RIETUMU Banka AS

Financial Statements

for the year ended 31 December 2008

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Report of Council and Management Board

Operating results

Despite the crisis in world financial markets, including Latvia, Rietumu Bank continued to develop efficiently maintaining its leading positions in the Baltic banking sector. The Bank's indisputably conservative strategy resulted in impressive financial indicators, including one of the highest profit figures in the Latvian financial sector.

Opening of the Bank's new headquarters *Rietumu Capital Centre* was among the most significant events of 2008. This modern building is heralded as the first Class A+++ development, having no equivalent in Riga. All structural divisions are now located in Rietumu Capital Centre, where customers can avail themselves of the Bank's comprehensive array of financial services.

In August 2008, Rietumu Bank successfully attracted yet another non-collateral syndicated loan in the amount of EUR75 million. The syndicated loan was granted for one year at EURIBOR + 0.95% by a consortium of leading European and American banks. Among the banks extending the non-secured syndication are JP Morgan, Commerzbank AG, HSH Nordbank, WestLB AG and Raiffeisen Bank. This deal, at a time when credit resources are becoming scarce and its prices are globally rising, shows the strong confidence that international financial organisations have in Rietumu Bank. At the year-end, in compliance with the loans repayment schedule, Rietumu Bank paid off the largest tranche – EUR 44 million – of the syndicated loan arranged by the European Bank for Reconstruction and Development (EBRD) attracted in 2005.

Rietumu Bank continued to develop new products and services. RB Asset Management, the Bank's fully-owned subsidiary, started to offer a comprehensive range of services relating to asset management and equity investments in global financial markets, including their own investment fund, international investment funds portfolios and capital-protected structured notes. International investment funds portfolios consist of leading Western investment enterprises, possessing a long-term experience in assets management and funds, including Franklin Templeton and Raiffeisen Capital Management. A capital-protected structured note is a new product developed by RB Asset Management specialists. It is a hybrid security combining features of fixed income and equity securities.

Pursuing the strategy of international expansion and geographic diversification, in the first half of 2008 Rietumu Bank acquired 50% of WestLeasing Group, a leasing company operating in Belarus and Russia. The Bank became a co-owner of two Belarusian companies – WestLeasing Ltd and WestTransInvest Ltd – and the Moscow-based WestLeasing-M Ltd. Along with the acquisition of the 50% equity stake in WestLeasing Group, the Bank gained control of the Group's Council, operational activity and the Group's strategic development. WestLeasing is planning further expansion within the CIS market.

In the second half of the year, Rietumu Bank's subsidiary brokerage company IBS RB Securities (Latvia) completed a buyout deal with the Ukrainian brokerage company "Oschadna" (ukr. 'Savings Company') acquiring 67% of the company's capital. Hence, Rietumu Group is now present and will actively work in the developing financial market of Ukraine offering its customers new financial investment opportunities and enlarging its customer base in Ukraine.

Rietumu Bank continued to actively undertake its sponsorship activities, raising funds for a number of significant social, healthcare and cultural projects. In 2008, Rietumu Bank's Charity Fund reviewed more than 500 project applications in healthcare, childcare, education, arts and culture. 77 projects were implemented and the amount of sponsorship totalled 500,000 Latvian lats (LVL), the largest part of which was donated by Rietumu Bank.

Financial results of the Bank

	2008	2007	2006	2005
At year end (LVL'000)				
Total assets	1,117,276	1,226,059	931,214	703,825
Loans and receivables from customers	571,057	598,699	373,633	248,313
Other interest earning assets (bonds)	170,919	98,181	90,307	79,352
Due to customers	670,611	885,879	670,016	572,926
Total shareholder's equity	132,497	122,210	96,151	71,571
For the year (LVL'000)				
Net profit before tax	23,411	40,290	33,968	28,497
Net profit after tax	20,494	34,755	29,622	25,488
Operating income	67,750	64,565	54,387	46,215
Ratios				
Earnings per share (LVL)				
After tax	0.91	1.54	1.32	1.13
Before tax	1.04	1.79	1.51	1.27
Dividend per share (LVL)	0.228	0.39	0.33	0.225
Return on equity				
Before tax	18.38%	36.90%	40.51%	51.76%
After tax	16.09%	31.83%	35.32%	46.29%
Return on assets				
Before tax	2.10%	3.29%	3.65%	4.05%
After tax	1.83%	2.83%	3.18%	3.62%
Capital adequacy ratio	14.72%	14.04%	14.85%	13.99%
Profit margin	34%	62%	62%	62%
Number of employees	648	631	657	648

STATEMENT OF MANAGEMENT RESPONSIBILITY

The management of Rietumu Bank (Bank) is responsible for the preparation of the financial statements of the Bank.

The Bank's financial statements on pages 9 to 71 are prepared in accordance with the source documents and present fairly the financial position of the Bank as of 31 December 2008 and the results of its operations and cash flows for the year ended 31 December 2008. The financial position of the Bank as of 31 December 2007 and the results of its operations and cash flows for the year ended 31 December 2007 are also fairly represented.

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

The Management of Rietumu Bank is responsible for the maintenance of proper accounting records, the safeguarding of the Bank's assets and the prevention and detection of fraud and other irregularities in the Bank. The Management is also responsible for operating the Bank in compliance with the Law on Credit Institutions, regulations of the Finance and Capital Markets Commission and other legislation of the Republic of Latvia applicable institutions.

On behalf of the Management of the Bank:

Arkady Suharenko	Alexander Kalinovsky
Deputy Chairman of the Council	Chairman of the Executive Board

Riga, 16 February 2009

During the year and as of the date of the signing of the financial statements:

The Council of Rietumu Bank

31 December 2007 – 13 August 2008

Name	*Position*	*Date of appointment*
Leonid Esterkin	Chairman of the Council	15/04/98(15/09/06-15/09/09)
Arkady Suharenko	Deputy Council Chairman	15/04/98(15/09/06-15/09/09)
Murphy Brendan Thomas	Deputy Council Chairman	16/09/05(15/09/06-15/09/09)
Dermot Desmond	Member of the Council	16/09/05(15/09/06-15/09/09)
Vitali Lipanov	Member of the Council	16/09/05(15/09/06-15/09/09)
Michael Joseph Bourke	Member of the Council	16/09/05(15/09/06-15/09/09)
Valentin Bluger	Member of the Council	16/09/05(15/09/06-15/09/09)

The Council of Rietumu Bank

13 August 2008 – 31 December 2008

Name	*Position*	*Date of appointment*
Leonid Esterkin	Chairman of the Council	15/04/98(15/09/06-15/09/09)
Arkady Suharenko	Deputy Council Chairman	15/04/98(15/09/06-15/09/09)
Murphy Brendan Thomas	Deputy Council Chairman	16/09/05(15/09/06-15/09/09)
Dermot Desmond	Member of the Council	16/09/05(15/09/06-15/09/09)
Vitali Lipanov	Member of the Council	16/09/05(15/09/06-15/09/09)
Rolf Fuls	Member of the Council	13/08/08(13/08/08-15/09/09)
Valentin Bluger	Member of the Council	16/09/05(15/09/06-15/09/09)

The Board of Directors

31 December 2007 – 31 December 2008

Name	*Position*	*Date of appointment*
Alexander Kalinovsky	Chairman of the Executive Board, President	20/07/06(20/07/06-20/07/09)
Alexander Pankov	Member of the Executive Board, First Vice President	20/07/06(20/07/06-20/07/09)
Janis Muizhnieks	Member of the Executive Board, Senior Vice President	20/07/06(20/07/06-20/07/09)
Dmitry Pyshkin	Member of the Executive Board, Senior Vice President	20/07/06(20/07/06-20/07/09)

There were no changes in the Board of Directors of the Bank during the period beginning December 31, 2008 through to the date of the signing of these financial statements.

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Independent Auditors' Report

To the shareholders of AS "Rietumu Banka"

Report on the Financial Statements

We have audited the accompanying financial statements of AS Rietumu Banka ("the Bank"), which comprise the balance sheet as at 31 December 2008, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 9 to 71.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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 relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free of 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 our 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, we consider 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 principles 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 opinion.

Opinion

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

Report on Other Legal and Regulatory Requirements

In addition, our responsibility is to assess whether the accounting information included in the Report of Council and Management Board, as set our on pages 3 to 4, the preparation of which is the responsibility of management, is consistent with the financial statements. Our work with respect to the Management report was limited to the aforementioned scope and did not include a review of any information other than drawn from the financial statements of the Bank. In our opinion, the management report is consistent with the financial statements.

