144,319**	**378,075**	***982,199***	**25,658**	**9,744**	**85,263**	***120,665***	**1,102,864**
Total memorandum items	**–**	**69,958**	**568**	**3,071**	***73,597***	**13,616**	**–**	**–**	***13,616***	**87,213**
Net liquidity position	x	(277,657)	(15,710)	(200,230)	*(491,305)*	262,605	196,583	(55,096)	*404,092*	x
Total liquidity position	x	(277,657)	(293,367)	(493,597)	*x*	(230,992)	(34,409)	(89,505)	*x*	x

The Group and the Bank have prepared these consolidated financial statements on a going concern basis notwithstanding the fact that they have a significant negative liquidity gap in the "on demand" maturity range of assets and liabilities. The Group's and Bank's Management closely monitor and manage the Group's and Bank's liquidity position on a daily basis in accordance with the Group's and Bank's liquidity risk management framework. The negative liquidity gap in "on demand" assets and liabilities as at 31 December 2008 and 2007 is substantially due to significant "on demand" amounts due to customers. According to the past history of the Group and the Bank, customers' deposits are normally held with the Group and the Bank for periods significantly exceeding their stated maturity. The maturity gap analysis does not reflect the historical stability of current accounts. These balances are included in amounts due "on demand". The Group and the Bank have reviewed the historical stability of their current accounts and concluded that half of the balances have the ultimate maturity of more than one year.

The Group and the Bank have considered the risk of being adversely affected by liquidity issues and have taken actions to minimise the negative impact on the Group's and Bank's operations. The Group's and the Bank's ability to avoid adverse changes in their liquidity position is depending on management's effectiveness in the continuing execution of the actions taken.

The assets, which have been impaired, are stated net of provisions.

In estimating the amount of expected financial liabilities, the Group and the Bank have included in the maturity gap analysis also interest payable on financial liabilities and memorandum items effective as at 31 December 2008 and 2007 which is expected in the future but has not been assessed at the balance sheet date.

The table below analyses financial liabilities and memorandum items of the Group and interest which is payable in the future but has not been assessed as at 31 December 2008 into relevant maturity bands based on the remaining period, as at the balance sheet date, to the contractual maturity date:

Financial liabilities	On demand LVL '000	Up to 1 month LVL '000	1–12 months LVL '000	*Up to 1 year, total LVL '000*	1–5 years LVL '000	More than 5 years LVL '000	*More than 1 year, total LVL '000*	Total LVL '000
Demand deposits from credit institutions	1,090	–	–	*1,090*	–	–	–	1,090
Financial liabilities at fair value through profit or loss	–	1,731	17,507	*19,238*	–	–	–	19,238
Financial liabilities at amortised cost	392,252	118,340	309,397	*819,989*	5,983	33,835	*39,818*	859,807
Total financial liabilities	**393,342**	**120,071**	**326,904**	***840,317***	**5,983**	**33,835**	***39,818***	**880,135**
Contingent liabilities	1,504	26	3,537	*5,067*	14,240	15	*14,255*	19,322
Financial commitments	15,432	–	4,997	*20,429*	–	–	–	20,429
Total financial liabilities and memorandum items	**410,278**	**120,097**	**335,438**	***865,813***	**20,223**	**33,850**	***54,073***	**919,886**

The table below analyses financial liabilities and memorandum items of the Group and interest which is payable in the future but has not been assessed as at 31 December 2007 into relevant maturity bands based on the remaining period, as at the balance sheet date, to the contractual maturity date:

Financial liabilities	On demand LVL '000	Up to 1 month LVL '000	1–12 months LVL '000	*Up to 1 year, total LVL '000*	1–5 years LVL '000	More than 5 years LVL '000	*More than 1 year, total LVL '000*	Total LVL '000
Demand deposits from credit institutions	5,598	–	–	*5,598*	–	–	–	5,598
Financial liabilities at fair value through profit or loss	–	2,514	6,915	*9,429*	–	–	–	9,429
Financial liabilities at amortised cost	447,961	142,254	380,019	*970,234*	36,209	13,277	*49,486*	1,019,720
Total financial liabilities	**453,559**	**144,768**	**386,934**	***985,261***	**36,209**	**13,277**	***49,486***	**1,034,747**
Contingent liabilities	1,098	–	3,071	*4,169*	13,616	–	*13,616*	17,785
Financial commitments	68,860	568	–	*69,428*	–	–	–	69,428
Total financial liabilities and memorandum items	**523,517**	**145,336**	**390,005**	***1,058,858***	**49,825**	**13,277**	***63,102***	**1,121,960**