KPMG Baltics SIA
License No 55

Stephen Young
Chairman of the Board
Riga, Latvia
16 February 2009

Inga Lipšāne
Sworn Auditor
Certificate No 112

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

INCOME STATEMENT
For the year ended 31 December 2008

	Note	2008 '000 LVL	2007 '000 LVL
Interest income	6	64,686	58,139
Interest expense	6	(26,515)	(21,866)
Net interest income		**38,171**	**36,273**
Fee and commission income	7	17,576	15,869
Fee and commission expense	8	(4,006)	(4,539)
Net fee and commission income		**13,570**	**11,330**
Net gain/(loss) on financial instruments at fair value through profit or loss	9	(1,996)	1,025
Net foreign exchange income	10	11,414	10,754
Net realized gain on available-for-sale assets		159	-
Other income	11	6,432	5,183
Operating Income		**67,750**	**64,565**
Impairment losses	12	(22,158)	(2,398)
General administrative expenses	13	(22,181)	(21,877)
Profit before income tax		**23,411**	**40,290**
Income tax expense	14	(2,917)	(5,535)
Net profit for the period		**20,494**	**34,755**

The income statement is to be read in conjunction with the Notes to, and forming part of, the financial statements set out on pages 13 to 71.

Deputy Chairman of the Council
Arkady Suharenko

Chairman of the Board
Alexander Kalinovsky

BALANCE SHEET
As at 31 December 2008

	Note	2008 ’000 LVL	2007 ’000 LVL
ASSETS			
Cash and balances with the central bank	15	45,547	66,310
Financial instruments at fair value through profit or loss	17	154,314	77,168
Loans and receivables from banks	16	237,313	404,506
Loans and receivables from customers	18	571,057	598,699
Available-for-sale assets	19	10,779	234
Held-to-maturity investments	20	20,869	23,934
Investments in subsidiaries	21	16,197	14,304
Property and equipment	22	5,684	32,015
Intangible assets	23	3,135	2,977
Investment property	24	5,100	-
Assets held for sale	25	38,268	-
Other assets	26	9,013	5,912
Total Assets		**1,117,276**	**1,226,059**
LIABILITIES AND SHAREHOLDERS’ EQUITY			
Financial instruments at fair value through profit or loss	17	511	418
Deposits and balances from banks	27	153,708	159,534
Current accounts and deposits from customers	28	670,611	885,879
Amounts payable under repurchase agreements		150,097	51,037
Provisions	35	387	378
Other borrowed funds	29	1,299	-
Deferred tax liability	31	595	1,287
Other liabilities	30	7,571	5,316
Total Liabilities		**984,779**	**1,103,849**
Share capital	32	22,500	22,500
Share premium	32	4,809	4,809
Revaluation reserve		1,835	3,284
Other reserves		16	16
Retained earnings		103,337	91,601
Total Shareholders’ Equity		**132,497**	**122,210**
Total Liabilities and Shareholders’ Equity		**1,117,276**	**1,226,059**
Commitments and Contingencies		71,302	79,315

The balance sheet is to be read in conjunction with the Notes to, and forming part of, the financial statements set out on pages 13 to 71.

Deputy Chairman of the Council
Arkady Suharenko

Chairman of the Board
Alexander Kalinovsky

STATEMENT OF CASH FLOW **For the year ended 31 December 2008**	**Note**	**2008** **'000 LVL**	**2007** **'000 LVL**
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before income tax		23,411	40,290
Amortization and depreciation		1,888	1,895
Loss on disposal of property		274	(4,039)
Impairment losses		22,158	2,398
Increase in cash and cash equivalents before changes in assets and liabilities, as a result of ordinary operations		**47,731**	**40,544**
Decrease in loans and receivables from banks – term deposits		119,851	24,913
(Decrease)/Increase in loans and receivables from non-banking customers		17,850	(227,208)
(Increase)/decrease in assets available-for-sale investments		(10,545)	543
Increase in financial instruments at fair value through profit or loss		(100,053)	(40,432)
Increase in derivative liabilities		93	136
Increase in provisions		-	378
Increase in other assets		(1,581)	(890)
Increase in deposit from banks – term deposits		7,036	22,856
(Decrease)/Increase in deposits from non-banking customers		(215,268)	215,863
Increase in amounts payable under repurchase agreements		99,060	18,716
Increase in other liabilities		2,563	709
(Decrease)/Increase in cash and cash equivalents from operating activities before corporate income tax		**(33,263)**	**56,128**
Corporate income tax paid		(7,543)	(6,024)
Net cash and cash equivalents from/(used in) operating activities		**(40,806)**	**50,104**
CASH FLOW FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment		(7,806)	(19,358)
Purchase of equity investments in other entities and acquisition of subsidiaries		(1,893)	(349)
Decrease in held-to-maturity investments		2,738	33,572
Proceeds from sale of property, plant and equipment		-	6,423
Cash and cash equivalents from investing activities		**(6,961)**	**20,288**
CASH FLOW FROM FINANCING ACTIVITIES			
Increase in borrowed funds		1,299	-
Dividends paid		(8,775)	(7,425)
Cash and cash equivalents used in financing activities		**(7,476)**	**(7,425)**
Net cash flow for the period		**(55,243)**	**62,967**
Cash and cash equivalents at the beginning of the year		**326,052**	**263,085**
Cash and cash equivalents at the end of the year	33	**270,809**	**326,052**

The statement of cash flow is to be read in conjunction with the Notes to, and forming part of, the financial statements set out on pages 13 to 71.

Deputy Chairman of the Council
Arkady Suharenko

Chairman of the Board
Alexander Kalinovsky

STATEMENT OF CHANGES IN THE SHAREHOLDERS' EQUITY
For the year ended 31 December 2008

	Share capital '000 LVL	Share premium '000 LVL	Revaluation reserve '000 LVL	Other reserves '000 LVL	Retained earnings '000 LVL	Total equity '000 LVL
Balance at 1 January 2007	22,500	4,809	4,623	16	64,203	**96,151**
Net profit for the period	-	-	-	-	34,755	**34,755**
Currency translation differences			-	-		
Transfers	-	-	(59)	-	68	**9**
Revaluation and disposal of property and equipment, net of deferred tax of 15%	-	-	(1,280)	-	-	**(1,280)**
Total	**-**	**-**	**(1,339)**	**-**	**34,823**	**33,484**
Dividends paid	-	-	-	-	(7,425)	**(7,425)**
Balance at 31 December 2007	**22,500**	**4,809**	**3,284**	**16**	**91,601**	**122,210**
Net profit for the period	-	-	-	-	20,494	**20,494**
Transfers	-	-	(17)	-	17	**-**
Revaluation of property and equipment, net of deferred tax of 15%	-	-	(1,432)	-	-	**(1,432)**
Total	**-**	**-**	**(1,449)**	**-**	**20,511**	**19,062**
Dividends declared	-	-	-	-	(8,775)	**(8,775)**
Balance at 31 December 2008	**22,500**	**4,809**	**1,835**	**16**	**103,337**	**132,497**

The statement of changes in the shareholders' equity is to be read in conjunction with the Notes to, and forming part of, the financial statements set out on pages 13 to 71.

Deputy Chairman of the Council
Arkady Suharenko

Chairman of the Board
Alexander Kalinovsky

1 Background

Principal activities

AS "Rietumu Bank" was established in the Republic of Latvia as a Joint Stock Company and was granted its general banking license in 1992. The principal activities of the Bank are deposit taking and customer accounts maintenance, lending and issuing guarantees, cash and settlement operations and operations with securities and foreign exchange. The activities of the Bank are regulated by the Bank of Latvia and the Financial and Capital Market Commission ("FCMC"). The registered address of the Bank's head office is Vesetas Street 7, Riga, Latvia. The average number of people employed by the Bank during the year was 648 (2007: 631).

2 Basis of preparation

(a) Statement of compliance

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

The local accounting legislation requires the Bank to prepare separate financial statements in accordance with IFRS as adopted by the European Union. The Bank also prepares consolidated financial statements for the same period in accordance with IFRS as adopted by the European Union.

The financial statements were authorized for issue by the Board of Directors on February 16, 2009. The financial statement may be amended by the shareholders.

(b) Basis of measurement

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

- financial instruments stated at fair value through profit or loss are stated at fair value;

- derivatives are stated at fair value;

- available-for-sale assets are stated at fair value;

- buildings which are revalued periodically;

- non-current assets held for sale which are stated at the lower of cost and fair value;

- investment property which is stated at fair value.

(c) Functional and Presentation Currency

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

3 Significant accounting policies

The following significant accounting policies have been applied in the preparation of the financial statements. The accounting policies have been consistently applied.