The table below analyses financial liabilities and memorandum items of the Bank and interest which is payable in the future but has not been assessed as at 31 December 2008 into relevant maturity bands based on the remaining period, as at the balance sheet date, to the contractual maturity date:

Financial liabilities	On demand LVL '000	Up to 1 month LVL '000	1–12 months LVL '000	*Up to 1 year, total LVL '000*	1–5 years LVL '000	More than 5 years LVL '000	*More than 1 year, total LVL '000*	Total LVL '000
Demand deposits from credit institutions	1,090	–	–	*1,090*	–	–	–	1,090
Financial liabilities at fair value through profit or loss	–	1,731	17,507	*19,238*	–	–	–	19,238
Financial liabilities at amortised cost	392,124	116,777	306,441	*815,342*	35,983	33,835	*69,818*	885,160
Total financial liabilities	**393,214**	**118,508**	**323,948**	***835,670***	**35,983**	**33,835**	***69,818***	**905,488**
Contingent liabilities	1,504	26	3,537	*5,067*	14,240	15	*14,255*	19,322
Financial commitments	15,432	–	4,997	*20,429*	–	–	–	20,429
Total financial liabilities and memorandum items	**410,150**	**118,534**	**332,482**	***861,166***	**50,223**	**33,850**	***84,073***	**945,239**

The accompanying notes form an integral part of these consolidated and separate financial statements.

The table below analyses financial liabilities and memorandum items of the Bank and interest which is payable in the future but has not been assessed as at 31 December 2007 into relevant maturity bands based on the remaining period, as at the balance sheet date, to the contractual maturity date:

Financial liabilities	On demand LVL '000	Up to 1 month LVL '000	1–12 months LVL '000	*Up to 1 year, total LVL '000*	1–5 years LVL '000	More than 5 years LVL '000	*More than 1 year, total LVL '000*	Total LVL '000
Demand deposits from credit institutions	5,598	–	–	*5,598*	–	–	–	5,598
Financial liabilities at fair value through profit or loss	–	2,514	6,915	*9,429*	–	–	–	9,429
Financial liabilities at amortised cost	448,075	143,687	379,890	*971,652*	33,134	13,097	*46,231*	1,017,883
Total financial liabilities	**453,673**	**146,201**	**386,805**	***986,679***	**33,134**	**13,097**	***46,231***	**1,032,910**
Contingent liabilities	1,098	–	3,071	*4,169*	13,616	–	*13,616*	17,785
Financial commitments	68,860	568	–	*69,428*	–	–	–	69,428
Total financial liabilities and memorandum items	**523,631**	**146,769**	**389,876**	***1,060,276***	**46,750**	**13,097**	***59,847***	**1,120,123**

b) Market risk

In the beginning of 2008, the Bank developed the following models to assess market risk: the VAR (value at risk) model for the trading portfolio and the credit spread model for the investments' held for undefined period portfolio, which is based on the assessment of credit spreads for credit rating classes of securities.

Given the existing situation on the Latvian and global financial markets, when both volatility in prices and spreads are soaring, and the correlation between spreads and ratings has dropped critically under these highly volatile circumstances, the Bank has considered these models irrelevant and does not apply these models anymore.

c) Currency risk

The Group and the Bank are exposed to negative effects of fluctuations in the foreign currency exchange rates on their financial position and cash flows. The exposure to currency risk is calculated for each separate currency and includes assets and liabilities denominated in foreign currencies, as well as cash flows arising from derivatives. The Group and the Bank have major open positions in EUR (euros) and USD (US dollars). Considering that the lat is pegged to the euro, the currency risk related to the Group's and Bank's open position in EUR is minimal. The Group's and Bank's open currency position in USD is also rather small (2008: 5.0% (1.7%) and 4.9% (1.7%) of equity for the Group and the Bank respectively) and, therefore, the effect of changes in the USD exchange rate is insignificant, and the Group and the Bank do not conduct more detailed sensitivity analysis, only controlling this risk by applying the limits specified in the limits policy.