(a) Foreign currency transactions

Transactions in foreign currencies are translated into the functional currency of the Bank at the exchange rate set by Bank of Latvia at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated into the functional currency at the spot exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated into the functional currency at the spot exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments or a financial liability designated as the hedging instrument in a hedge of the net investment in a foreign operation or in a qualifying cash flow hedge, which are recognised directly in equity.

(b) Investment in subsidiaries

Investments in subsidiaries are valued at cost less any impairment losses.

(c) Goodwill

Goodwill represents the excess of the cost of a business combination over the Bank's interest in the fair value of the net identifiable assets and contingent liabilities of the acquisition at the date of acquisition. Goodwill on acquisitions of business operation is included in intangible assets.

Goodwill is allocated to cash-generating units and is stated at cost less impairment losses.

Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of a business acquisition include the carrying amount of goodwill relating to assets sold.

Negative goodwill arising on an acquisition is recognised immediately in the statement of income.

3 Significant accounting policies, continued

(d) Cash and cash equivalents

For the purpose of presentation in the statement of cash flows, cash and cash equivalents are defined as the following:

+ Cash and balances with central bank;

+ Demand deposits due from other banks

+ Demand deposits due to other banks

(e) Financial instruments

(i) Classification

Financial instruments are classified into the following categories:

Financial instruments at fair value through profit or loss are financial assets or liabilities that are acquired or incurred principally for the purpose of selling or repurchasing in the near term, or that are part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking or that are designated to this category at initial recognition.

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

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

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those that:

– the Bank intends to sell immediately or in the near term;

– the Bank upon initial recognition designates as at fair value through profit or loss;

– the Bank upon initial recognition designates as available- for-sale; or

– the Bank may not recover substantially all of its initial investment, other than because of credit deterioration.

Loans and receivables include regular loans and credit card balances.,

3 Significant accounting policies, continued

(e) Financial instruments, continued

Liabilities at amortised cost include deposits and balances with Central Bank, deposits and balances from banks and current accounts and deposits from customers.

Change in accounting policy

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

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

- If the financial asset would not have met the definition of loans and receivables, then it may be reclassified out of the trading category only in ‘rare circumstances’.

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

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

The Bank reclassified certain non derivative financial assets during the year. For further details see Note 17.

(ii) Recognition

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

(iii) Measurement

A financial asset or liability is initially measured at its fair value and, except for a financial asset or liability at fair value through profit or loss, includes transaction costs that are directly attributable to the acquisition or issue of the financial asset or liability.

Subsequent to initial recognition, financial assets other than loans and receivables, held to maturity bonds, equity investments at cost are measured at their fair values, without any deduction for transaction costs that may be incurred on sale or other disposal.

3 Significant accounting policies, continued

(e) Financial instruments, continued

Held-to-maturity investments and loans and receivables are measured at amortized cost using the effective interest method;

Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost; and

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

(iv) Fair value measurement principles

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

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

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

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

3 Significant accounting policies, continued

(e) Financial instruments, continued

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

(v) Gains and losses on subsequent measurement

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

- a gain or loss on a financial instrument classified as at fair value through profit or loss is recognised in the income statement;

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

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

(vi) Derecognition

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

(vii) Repurchase and reverse repurchase agreements

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

3 Significant accounting policies, continued

(e) Financial instruments, continued

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

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

(viii) Derivative financial instruments

Derivative financial instruments include swap, forward, futures, and options in interest rate, foreign exchange, precious metals and stock markets, and any combinations of these instruments. The Bank classifies all derivative financial instruments as trading.

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. All derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative.

Changes in the fair value of derivatives are recognised immediately in the income statement.

Derivatives may be embedded in another contractual arrangement (a "host contract"). The Bank accounts for an embedded derivative separately from the host contract when the host contract is not itself carried at fair value through profit or loss, the terms of the embedded derivative would meet the definition of a derivative if they were contained in a separate contract, and the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract.

(ix) Offsetting

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

(f) Property and equipment

(i) Owned assets

Items of property and equipment are stated at cost less accumulated depreciation and impairment losses, except for buildings which are stated at revalued amounts as described below.

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

3 Significant accounting policies, continued

(f) Property and equipment, continued

(ii) Leased assets

Leases under which the Bank assumes substantially all the risks and rewards of ownership are classified as finance leases. Equipment acquired by way of finance lease is stated at an amount equal to the lower of its fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and impairment losses.

(iii) Revaluation

Land and buildings of the Bank are subject to revaluation on a regular basis. The frequency of revaluation depends upon the movements in the fair values of the land and buildings being revalued. A revaluation increase on an item of land and building is recognised directly in equity except to the extent that it reverses a previous revaluation decrease recognised in the income statement, in which case it is recognised in the income statement. A revaluation decrease on an item of land or buildings is recognised in the income statement except to the extent that it reverses a previous revaluation increase recognised directly in equity, in which case it is recognised directly in equity.

(iv) Depreciation

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

Buildings	50 years
Equipment	2.5 to 4 years
Furniture	8 years
Vehicles	2.5 to 5 years
Computer software	5 years

(g) Investment property

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business or services or for administrative purposes. The Bank classified certain buildings to investment property as a consequence of a decision to relocate the majority of its staff to one central location into a recently constructed building. Investment property is measured at fair value with any change therein recognised in profit or loss in other operating income.

(h) Non-current assets held for sale

The Bank classifies non-current assets as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. The Bank measures assets classified as held for sale at the lower of their carrying amount and fair value less costs to sell.

3 Significant accounting policies, continued

(h) Non-current assets held for sale, continued

If the borrower fails to fulfil the contractual obligations, the Board of Directors may decide that loan agreement will be terminated and that the right to collateral pledged as security will be exercised. According to Latvia law, the Bank cannot take over the title of the asset pledge, but can initiate the sale, proceeds of which will be used to repay or partly repay the outstanding loan receivable. As the bank is taking over the constructive title to the asset, the Bank classifies the asset as non-current asset held-for-sale.

(i) Intangible assets

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

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

(j) Impairment

(i) Financial assets

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

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

All Loans and receivables from customers and held-to-maturity investment securities are assessed for specific impairment. Accordingly, the Bank does not set aside a collective impairment allowance on loans and receivables from customers and held-to-maturity investment securities.

Loans and receivables are stated in the balance sheet at amortized cost, less any impairment allowances. Impairment losses and recoveries are recognised monthly based on regular loan reviews. Allowances during the period are reflected in the income statement.

3 Significant accounting policies, continued

(j) Impairment, continued

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

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

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

(ii) Non-financial assets

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

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

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

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

3 Significant accounting policies, continued

(k) Provisions

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

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

(l) Credit related commitments

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

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

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

Financial guarantee liabilities and provisions for other credit related commitments are included within other liabilities.

(m) Taxation

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

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

Deferred tax is provided for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries to the extent that they probably will not reverse in the foreseeable future.

3 Significant accounting policies, continued

(m) Taxation, continued

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

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

(n) Income and expense recognition

With the exception of financial assets held for trading and other financial instruments at fair value through profit or loss, interest income and expense are recognised in the income statement using the effective interest method. Interest income on financial assets held for trading and on other financial instruments at fair value through profit or loss comprises coupon interest only. Accrued discounts and premiums on financial instruments at fair value through profit or loss are recognised in gains less losses from financial instruments at fair value through profit or loss, respectively.

Loan origination fees together with the related direct costs, are deferred and amortized to the interest income over the estimated life of the financial instrument using the effective interest rate method.

A release of liability is recognised in the income statement when there is a legal or constructive evidence that the Bank no longer has any liability outstanding.

Other fees, commissions and other income and expense items are recognised when the corresponding service has been provided.

(o) Dividends

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

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

(p) Employee benefits

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

3 Significant accounting policies, continued

(q) New Standards and Interpretations not yet adopted

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

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

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

Revised *IFRS 3 Business Combinations (2008)* incorporate the following changes:

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

Revised IFRS 3, which becomes mandatory for the Bank's 2010 consolidated financial statements, will be applied prospectively and therefore there will be no impact on prior periods in the financial statements.

IFRS 8 Operating Segments introduces the "management approach" to segment reporting. The Bank does not have to disclose reporting according to segment, therefore the new standard is not applicable to its financial statements.

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

3 Significant accounting policies, continued

(q) New Standards and Interpretations not yet adopted, continued

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

Amended *IAS 27 Consolidated and Separate Financial Statements (2008)* requires accounting for changes in ownership interests in a subsidiary that occur without loss of control, to be recognised as an equity transaction. When the Bank loses control of a subsidiary, any interest retained in the former subsidiary will be measured at fair value with the gain or loss recognised in profit or loss. The amendments to IAS 27, which become mandatory for the Bank's 2010 financial statements, do not have a significant impact on these financial statements.

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

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

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

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

In all other cases, revenue is recognised when all of the revenue recognition criteria of IAS 18.14 are satisfied (e.g., upon completion of construction or upon delivery). IFRIC 15 is not relevant to the Bank's operations as the Bank does not provide real estate construction services or develop real estate for sale.

3 Significant accounting policies, continued

(q) New Standards and Interpretations not yet adopted, continued

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

- net investment hedging can be applied only to foreign exchange differences arising between the functional currency of a foreign operation and the parent entity's functional currency and only in an amount equal to or less than the net assets of the foreign operation

- the hedging instrument may be held by any entity within the group except the foreign operation that is being hedged

- on disposal of a hedged operation, the cumulative gain or loss on the hedging instrument that was determined to be effective is reclassified to profit or loss.

The Interpretation allows an entity that uses the step-by-step method of consolidation an accounting policy choice to determine the cumulative currency translation adjustment that is reclassified to profit or loss on disposal of a net investment as if the direct method of consolidation had been used. IFRIC 16, which becomes mandatory for the Bank's 2009 financial statements, applies prospectively to the Bank's existing hedge relationships and net investments. The Bank is currently in the process of evaluating the potential effect of this Interpretation.

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

4 Risk management

The Bank has exposure to the following risks:

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

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

(a) Risk management policies and procedures

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

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

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

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

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

4 Risk management, continued

(b) Market risks

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

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

Overall authority for market risk is vested in the Asset and Liability Committee (ALCO), chaired by the President of Bank. Market risk limits are approved by ALCO based on recommendations of the Risk Department's Financial Risk Management Division.

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

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

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

(i) Interest rate risk

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

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

Fair value of financial assets at fair value through profit or loss and financial assets available for sale is not sensitive to interest rate changes as the portfolio for the these categories consists of equity securities and short term government bonds as of 31 December 2008 and 2007.

4 Risk management, continued

(b) Market risk, continued

(ii) Currency risk

The Bank has assets and liabilities denominated in several foreign currencies. Foreign currency risk arises when the actual or forecasted assets in a foreign currency are either greater or less than the liabilities in that currency. For further information on the Bank's exposure to currency risk at year end refer to Notes 17 {financial assets held for trading} and 41{currency analysis}.

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

	2008		**2007**	
'000 LVL	**Net income**	**Equity**	**Net income**	**Equity**
5% appreciation of USD against LVL	(124)	(124)	161	161
5% depreciation of USD against LVL	124	124	(161)	(161)
5% appreciation of EUR against LVL	92	92	464	464
5% depreciation of EUR against LVL	(92)	(92)	(464)	(464)

(iii) Price risk

Price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual instrument or factors affecting all instruments traded in the market. Price risk arises when the Bank takes a long or short position in a financial instrument.

An analysis of sensitivity of the Bank's net income for the year and equity to changes in securities prices based on positions existing as at 31 December 2008 and 2007 and a simplified scenario of a 5% change in all securities prices is as follows:

	2008		**2007**	
'000 LVL	**Net income**	**Equity**	**Net income**	**Equity**
5% increase in securities prices	7,993	7,993	3,790	3,790
5% decrease in securities prices	(7,993)	(7,993)	(3,790)	(3,790)

(c) Credit risk

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

4 Risk management, continued

The Bank's credit policy establishes:

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

Corporate loan/credit applications are originated by the relevant client managers and are then passed on to the Loan Department, which is responsible for the Bank's corporate loan portfolio. Reports produced by the department's credit analysts are based on a structured analysis focusing on the customer's business and financial performance. The loan/credit application and the report are then independently reviewed by the Risk Department's Credit Risk Management Division and a second opinion is given accompanied by a check that credit policy requirements have been met. The Credit Committee reviews the loan/credit application on the basis of submissions by the Loan Department and the Risk Department. Individual transactions are also reviewed by the Bank's Legal, Accounting and Tax departments depending on the specific risks and pending final approval of the Credit Committee.

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

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

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

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

The Bank monitors concentrations of credit risk by industry/sector and by geographic location. For the analysis of concentration of credit risk in respect of Loans and receivables from customers refer to Note 18 "Loans and receivables from customers".

4 Risk management, continued

(d) Liquidity risk

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

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

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

The liquidity management policy of the Bank requires:

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

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

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

4 Risk management, continued

(e) Operational risks

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

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

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

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

Compliance with Bank standards is supported by a program of periodic reviews undertaken by Internal Audit. The results of Internal Audit reviews are discussed with the management of the business unit to which they relate, with summaries submitted to the senior management of the Bank.

(f) Capital management

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

4 Risk management, continued

(f) Capital management, continued

The FCMC sets and monitors capital requirements for the Bank.

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

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

	2008	**2007**
	’000 LVL	**’000 LVL**
Tier 1 capital		
Share capital	22,500	22,500
Share premium	4,809	4,809
Reserve	16	16
Retained earnings from prior years	82,843	56,846
Current year profit	20,494	34,755
Deductions from the capital base		
Intangible assets	(3,135)	(2,977)
Other deductions	(1,840)	-
Dividends declared	(5,130)	(8,775)
Total tier 1 capital	**120,557**	**107,174**
Tier 2 capital		
Asset revaluation reserve	57	2,299
Total tier 2 capital	**57**	**2,299**
Total capital	**120,614**	**109,473**
Capital requirement	**65,540**	**62,382**
Total capital adequacy ratio	**14.72%**	**14.04%**

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

The Bank is subject to minimum capital adequacy requirements calculated in accordance with the Basle Accord established by covenants under liabilities incurred by the Bank. The Bank has complied with all externally imposed capital requirements during the years ended 31 December 2008 and 31 December 2007.

5 Use of estimates and judgements

The preparation of financial statements in conformity with IFRSs requires management to make judgments, estimates and assumption that affect the application of policies and reported amounts of assets and liabilities, income and expenses. Although these estimates are based on management's best knowledge of current events and actions, actual results ultimately may differ from those estimates.

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

Key sources of estimation uncertainty:

(i) Allowances for credit losses

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

(ii) Valuation of financial instruments

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

(iii) Impairment of financial instruments

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

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

5 Use of estimates and judgements, continued

(iv) Valuation of investment property

Investment property is stated at its fair value with all changes in fair value recorded to profit and loss. When measuring the fair value of the investment property, the management relies on external valuations and assesses the reliability of such valuation in light of the current market situation.

(v) Impairment of non-current assets held for sale

When assessing the fair value the non-current assets held for sale, the management prepares several valuation models (e.g. replacement cost, discounted future cash flows) and compares them to observable market data (e.g. similar transactions taking place on the market, offer made by potential buyers). The net realizable value assessment includes estimated selling expenses, the timing of the sale, and the liquidity of the market.

(vi) Current market situation

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

6 Net interest income

	2008 '000 LVL	2007 '000 LVL
Interest income		
Loans and receivables from customers	49,387	39,905
Placements with banks and other financial institutions	9,928	15,063
Amounts receivable under repurchase agreements	3,917	-
Financial instruments at fair value through profit or loss	795	1,887
Available-for-sale assets	-	22
Held-to-maturity investments	659	1,262
	64,686	**58,139**
Interest expense		
Current accounts and deposits from customers	15,167	13,125
Deposits and balances from banks and other financial institutions	9,726	6,605
Amounts payable under repurchase agreements	93	686
Certificates of deposit and promissory notes	58	-
Other interest expense	1,471	1,450
	26,515	**21,866**

7 Fee and commission income

	2008 '000 LVL	2007 '000 LVL
Money transfers	9,223	8,545
Commission income from payment cards	3,125	3,024
Brokerage fees	1,617	1,532
Guarantee and letter of credit issuance fees	686	657
Remote systems fee	643	617
Cash withdrawal fees	308	320
Account opening and closing	227	274
Other	1,747	900
	17,576	**15,869**

8 Fee and commission expense

	2008 '000 LVL	2007 '000 LVL
Credit card expenses	1,054	1,058
Commission for maintenance of syndicated loan	1,023	841
On correspondent accounts	896	1,294
Brokerage fees	480	420
Cash withdrawal fees	12	9
Other	541	917
	4,006	**4,539**

9 Net gain/(loss) on financial instruments at fair value through profit or loss

	2008 '000 LVL	2007 '000 LVL
Equity instruments	(227)	339
Debt instruments	(2,094)	(614)
Other	325	1,300
	(1,996)	**1,025**

10 Net foreign exchange income/(loss)

	2008 '000 LVL	2007 '000 LVL
Gain/(loss) from revaluation of financial assets and liabilities	(496)	(198)
Gain/(loss) on spot transactions and derivatives	11,910	10,952
	11,414	**10,754**

11 Other income /(expenses)

	2008 '000 LVL	2007 '000 LVL
Dividends received	217	668
Penalties received	1,714	356
Profit from sale of property	-	4,038
Income from operating lease	449	81
Provision for litigation	-	(408)
Other	4,052	448
	6,432	**5,183**

Other income includes a release of a liability of LVL 3,131 thousand for which there is evidence that no obligation is outstanding at reporting date.