The Bank's limits policy defines major principles for limits application and control; limits for open foreign currency positions stipulate restrictions for each separate currency open position and total open position that are controlled on a daily basis.

The Group's currency position as at 31 December 2008:

Assets	LVL LVL '000	USD LVL '000	EUR LVL '000	RUB LVL '000	Other currencies LVL '000	Total LVL '000
Cash and demand deposits with central banks	53,114	228	4,470	–	48	57,860
Balances due from credit institutions	461	123,067	33,341	3,393	14,402	174,664
Financial assets at fair value through profit or loss	3,831	768	–	–	–	4,599
Available-for-sale financial assets	12,144	19,357	1,369	2,123	88	35,081
Loans and receivables	8,924	85,376	574,567	979	26	669,872
Other assets	34,637	2,289	1,654	1,176	239	39,995
Total assets	**113,111**	**231,085**	**615,401**	**7,671**	**14,803**	**982,071**

Liabilities						
Demand deposits from credit institutions	14,606	788	295	–	1	15,690
Financial liabilities at fair value through profit or loss	7,542	11,696	–	–	–	19,238
Financial liabilities at amortised cost	25,946	429,604	376,796	7,559	25,863	865,768
Other liabilities	2,184	625	368	22	8	3,207
Total liabilities	**50,278**	**442,713**	**377,459**	**7,581**	**25,872**	**903,903**
Shareholders' equity	78,168	–	–	–	–	78,168
Total liabilities and shareholders' equity	**128,446**	**442,713**	**377,459**	**7,581**	**25,872**	**982,071**
Net (short)/ long balance sheet position	**(15,335)**	**(211,628)**	**237,942**	**90**	**(11,069)**	**x**
Off-balance sheet foreign exchange contracts, assets/ (liabilities)	8,684	216,804	(241,729)	–	11,744	x
Net open (short)/ long currency position	**(6,651)**	**5,176**	**(3,787)**	**90**	**675**	**x**
Percentage of shareholders' equity, (%)	**(6,5%)**	**5,0%**	**(3,7%)**	**0,1%**	**0,7%**	**x**

The Group's currency position as at 31 December 2007:

Assets	LVL LVL '000	USD LVL '000	EUR LVL '000	RUB LVL '000	Other currencies LVL '000	Total LVL '000
Cash and demand deposits with central banks	60,454	454	2,638	–	138	63,684
Balances due from credit institutions	331	152,477	37,438	29,202	4,324	223,772
Financial assets at fair value through profit or loss	1,065	3,832	55	–	–	4,952
Available-for-sale financial assets	5,949	78,537	3,946	3,915	278	92,625
Loans and receivables	15,584	54,116	615,641	1,333	3	686,677
Other assets	28,298	1,521	1,157	–	134	31,110
Total assets	**111,681**	**290,937**	**660,875**	**34,450**	**4,877**	**1,102,820**

Liabilities						
Demand deposits from credit institutions	–	3,591	2,007	–	–	5,598
Financial liabilities at fair value through profit or loss	9,122	307	–	–	–	9,429
Financial liabilities at amortised cost	45,004	519,493	401,678	27,586	4,113	997,874
Other liabilities	4,813	882	491	103	36	6,325
Total liabilities	**58,939**	**524,273**	**404,176**	**27,689**	**4,149**	**1,019,226**
Shareholders' equity	83,594	–	–	–	–	83,594
Total liabilities and shareholders' equity	**142,533**	**524,273**	**404,176**	**27,689**	**4,149**	**1,102,820**
Net (short)/ long balance sheet position	**(30,852)**	**(233,336)**	**256,699**	**6,761**	**728**	**x**
Off-balance sheet foreign exchange contracts, assets/ (liabilities)	20,965	231,717	(255,324)	(5,979)	582	x
Net open (short)/ long currency position	**(9,887)**	**(1,619)**	**1,375**	**782**	**1,310**	**x**
Percentage of shareholders' equity, (%)	**(10,5%)**	**(1,7%)**	**1,5%**	**0,8%**	**1,4%**	**x**