12 Impairment losses

	2008 '000 LVL	2007 '000 LVL
Impairment losses		
Loans and receivables from customers	(21,700)	(2,400)
Held-to maturity financial instruments	(327)	-
Property and equipment	-	(97)
Other assets	(406)	(159)
	(22,433)	**(2,656)**
Reversals of impairment losses		
Loans and receivables from customers	177	258
Property and equipment	97	-
Other assets	1	-
	275	**258**
Net impairment losses	**(22,158)**	**(2,398)**

13 General administrative expenses

	2008 '000 LVL	2007 '000 LVL
Employee compensation	9,043	7,904
Depreciation and amortization	1,888	1,896
Payroll taxes	1,872	1,594
Salaries to Board of Directors and Council	1,611	1,679
Repairs and maintenance	1,011	696
Taxes other than on income	969	831
Communications and information services	923	931
Charity and sponsorship	763	1,348
Security	549	479
Occupancy	544	765
Insurance	411	224
Travel expenses	326	309
Advertising and marketing	221	233
Professional services	207	143
Stationery	61	98
Other	1,782	2,747
	22,181	**21,877**

14 Income tax expense

Recognised in the income statement	**2008 '000 LVL**	**2007 '000 LVL**
Current tax expense		
Current year	3,342	5,764
Under/(over) provided in prior years	-	16
	3,342	**5,780**
Deferred tax expense		
Origination and reversal of temporary differences	(425)	(245)
Total income tax expense in the income statement	**2,917**	**5,535**

The Bank's applicable tax rate for current and deferred tax is 15% (2007: 15%).

Reconciliation of effective tax rate:

	2008 '000 LVL	%	2007 '000 LVL	%
Income before tax	23,411	-	40,290	
Income tax at the applicable tax rate	3,512	15%	6,043	15%
Non-deductible expenses	236	1.01%	(279)	(0.7)%
Tax exempt income	(33)	(0.14)%		
Reversal of previously non-recognized tax loss	(113)	(0.48)%		
Tax relief on donations	(685)	(2.94)%	(245)	(0.6)%
Under/(over) provided in prior years	-	-	16	0.04%
	2,917	**12.45%**	**5,535**	**13.74%**

14 Income tax expense, continued

Income tax recognised directly in equity	2008 '000 LVL	2007 '000 LVL
Deferred tax expense		
Revaluation of buildings	(267)	(268)
Total income tax recognised directly in equity	**(267)**	**(268)**

1 Cash and balances with central bank

Cash and balances with the Bank of Latvia comprised of the following items:

	2008 '000 LVL	2007 '000 LVL
Cash	2,824	3,832
Due from Bank of Latvia	42,723	62,478
	45,547	**66,310**

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

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

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

The compulsory reserve is compared to the Bank's average monthly correspondent account balance in LVL. The Bank's average correspondent balance should exceed the compulsory reserve requirement. The Bank was in compliance with the aforementioned compulsory reserve requirement at the end of the reporting year.

2 Loans and receivables from banks

	2008 '000 LVL	2007 '000 LVL
Nostro accounts		
Latvian commercial banks	20,553	2,207
OECD banks	161,240	227,814
Non-OECD banks	45,819	44,933
Total nostro accounts	**227,612**	**274,954**
Loans and deposits		
Latvian commercial banks	6,930	6,776
OECD banks	205	111,714
Non-OECD banks	2,566	11,062
Total loans and deposits	**9,701**	**129,552**
	237,313	**404,506**

16 Loans and receivables from banks, continued

Concentration of placements with banks and other financial institutions

As at 31 December 2008 and 2007 the Bank had four and two banks and financial institutions, respectively, whose balances exceeded 10% of total placements with banks and other financial institutions. The gross value of these balances as of 31 December 2008 and 2007 were LVL 105,132 thousand and LVL 112,306 thousand, respectively.

17 Financial instruments at fair value through profit or loss

	2008 '000 LVL	**2007 '000 LVL**
Government and municipal bonds		
European Union	-	3,535
USA	150,050	64,720
Russia	-	2,245
Other regional authorities and municipal bonds	-	3,747
Total government and municipal bonds	**150,050**	**74,247**
Equity investments	2,805	1,563
Derivative financial instruments	1,459	1,358
Total financial instruments at fair value through profit or loss	**154,314**	**77,168**
Of which pledged under sale and repurchase agreements		
- Government and municipal bonds		
USA	150,050	32,440
Total Government and municipal bonds	**150,050**	**32,440**

Unlisted equity investments include investments in RenFin Fund and Alve Private Equity Fund, which are closed-end equity funds investing in financial institutions, telecommunication providers, brokerage companies and other investment funds in the CIS. The investment in Alve Private Equity Fund of LVL 2,475 thousand is recognised at cost as its fair value cannot be measured reliably. The investment in RenFin Fund of LVL 222 thousand is stated at fair value and was estimated using valuation models based on observable market data (price earning and price equity ratios) as the market price is not available.

Reclassification of financial instruments

Pursuant to the amendments to IAS 39 and IFRS 7, the Bank reclassified certain trading assets to Loans and receivables from customers. The Bank identified financial assets eligible under the amendments, for which it had changed its intent such that it no longer held these financial assets for the purpose of selling in the short term. For trading assets identified for reclassification that would have met the definition of loans and receivables, the Bank had the intention and ability to hold them for the foreseeable future or until maturity. For the trading assets identified for reclassification, the Bank determined that the deterioration of the financial markets during the second half of 2008 constituted rare circumstances that permit reclassification out of the trading category.

17 Financial instruments at fair value through profit or loss, continued

Under IAS 39 as amended, the reclassifications were made with effect from 1 July 2008 at fair value at that date. The table below sets out the financial assets reclassified and their carrying and fair values:

	1 July 2008		31 December 2008	
'000LVL	Carrying value	Fair value	Carrying value	Fair value
Financial instruments held for trading reclassified to Loans and receivables from customers	**22,907**	**22,907**	**23,305**	**24,051**

The fair value of the financial instruments reclassified to Loans and receivables from customers is measured at quoted market price as of the date of reclassification. As at 31 December 2008 the fair value of those financial instruments is stated using valuation techniques based on observable inputs, i.e. quoted market prices in active markets for similar instruments.

The table below sets out the amounts actually recognised in income in 2008 in respect of financial assets reclassified out of trading assets:

'000LVL	Profit or loss
Period before reclassification	
Net loss on financial instruments at fair value through profit and loss reclassified to Loans and receivables from customers	(860)
Period after reclassification	
Financial instruments reclassified to Loans and receivables from customers	
Interest income	826
Net impairment loss	-

The table below sets out the amounts that would have been recognised in the period following reclassification during 2008 if the reclassifications had not been made:

'000LVL	Profit or loss
Net gain on financial instruments at fair value through profit and loss reclassified to Loans and receivables from customers	1,141

The effective interest rates on trading assets reclassified to Loans and receivables from customers ranged from 8% to 12% as the date of reclassification.

17 Financial instruments at fair value through profit or loss, continued

Derivative financial assets and liabilities

	2008 '000 LVL		2007 '000 LVL	
	Carrying value	**Notional value**	**Carrying value**	**Notional value**
Assets				
Forward contracts	402	71,224	192	62,730
Option premium	49	49	-	-
Embedded derivatives separated from host contract	1,008	-	1,166	-
Total derivative financial assets	**1,459**		**1,358**	
Liabilities				
Forward contracts	511	71,259	418	62,915
Total derivative liabilities	**511**	-	**418**	-

18 Loans and receivables from customers

	2008 '000 LVL	2007 '000 LVL
Private companies	518,335	504,165
Individuals	71,039	97,447
Impairment allowance	(18,317)	(2,913)
Net Loans and receivables from customers	**571,057**	**598,699**

(a) Credit quality of loan portfolio

(i) Ageing structure of loan portfolio

			Of which past due by the following terms				
As at 31 Dec 2007	**Total LVL'000**	**Of which not past due on the reporting date**	**Less than 30 days**	**31-90 days**	**91-180 days**	**More than 180 days**	**Net carrying value of overdue loans**
Net carrying amount	**598,699**	539,480	30,433	4,822	16,810	7,154	59,219
Out of which impaired	**8,091**	95	1,538	17	5,978	463	7,996
Assessed fair value of collateral	**764,264**	685,153	40,853	3,026	27,936	7,296	79,111
As at 31 Dec 2008							
Net carrying amount	**571,057**	503,928	54,561	5,133	4,973	2,462	67,129
Out of which impaired	**59,712**	44,923	3,619	4,367	4,970	1,833	14,789
Assessed fair value of collateral	**793,734**	713,888	60,358	6,961	8,000	4,527	79,846

18 Loans and receivables from customers, continued

(ii) Analysis of loan by type of collateral

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

LVL'000	31 December 2008	% of loan portfolio	31 December 2007	% of loan portfolio
Commercial buildings	220,456	38.60	199,981	33.40
Commercial assets pledge	126,467	22.15	117,320	19.60
Land mortgage	85,265	14.93	129,435	21.62
Mortgage on residential properties	42,821	7.50	50,655	8.46
Traded securities	35,343	6.19	61,244	10.23
Trading financial instruments reclassified to Loans and receivables from customers	23,305	4.08	-	-
Guarantee	13,447	2.35	13,639	2.28
Deposit	1,949	0.34	9,638	1.61
Other	22,004	3.86	16,787	2.80
Total	**571,057**	**100**	**598,699**	**100**

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

(iii) Impaired loans

	2008 ’000 LVL	2007 ’000 LVL
Impaired loans gross	78,029	11,004
Impairment allowance	(18,317)	(2,913)
Net Loans and receivables from customers	**59,712**	**8,091**
Fair value of collateral related to impaired loans	**90,006**	**15,346**

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

2008 ’000 LVL	**Gross**	**Impairment allowance**
Standard	512,092	-
Watch	40,184	(4,698)
Substandard	33,130	(10,431)
Doubtful	3,820	(3,040)
Lost	148	(148)
Total	**589,374**	**18,317**

18 Loans and receivables from customers, continued

(iv) Movements in the impairment allowance

Movements in the loan impairment allowance for the year ended 31 December 2008 and 2007 are as follows:

LVL'000	2008 '000 LVL	2007 '000 LVL
Specific allowance for impairment		
Balance at 1 January	2,913	942
Charge for the year	21,700	2,400
Reversal of impairment loss	(177)	(258)
Effect of foreign currency translation	(125)	(51)
Write offs	(5,994)	(120)
Balance at 31 December	**18,317**	**2,913**

(v) Restructured loans

As at 31 December 2008, the Bank is in legal process to sell collateral assumed as security for loans, as follows:

LVL'000	2008 '000 LVL	2007 '000 LVL
Commercial buildings and plant	9,102	-
Residential property	1,535	
Land	539	-
Total	**11,176**	**-**

When loans foreclose and recovery through sale of collateral commences, the Bank reclassifies the carrying value of the loan to non-current assets held for sale. The assets are valued at the lower of cost and net realizable value and are shown in Note 25.

(b) Industry analysis of the loan portfolio

	2008 '000 LVL	2007 '000 LVL
Real estate management	171,510	270,822
Financial services	168,165	126,124
Individuals	69,527	48,359
Wholesale and retailing	38,750	45,959
Manufacturing	40,734	36,946
Trading financial instruments reclassified to loans and receivables from customers	23,305	-
Food industry	23,108	13,795
Transport and communication	9,776	32,600
Tourism	616	3,241
Other	25,566	20,853
	571,057	**598,699**

18 Loans and receivables from customers, continued

(c) Geographical analysis of the loan portfolio

	2008 '000 LVL	2007 '000 LVL
Latvia	275,425	309,223
OECD countries	165,559	167,759
Non-OECD countries	130,073	121,717
	571,057	**598,699**

(d) Significant credit exposures

As at 31 December 2008 and 2007 the Bank had no borrowers or groups of related borrowers, respectively, whose loan balances exceeded 10% of loans and receivables from customers.

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

19 Available-for-sale assets

	2008 '000 LVL	2007 '000 LVL
Equity investments		
RB Opportunity Fund I	10,542	-
Corporate shares	237	234
	10,779	**234**

RB Opportunity Fund was founded by the Bank in December of 2008, the assets of the fund comprise LVL 10,542 thousand of cash. The Bank is the only owner of the fund's units as at 31 December 2008 and the units of the fund are currently available for public subscription.

20 Held-to-maturity investments

	2008 '000 LVL	2007 '000 LVL
Debt and other fixed-income instruments		
- Government and municipal bonds		
Latvia	11,367	-
USA	-	2,463
Other bonds	1,739	1,702
Total government and municipal bonds	**13,106**	**4,165**
- Corporate bonds		
Russian corporate bonds	787	769
European Union corporate bonds	6,094	9,618
USA	-	2,417
Other	2,475	8,203
Total corporate bonds	**9,356**	**21,007**
Impairment allowance	(1,593)	(1,238)
	20,869	**23,934**

Analysis of movements in the impairment allowance

	2008 '000 LVL	2007 '000 LVL
Balance at the beginning of the year	1,238	1,371
Net charge/(recovery) for the year	327	-
Currency revaluation	28	(133)
Balance at the end of the year	**1,593**	**1,238**

21 Investment in subsidiaries

The subsidiaries of the Bank are as follows:

Name	Country of incorporation	Principal Activities	Ownership %	Cost of investment	Ownership %	Cost of investment
			31 December 2008		31 December 2007	
RB Securities Ltd	Stasinou Street 1, Mitsui Bulding, 2nd floor, office 5, Plateia Eleftherias, P.C. 1060, Nicosia, Cyprus	Financial services	99.99%	7,700	99.99%	7,700
SIA "RB Investments"	Vesetas 7, Riga, Latvia	Investments	100%	5,000	100%	5,000
AS "RB Securities" IBS	Vesetas 7, Riga ,Latvia	Financial services	100%	804	100%	804
AS "RB Asset management" IPS	Vesetas 7, Riga, Latvia	Financial services	100%	700	100%	700
SIA "RB Drošība"	Vesetas 7, Riga ,Latvia	Security services	100%	50	100%	50
SIA "RB Vidzeme"	Vesetas 7, Riga ,Latvia	Investments	100%	50	100%	50
SIA"RB Namu serviss"	Vesetas 7, Riga ,Latvia	Real estate operating	100%	2	-	-
"Westleasing" OOO	Fabriciusa street 8, 4th floor, office42, Minsk Belarus	Leasing company	50%	56	-	-
"Westtransinvest" OOO	Fabriciusa street 8, 4th floor, office18, Minsk Belarus	Leasing Company	50%	169	-	-
"Westleasing-M" OOO	Kostjakova street 10, Moscow, Russia	Leasing Company	50%	1,666	-	-
Rietumu bankas Labdarības fonds	Vesetas 7, Riga, Latvia	Charity	-	-	-	-
Total				**16,197**		**14,304**

22 Property and equipment

'000 LVL	Land and buildings	Const-ruction in progress	Vehicles	Office equipment	Leasehold improvements	Total
Cost/Revalued amount						
At 1 January 2008	7,955	19,583	2,176	7,915	162	37,791
Additions	30	5,802	1	1,385	-	7,218
Disposals	(196)	(113)	(321)	(410)	-	(1,040)
Reversal of impairment loss	97	-	-	-	-	97
Revaluation	(1,699)	-	-	-	-	(1,699)
Transferred to Assets held for sale	(864)	(26,228)	-	-	-	(27,092)
Transferred to Investment property	(5,100)	-	-	-	-	(5,100)
Transfers	-	956	125	710	-	1,791
At 31 December 2008	**223**	**-**	**1,981**	**9,600**	**162**	**11,966**
Depreciation and impairment losses						
At 1 January 2008	152	-	937	4,525	162	5,776
Depreciation charge	7	-	404	861	-	1,272
Disposals	(100)	-	(289)	(377)	-	(766)
At 31 December 2008	**59**	**-**	**1,052**	**5,009**	**162**	**6,282**
Carrying value						
At 31 December 2008	**164**	**-**	**929**	**4,591**	**-**	**5,684**
At 31 December 2007	7,803	19,583	1,239	3,390	-	32,015

During 2008, the construction of the office building at Vesetas Street 7, Riga, was completed and the majority of the Bank's staff and divisions were relocated into this building. The Bank plans to sell the building and related land to a subsidiary during February or March 2009 for a price that equals the cost of the construction. LVL 27,092 thousand. The price is not significantly different from the external valuation of the building and land. The asset is classified as a non-current held for sale.