The Bank's currency position as at 31 December 2008:

Assets	LVL LVL '000	USD LVL '000	EUR LVL '000	RUB LVL '000	Other currencies LVL '000	Total LVL '000
Cash and demand deposits with central banks	53,114	228	4,470	-	48	57,860
Balances due from credit institutions	461	123,067	33,328	3,393	14,387	174,636
Financial assets at fair value through profit or loss	3,831	768	–	–	–	4,599
Available-for-sale financial assets	12,144	19,357	1,369	2,123	88	35,081
Loans and receivables	8,922	85,376	574,567	979	26	669,870
Other assets	36,000	2,289	1,637	1,176	239	41,341
Total assets	**114,472**	**231,085**	**615,371**	**7,671**	**14,788**	**983,387**
Liabilities						
Demand deposits from credit institutions	14,606	788	295	–	1	15,690
Financial liabilities at fair value through profit or loss	7,542	11,696	–	–	–	19,238
Financial liabilities at amortised cost	27,616	429,604	373,862	7,559	25,863	864,504
Other liabilities	2,650	625	368	22	8	3,673
Total liabilities	**52,414**	**442,713**	**374,525**	**7,581**	**25,872**	**903,105**
Shareholders' equity	80,282	–	–	–	–	80,282
Total liabilities and shareholders' equity	**132,696**	**442,713**	**374,525**	**7,581**	**25,872**	**983,387**
Net (short)/ long balance sheet position	**(18,224)**	**(211,628)**	**240,846**	**90**	**(11,084)**	**x**
Off-balance sheet foreign exchange contracts, assets/ (liabilities)	8,684	216,804	(241,729)	–	11,744	x
Net open (short)/ long currency position	**(9,540)**	**5,176**	**(883)**	**90**	**660**	**x**
Percentage of shareholders' equity, (%)	**(9,1%)**	**4,9%**	**(0,8%)**	**0,1%**	**0,6%**	**x**

The Bank's currency position as at 31 December 2007:

Assets	LVL LVL '000	USD LVL '000	EUR LVL '000	RUB LVL '000	Other currencies LVL '000	Total LVL '000
Cash and demand deposits with central banks	60,454	454	2,638	–	138	63,684
Balances due from credit institutions	331	152,477	37,438	29,200	4,319	223,765
Financial assets at fair value through profit or loss	1,065	3,832	55	–	–	4,952
Available-for-sale financial assets	5,949	78,537	3,946	3,915	278	92,625
Loans and receivables	15,581	54,116	615,641	1,333	3	686,674
Other assets	28,415	1,492	1,123	–	134	31,164
Total assets	**111,795**	**290,908**	**660,841**	**34,448**	**4,872**	**1,102,864**
Liabilities						
Demand deposits from credit institutions	–	3,591	2,007	–	–	5,598
Financial liabilities at fair value through profit or loss	9,122	307	–	–	–	9,429
Financial liabilities at amortised cost	46,568	519,493	398,682	27,586	4,113	996,442
Other liabilities	4,631	876	486	103	36	6,132
Total liabilities	**60,321**	**524,267**	**401,175**	**27,689**	**4,149**	**1,017,601**
Shareholders' equity	85,263	–	–	–	–	85,263
Total liabilities and shareholders' equity	**145,584**	**524,267**	**401,175**	**27,689**	**4,149**	**1,102,864**
Net (short)/ long balance sheet position	**(33,789)**	**(233,359)**	**259,666**	**6,759**	**723**	**x**
Off-balance sheet foreign exchange contracts, assets/ (liabilities)	20,965	231,717	(255,324)	(5,979)	582	x
Net open (short)/ long currency position	**(12,824)**	**(1,642)**	**4,342**	**780**	**1,305**	**x**
Percentage of shareholders' equity, (%)	**(13,3%)**	**(1,7%)**	**4,5%**	**0,8%**	**1,4%**	**x**

The Law on Credit Institutions requires that open positions in each foreign currency may not exceed 10% of equity and that the total foreign currency open position may not exceed 20% of equity.