In September 2008, the Bank ceased to use the office building Brivibas Street 54, Riga, for its business purposes and decided to hold the property to earn rentals and for capital appreciation. Consequently, the Bank reclassified the building to investment property at fair value as at the date of reclassification in the amount of LVL 5,100 thousand based on an external valuation from Latio SIA, refer to Note 24.

22 Property and equipment, continued

’000 LVL	Land and buildings	Const-ruction in progress	Vehicles	Office equipment	Leasehold improvements	Total
Cost/Revalued amount						
At 1 January 2007	11,169	4,692	1,853	5,909	162	23,785
Additions	834	14,891	734	2,643	-	19,102
Revaluation	1,114	-	-	-	-	1,114
Impairment losses	(97)	-	-	-	-	(97)
Disposals	(5,065)	-	(411)	(637)	-	(6,113)
At 31 December 2007	**7,955**	**19,583**	**2,176**	**7,915**	**162**	**37,791**
Depreciation and impairment losses						
At 1 January 2007	522	-	899	4,003	161	5,585
Depreciation charge	158	-	375	724	1	1,258
Revaluation	(347)	-	-	-	-	(347)
Disposals	(181)	-	(337)	(202)	-	(720)
At 31 December 2007	**152**	**-**	**937**	**4,525**	**162**	**5,776**
Carrying value						
At 31 December 2007	**7,803**	**19,583**	**1,239**	**3,390**	**-**	**32,015**
At 31 December 2006	10,647	4,692	954	1,906	1	18,200

Analysis of movements in the impairment allowance

	2008 ’000 LVL	2007 ’000 LVL
Balance at the beginning of the year	97	-
Net charge/(recovery) for the year	(97)	97
Write-offs	-	-
Balance at the end of the year	**-**	**97**

23 Intangible assets

’000 LVL	**Goodwill**	**Software**	**Other**	**Total**
Cost				
At 1 January 2008	751	5,163	368	6,282
Additions	-	150	438	588
Transfers	-	412	(226)	186
At 31 December 2008	**751**	**5,725**	**580**	**7,056**
Amortization and impairment losses				
At 1 January 2008	-	3,300	5	3,305
Amortization charge	-	612	4	616
At 31 December 2008	**-**	**3,912**	**9**	**3,921**
Carrying value				
At 31 December 2008	**751**	**1,813**	**571**	**3,135**
At 31 December 2007	**751**	**1,863**	**363**	**2,977**

’000 LVL	**Goodwill**	**Software**	**Other**	**Total**
Cost				
At 1 January 2007	751	5,045	246	6,042
Additions	-	134	122	256
Disposals	-	(16)	-	(16)
At 31 December 2007	**751**	**5,163**	**368**	**6,282**
Depreciation and impairment losses				
At 1 January 2007	-	2,682	2	2,684
Depreciation charge	-	634	3	637
Disposals	-	(16)	-	(16)
At 31 December 2007	**-**	**3,300**	**5**	**3,305**
Carrying value				
At 31 December 2007	**751**	**1,863**	**363**	**2,977**
At 31 December 2006	751	2,363	244	3,358

Goodwill originated on the acquisition of the payment card business unit in 2001.

24 Investment property

	2008 ’000 LVL	**2007 ’000 LVL**
Balance at 1 January	-	-
Transfer in of property Brivibas 54, Riga, at fair value	5,100	-
Balance at 31 December	**5,100**	**-**

25 Assets held for sale

	2008 '000 LVL	2007 '000 LVL
Collaterals from loans assumed	11,176	-
Vesetas Street 7 , Riga	27,092	-
	38,268	**-**

During 2008, the construction of the office building Vesetas Street 7, Riga, was completed and the majority of the Bank's staff and divisions were relocated into this building. The Bank plans to sell the building and related land to a subsidiary during February or March 2009 for a price that equals the cost of the construction, LVL 27,092 thousand. The price is not significantly different from the external valuation of the building and land. The asset is classified as a non-current held for sale.

When loans foreclose and recovery through sale of collateral commences, the Bank reclassifies the carrying value of the loans to non-current assets held for sale. The assets are valued at the lower of cost and net realizable value.

26 Other assets

	2008 '000 LVL	2007 '000 LVL
Tax prepayments	3,903	-
Prepayments	1,479	3,959
Recoverable VAT	1,035	1,215
Other	3,194	1,030
Impairment allowance	(598)	(292)
	9,013	**5,912**

Analysis of movements in the impairment allowance

	2008 '000 LVL	2007 '000 LVL
Balance at the beginning of the year	292	133
Net charge/(recovery) for the year	406	159
Write-offs	(103)	-
Currency revaluation	3	-
Balance at the end of the year	**598**	**292**

27 Deposits and balances from banks

	2008 '000 LVL	2007 '000 LVL
Vostro accounts	2,350	15,212
Term deposits	151,358	144,322
	153,708	**159,534**

Concentration of deposits and balances from banks and other financial institutions

As at 31 December 2008 and 2007 the Bank had two banks and one bank, respectively, whose balances exceeded 10% of total deposits and balances from banks. The gross value of these balances as of 31 December 2008 and 2007 were LVL 35,609 thousand and LVL 42,168 thousand, respectively.

28 Current accounts and deposits from customers

	2008 '000 LVL	2007 '000 LVL
Current accounts and demand deposits		
- State enterprises	44	83
- Private companies	44,564	33,249
- Individuals	29,622	41,969
- Private companies non-residents	409,742	525,530
- Individuals non-residents	42,744	44,231
Total current account and demand deposits	**526,716**	**645,062**
Term deposits		
- State enterprises	-	230
- Private companies	5,409	1,854
- Individuals	30,600	27,651
- Private companies non-residents	69,694	177,331
- Individuals non-residents	38,192	33,751
Total term deposits	**143,895**	**240,817**
Total current accounts and deposits form customers	**670,611**	**885,879**

(a) Blocked accounts

As of 31 December 2008, the Bank maintained customer deposit balances of LVL 12,340 thousand (2007: LVL 11,624 thousand) which were blocked by the Bank as collateral for loans and off-balance sheet credit instruments granted by the Bank.

(b) Concentrations of current accounts and customer deposits

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

29 Other borrowed funds

	2008 '000 LVL	2007 '000 LVL
Notes issued	1,299	-
	1,299	**-**

In January 2008 the Bank issued one-year notes, which were repaid in January 2009. The average effective interest rate of the issued notes was 5.22%.

30 Other liabilities

	2008 '000 LVL	2007 '000 LVL
Income taxes payable	-	298
Deferred income	5,052	-
Dividends payable	4	4
Provision for annual leave	845	639
Provision for management bonus	-	636
Other	1,670	3,739
	7,571	**5,316**

31 Deferred tax asset and liability

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

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

	Assets		Liabilities		Net	
'000 LVL	**2008**	**2007**	**2008**	**2007**	**2008**	**2007**
Financial instruments at fair value through profit or loss	165	-	-	(37)	165	(37)
Property and equipment	257	605	(834)	(2,109)	(577)	(1,504)
Other assets	-	-	(310)	-	(310)	-
Other liabilities	127	178	-	-	127	178
Total deferred tax assets/(liabilities)	**549**	**783**	**(1,144)**	**(2,146)**	**(595)**	**(1,363)**
Unrecognised deferred tax assets/(liabilities)	**-**	**-**	**-**	**76**	**-**	**76**
Recognised net deferred tax assets/(liabilities)	**549**	**783**	**(1,144)**	**(2,070)**	**(595)**	**(1,287)**

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

31 Deferred tax asset and liability, continued

Movement in temporary differences during the year ended 31 December 2008

’000 LVL	Balance 1 January 2008	Recognised in income	Recognised in equity	Balance 31 December 2008
Financial instruments at fair value through profit or loss	37	(202)	-	(165)
Property and equipment	1,504	(351)	(577)	576
Investment property	-	-	310	310
Other liabilities	(178)	52	-	(126)
Under/(over) provided in prior years	(76)	76	-	-
	1,287	**(425)**	**(267)**	**595**

32 Share capital

(a) Issued capital

The authorised, issued and outstanding share capital comprises 22,500 ordinary shares (2007: 22,500). All shares have a par value of LVL 1. The largest shareholders of the Bank as of December 31, 2008 and December 31, 2007 are as follows:

	2008 ’000 LVL	2007 ’000 LVL
Companies non-residents, total	**7,450**	**7,450**
Boswell (International) Consulting Limited	7,450	7,450
Private persons, total	**15,050**	**15,050**
Leonid Esterkin	8,838	7,450
Arkady Suharenko	4,594	3,900
Others	1,618	3,700
Total	**22,500**	**22,500**

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

(b) Dividends

At the reporting date the following dividends have been proposed by the Directors:

	2008 ’000 LVL	2007 ’000 LVL
0.228 LVL per ordinary share (2007: 0.39 LVL)	5,130	8,775

The dividend for 2007 in the amount of LVL 8,775 thousand were approved on March 25, 2008 and paid out to shareholders.