As at 31 December 2008, the Group and the Bank were in compliance with the above requirements of the Law on Credit Institutions.

The accompanying notes form an integral part of these consolidated and separate financial statements.

d) Interest rate risk

Interest rate risk represents the adverse effect of the market interest rate fluctuations on the Bank's financial performance. The Risk Management Division ensures interest rate risk assessment and management. The Financial Markets Division is responsible for maintaining interest rate risk within specified limits.

Assessment of interest rate risk is conducted striving to cover all risk elements – repricing risk, yield curve risk, basis risk, and option risk.

Interest rate risk is assessed both in terms of income and economic value. The term economic value means the shareholders' equity's economic value that is the difference between the economic value of assets and that of liabilities. For the purposes of assessment of extraordinary circumstances, stress tests are applied.

For the purposes of hedging interest rate risk, the limits of acceptable reduction in economic value and modified duration of the investments' held for undefined period portfolio are fixed. Derivative financial instruments are utilised to hedge interest rate risk.

The assets, liabilities and memorandum items distribution into maturity bands follows such principles:

- financial instruments with a fixed interest rate are presented by the earlier of the repayment/settlement/maturity date;
- financial instruments with a variable interest rate are presented according to next contractual repricing date or interest rate repricing date.

Distribution of current account balances into maturity bands is based on the Bank's historical experience about current account balance sensitivity to changes in interest rates. Derivatives are represented in two entries: the first entry describes the notional amount of the underlying assets, whereas the other one is a compensatory entry showing the opposite value.

The effect of interest rate risk on the economic value is calculated according to the duration method, i.e. the parallel increase in interest rates by 1 per cent (or 100 basis points), while the effect on profit is analysed applying the gap analysis, i.e. analysing the maturity gaps of interest rate sensitive assets and liabilities and aggregating the effect calculated (profit or loss) for each maturity band up to one year.

The following table presents the Group's and Bank's sensitivity to changes in interest rates and the effect of such changes on equity and profit in 2008 and 2007:

		Group/ Bank		Group/ Bank	
		31/12/2008		31/12/2007	
		+100bps LVL '000	–100bps LVL '000	+100bps LVL '000	–100bps LVL '000
Total for all currencies	Effect of changes on equity	(202)	202	(1,945)	1,945
	Effect of changes on profit	(485)	485	(978)	978
USD	Effect of changes on equity	(167)	167	(1,652)	1,652
	Effect of changes on profit	336	(336)	(707)	707
EUR	Effect of changes on equity	(35)	35	(151)	151
	Effect of changes on profit	(960)	960	(513)	513
LVL	Effect of changes on equity	–	–	(141)	141
	Effect of changes on profit	140	(140)	281	(281)

The distribution of the Group's assets and liabilities into maturity bands as at 31 December 2008, based on interest rate changes:

Assets	Up to 1 month LVL '000	1–3 months LVL '000	3–6 months LVL '000	6–12 months LVL '000	1–5 years LVL '000	More than 5 years LVL '000	Non-interest bearing LVL '000	Total LVL '000
Cash and demand deposits with central banks	52,933	–	–	–	–	–	4,927	57,860
Balances due from credit institutions	136,239	3,595	6,967	–	6,282	–	21,581	174,664
Financial assets at fair value through profit or loss	–	–	–	124	454	149	3,872	4,599
Available-for-sale financial assets	99	6,490	1,364	3,466	5,473	1,179	17,010	35,081
Loans and receivables	84,138	77,724	129,525	300,632	63,695	11,318	2,840	669,872
Other assets	–	–	–	–	–	–	39,995	39,995
Total assets	**273,409**	**87,809**	**137,856**	**304,222**	**75,904**	**12,646**	**90,225**	**982,071**
Liabilities								
Demand deposits from credit institutions	15,687	–	–	–	–	–	3	15,690
Financial liabilities at fair value through profit or loss	–	–	–	–	–	–	19,238	19,238
Financial liabilities at amortised cost	497,319	169,602	42,542	82,598	26,572	28,943	18,192	865,768
Other liabilities	–	–	–	–	–	–	3,207	3,207
Total liabilities	**513,006**	**169,602**	**42,542**	**82,598**	**26,572**	**28,943**	**40,640**	**903,903**
Shareholders' equity	–	–	–	–	–	–	78,168	78,168
Total liabilities and shareholders' equity	**513,006**	**169,602**	**42,542**	**82,598**	**26,572**	**28,943**	**118,808**	**982,071**
Futures, sold	–	25,120	–	–	(17,487)	(8,429)	–	(796)
Interest rate repricing maturity gaps	**(239,597)**	**(56,673)**	**95,314**	**221,624**	**31,845**	**(24,726)**	**(28,583)**	**x**

The accompanying notes form an integral part of these consolidated and separate financial statements.

The distribution of the Group's assets and liabilities into maturity bands as at 31 December 2007, based on interest rate changes:

Assets	Up to 1 month LVL '000	1–3 months LVL '000	3–6 months LVL '000	6–12 months LVL '000	1–5 years LVL '000	More than 5 years LVL '000	Non-interest bearing LVL '000	Total LVL '000
Cash and demand deposits with central banks	60,987	–	–	–	–	–	2,697	63,684
Balances due from credit institutions	191,333	3,519	5,786	15,488	5,716	–	1,930	223,772
Financial assets at fair value through profit or loss	–	120	237	114	2,235	1,037	1,209	4,952
Available-for-sale financial assets	8,391	12,192	2,741	2,481	36,466	21,486	8,868	92,625
Loans and receivables	38,099	47,340	87,537	316,927	191,975	65	4,734	686,677
Other assets	–	–	–	–	–	–	31,110	31,110
Total assets	**298,810**	**63,171**	**96,301**	**335,010**	**236,392**	**22,588**	**50,548**	**1,102,820**
Liabilities								
Demand deposits from credit institutions	5,588	–	–	–	–	–	10	5,598
Financial liabilities at fair value through profit or loss	–	–	–	–	–	–	9,429	9,429
Financial liabilities at amortised cost	583,571	189,762	40,947	136,056	21,876	13,423	12,239	997,874
Other liabilities	–	–	–	–	–	–	6,325	6,325
Total liabilities	**589,159**	**189,762**	**40,947**	**136,056**	**21,876**	**13,423**	**28,003**	**1,019,226**
Shareholders' equity	–	–	–	–	–	–	83,594	83,594
Total liabilities and shareholders' equity	**589,159**	**189,762**	**40,947**	**136,056**	**21,876**	**13,423**	**111,597**	**1,102,820**
Futures, sold	–	44,476	–	–	(29,278)	(15,450)	–	(252)
Interest rate repricing maturity gaps	**(290,349)**	**(82,115)**	**55,354**	**198,954**	**185,238**	**(6,285)**	**(61,049)**	**x**

The accompanying notes form an integral part of these consolidated and separate financial statements.

The distribution of the Bank's assets and liabilities into maturity bands as at 31 December 2008, based on interest rate changes:

Assets	Up to 1 month LVL '000	1–3 months LVL '000	3–6 months LVL '000	6–12 months LVL '000	1–5 years LVL '000	More than 5 years LVL '000	Non-interest bearing LVL '000	Total LVL '000
Cash and demand deposits with central banks	52,933	–	–	–	–	–	4,927	57,860
Balances due from credit institutions	136,211	3,595	6,967	–	6,282	–	21,581	174,636
Financial assets at fair value through profit or loss	–	–	–	124	454	149	3,872	4,599
Available-for-sale financial assets	99	6,490	1,364	3,466	5,473	1,179	17,010	35,081
Loans and receivables	84,136	77,724	129,525	300,632	63,695	11,318	2,840	669,870
Other assets	–	–	–	–	–	–	41,341	41,341
Total assets	**273,379**	**87,809**	**137,856**	**304,222**	**75,904**	**12,646**	**91,571**	**983,387**
Liabilities								
Demand deposits from credit institutions	15,687	–	–	–	–	–	3	15,690
Financial liabilities at fair value through profit or loss	–	–	–	–	–	–	19,238	19,238
Financial liabilities at amortised cost	494,491	171,166	42,542	82,598	26,572	28,943	18,192	864,504
Other liabilities	–	–	–	–	–	–	3,673	3,673
Total liabilities	**510,178**	**171,166**	**42,542**	**82,598**	**26,572**	**28,943**	**41,106**	**903,105**
Shareholders' equity	–	–	–	–	–	–	80,282	80,282
Total liabilities and shareholders' equity	**510,178**	**171,166**	**42,542**	**82,598**	**26,572**	**28,943**	**121,388**	**983,387**
Futures, sold	–	25,120	–	–	(17,487)	(8,429)	–	(796)
Interest rate repricing maturity gaps	**(236,799)**	**(58,237)**	**95,314**	**221,624**	**31,845**	**(24,726)**	**(29,817)**	**x**

The accompanying notes form an integral part of these consolidated and separate financial statements.

The distribution of the Bank's assets and liabilities into maturity bands as at 31 December 2007, based on interest rate changes:

Assets	Up to 1 month LVL '000	1–3 months LVL '000	3–6 months LVL '000	6–12 months LVL '000	1–5 years LVL '000	More than 5 years LVL '000	Non-interest bearing LVL '000	Total LVL '000
Cash and demand deposits with central banks	60,987	–	–	–	–	–	2,697	63,684
Balances due from credit institutions	191,326	3,519	5,786	15,488	5,716	–	1,930	223,765
Financial assets at fair value through profit or loss	–	120	237	114	2,235	1,037	1,209	4,952
Available-for-sale financial assets	8,391	12,192	2,741	2,481	36,466	21,486	8,868	92,625
Loans and receivables	38,099	47,340	87,537	316,927	191,975	65	4,731	686,674
Other assets	–	–	–	–	–	–	31,164	31,164
Total assets	**298,803**	**63,171**	**96,301**	**335,010**	**236,392**	**22,588**	**50,599**	**1,102,864**
Liabilities								
Demand deposits from credit institutions	5,588	–	–	–	–	–	10	5,598
Financial liabilities at fair value through profit or loss	–	–	–	–	–	–	9,429	9,429
Financial liabilities at amortised cost	580,682	190,763	40,947	136,515	21,876	13,423	12,236	996,442
Other liabilities	–	–	–	–	–	–	6,132	6,132
Total liabilities	**586,270**	**190,763**	**40,947**	**136,515**	**21,876**	**13,423**	**27,807**	**1,017,601**
Shareholders' equity	–	–	–	–	–	–	85,263	85,263
Total liabilities and shareholders' equity	**586,270**	**190,763**	**40,947**	**136,515**	**21,876**	**13,423**	**113,070**	**1,102,864**
Futures, sold	–	44,476	–	–	(29,278)	(15,450)	–	(252)
Interest rate repricing maturity gaps	**(287,467)**	**(83,116)**	**55,354**	**198,495**	**185,238**	**(6,285)**	**(62,471)**	**x**

33. Non-financial risks

During the course of their operations, the Group and the Bank encounter also non-financial risks (including operational risk, reputational risk, etc.) with exposure to sudden loss. The cause of such risks may be, for instance, clerical errors or fraud, breakdowns in information systems, insufficient internal control and procedures, etc. The Bank makes every effort to maintain the lowest possible risk level, meanwhile striving at not exceeding a reasonable level of expense. Internal control within the Bank's structural units and the control exercised by the Risk Management Division are one of the measures taken to prevent the potential loss.

Operational risk

Operational risk is a risk of direct or indirect loss caused by non-complying or incomplete internal processes, human error or systems failure, as well as external factors. Operational risk comprises legal risk but excludes strategic and reputational risk.

Operational risk is inherent in all products, activities, processes, and systems of the Group and the Bank.

The operational risk management policy is approved by the Council of the Bank. The Board of the Bank is responsible for considering the risk analysis results and setting limits and other qualitative and quantitative indicators based on such results, so defining the level of operational risk acceptable for the Group and the Bank. The Chief Risk Officer (CRO) is responsible for monitoring the operational risk management process and making related final decisions within the limits fixed in the policy. The Risk Management Division is responsible for the centralisation and coordination of the operational risk management.

Given that businesses and processes for which operational risk is being assessed are different and specific, each risk event management is a responsibility of the head of a respective structural unit, according to the relevant internal regulations.

In 2008, the Bank revised and optimised the operational risk management environment, defining the key efficiency principles:
- setting up an adequate operational risk management system;
- employing an adequate method to identify and assess operational risk;
- monitoring operational risk on a regular basis;
- controlling and/ or mitigating operational risk adequately;
- ensuring business continuity.

After the introduction of the new policy, in September 2008 an operational risk event database was established. The key objectives of the database are as follows:

- collection of data about operational risk events and losses of the Group and the Bank;
- analysis of operational risk events and losses;
- assessment of the frequency of operational risk events and significance of operational risk losses;
- prevention of potential losses, based on the event assessment;
- definition of the major tendencies and making forecasts of future operational risk losses.

Information is registered and categorised in the database following the good practice principles defined by the Operational Risk-data eXchange Association (ORX). In addition to events resulting in actual losses, information about events for which no actual losses have been registered is also aggregated in the database, which will enable the Bank to identify potential losses and take all required measures to prevent such losses.

By the end of the reporting period, approximately 400 events had been registered in the database, of which only 22 events were those which resulted in actual losses in the amount of LVL 21 thousand.

34. Litigation and claims

In the ordinary course of business, the Bank has been involved in a number of legal proceedings to recover outstanding credit balances and maintain collaterals, as well as other proceedings related to specific transactions. The Management believe that any legal proceedings pending as at 31 December 2008 will not result in material losses for the Bank and/ or the Group.

35. Events after balance sheet date

As of the last day of the reporting year until the date of signing these consolidated and separate financial statements there have been no events requiring adjustment of or disclosure in the consolidated and separate financial statements or notes thereto.

On 10 February 2009, the Bank repaid a syndicated loan of EUR 70 million. The payment was transferred to the deposit account of the loan arranger DZ Bank AG (Germany) in January 2009.

In January 2009, the Bank increased the subsidiary's SIA AB.LV "Transform Investment" share capital by LVL 3 million.

ERNST & YOUNG
Quality In Everything We Do

To the shareholders of AS Aizkraukles banka

Report on the Financial Statements

We have audited 2008 consolidated financial statements of AS Aizkraukles banka and its subsidiaries (hereinafter – the Group) and the accompanying financial statements of AS Aizkraukles banka (hereinafter – the Bank), which are set out on pages 8 through 65 of the accompanying 2008 Consolidated Annual Report and which comprise the balance sheet as at 31 December 2008, the statements of income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

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

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

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

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

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

Without qualifying our opinion, we draw attention to Note 2 to the consolidated financial statements which also refer to pages 2 to 5 of the Report of the Board and the Council, which discusses the preparation of the financial statements on the going concern assumption basis in the light of the current market financial and economic uncertainties in Latvia.

Report on Compliance of the Management Report

Furthermore, we have read the Management Report for the year ended 31 December 2008 (included on pages 2 through 5 of the accompanying 2008 Consolidated Annual Report) and have not noted any material inconsistencies between the financial information included in it and the consolidated financial statements for the year ended 31 December 2008.

Ernst & Young Baltic SIA
License No. 17

Diāna Krišjāne
Chairwoman of the Board
Latvian Sworn Auditor
Certificate No. 124

Riga, 26 February 2009