Subsequent to 31 December 2008, dividends of LVL 5,130 thousand were proposed by the Directors and have not been recognised at the 31 December 2008, as a shareholder approval is required.

33 Cash and cash equivalents

Cash and cash equivalents consist of the following

	2008 '000 LVL	2007 '000 LVL
Cash	2,824	3,832
Balances due from the Bank of Latvia	42,723	62,478
Demand Loans and receivables from banks	227,612	274,954
Demand deposits from banks	(2,350)	(15,212)
Total	**270,809**	**326,052**

34 Commitments

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

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

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

	2008 '000 LVL	2007 '000 LVL
Contracted amount		
Loan and credit line commitments	54,335	58,061
Credit card commitments	2,880	3,394
Undrawn overdraft facilities	5,975	7,549
Guarantees and letters of credit	8,112	10,311
Total	**71,302**	**79,315**

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

35 Litigation

In the ordinary course of business, the Bank is subject to legal actions and complaints. A provision of LVL 387 thousand (2007: LVL 378 thousand) or 50% of the amount disputed denominated in USD was made in 2007 for claims where management based on the professional advice to the Bank, considered it was likely that a loss could eventuate. The increase in provision in the year 2008 is due to foreign exchange rate movements. No other amounts have been provided for.

36 Trust and custody activities

(a) Trust activities

Funds under trust management represent securities and other assets managed and held by the Bank on behalf of customers. The Bank earns commission income for holding such securities. The Bank is not subject to interest, credit, liquidity and currency risk with respect of these securities in accordance with the agreements concluded with the customers.

As at 31 December 2008 the total assets held by the Bank on behalf of customers and assets under management were LVL 162,927 thousand (2007: LVL 236,079 thousand).

(b) Custody activities

The Bank provides custody services to its customers, whereby it holds securities on behalf of customers and receives fee income for providing these services. These securities are not assets of the Bank and are not recognised in the balance sheet.

37 Related party transactions

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

Loans and receivables from related parties:

	2008 ’000 LVL	**2007 ’000 LVL**
Loans and receivables at the beginning of the year	5,683	3,866
Loans issued during the year	224,708	119,339
Due to changes in the structure of related parties	28,325	(120)
Loan repayment during the year	(220,102)	(117,402)
Loans and receivables at the end of the year	**38,614**	**5,683**
Interest income earned	2,264	366

37 Related parties transactions, continued

Deposits from related parties

	2008 '000 LVL	2007 '000 LVL
Deposits at the beginning of the year	12,871	10,257
Deposits received during the year	24,692	74,441
Due to changes in the structure of related parties	(435)	476
Deposits repaid during the year	(25,481)	(72,303)
Deposits at the end of the year	**11,647**	**12,871**
Interest expense on deposits	944	516

Transactions with members of the Council and the Board of Directors

Total remuneration included in employee compensation (Note 13):

	2008 '000 LVL	2007 '000 LVL
Members of the Council	551	727
Members of the Board of Directors	1,060	952
	1,611	**1,679**

The outstanding balances as of 31 December 2008 with members of the Council and the Board of Directors are as follows:

	2008 '000 LVL	2007 '000 LVL
Balance Sheet		
Loans and receivables	2,910	94
Term deposits	9,549	13,168

38 Fair value of financial instruments

	Carrying amount 2008 '000 LVL	Fair value 2008 '000 LVL	Carrying amount 2007 '000 LVL	Fair value 2007 '000 LVL
Financial assets				
Cash and balances with central bank	45,547	45,547	66,310	66,310
Financial instruments at fair value through profit and loss	154,314	154,314	77,168	77,168
Loans and receivables from banks	273,313	273,313	404,506	404,506
Loans and receivables from customers	571,057	571,057	598,699	598,699
Available-for-sale assets	10,779	10,779	234	234
Held-to-maturity investments	20,869	20,826	23,934	23,872
Total	**1,075,879**	**1,075,836**	**1,170,851**	**1,170,789**

38 Fair value of financial instruments, continued

	Carrying amount 2008 '000 LVL	Fair value 2008 '000 LVL	Carrying amount 2007 '000 LVL	Fair value 2007 '000 LVL
Financial liabilities				
Financial instruments at fair value through profit and loss	511	511	418	418
Deposits and balances from banks	153,708	153,708	159,534	159,534
Current accounts and deposits from customers	670,611	670,611	885,879	885,879
Amounts payable under repurchase agreements	150,097	150,097	51,037	51,037
Total	**974,927**	**974,927**	**1,096,868**	**1,096,868**

39 Average effective interest rates

The table below displays the Bank's interest bearing assets and liabilities as at 31 December 2008 and 2007 and their corresponding average effective interest rates as at that date. These interest rates are an approximation of the yields to maturity of these assets and liabilities.

	Value '000 LVL	2008 Average Effective Interest Rate	Value '000 LVL	2007 Average Effective Interest Rate
Interest Bearing Assets				
Loans and receivables from banks				
Nostro accounts	227,612	2.18%	274,954	2.17%
Loans and deposits	9,701	3.19%	129,552	5.25%
Financial instruments at fair value through profit or loss	154,314	4.21%	77,168	4.83%
Loans and receivables from customers	571,057	8.51%	598,699	7.98%
Held to maturity investments	20,869	4.00%	23,934	4.33%
Interest Bearing Liabilities				
Deposits and balances from banks and other financial institutions				
Vostro accounts	2,350	3.51%	15,212	3.42%
Term deposits	151,358	5.87%	144,322	5.06%
Amount payable under repurchase agreements	150,097	1.56%	51,037	4.61%
Current accounts and deposits from customers				
Current accounts and demand deposits	526,716	1.75%	645,062	2.87%
Term deposits	143,895	4.51%	240,817	3.75%
Other borrowed funds	1,299	5.22%	-	-

40 Maturity analysis

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

Assets	Less than 1 month ’000 LVL	1 to 3 months ’000 LVL	3 months to 1 year ’000 LVL	1 to 5 years ’000 LVL	More than 5 years ’000 LVL	No maturity ’000 LVL	Overdue ’000 LVL	Total ’000 LVL
Cash	2,824	-	-	-	-	-		2,824
Due from the Bank of Latvia	42,723	-	-	-	-	-	-	42,723
Placements with banks and other financial institutions	237,313	-	-	-	-	-	-	237,313
Financial instruments at fair value through profit or loss	154,314	-	-	-	-	-	-	154,314
Loans and receivables from customers	67,788	36,070	90,587	176,860	188,611	-	11,141	571,057
Available-for-sale assets	10,542	-	-	-	-	237	-	10,779
Held-to-maturity investments	-	9,888	2,453	5,904	2,624	-	-	20,869
Investments in subsidiaries	-	-	-	-	-	16,197	-	16,197
Intangible assets	-	-	-	-	-	3,135	-	3,135
Property and equipment	-	-	-	-	-	5,684	-	5,684
Investment property	-	-	-	-	-	5,100	-	5,100
Assets held for sale	-	27,260	11,008	-	-	-	-	38,268
Other assets	-		9,013	-	-		-	9,013
Total assets	**515,504**	**73,218**	**113,061**	**182,764**	**191,235**	**30,353**	**11,141**	**1,117,276**

40 Maturity analysis, continued

	Less than 1 month ’000 LVL	1 to 3 months ’000 LVL	3 months to 1 year ’000 LVL	1 to 5 years ’000 LVL	More than 5 years ’000 LVL	No maturity ’000 LVL	Overdue ’000 LVL	Total ’000 LVL
Liabilities								
Financial instruments at fair value through profit or loss	431	57	23	-	-	-	-	511
Deposits and balances from banks	3,910	-	58,785	91,013	-	-	-	153,708
Amounts payable under repurchase agreements	150,097	-	-	-	-	-	-	150,097
Current accounts and deposits from customers	576,809	44,579	33,926	15,297	-	-	-	670,611
Other borrowed funds	1,299	-	-	-	-	-	-	1,299
Provisions	-	-	-	387	-	-	-	387
Other liabilities	3,176	1,493	483	2,419	-	-	-	7,571
Deferred tax liability	-	-	-	-	-	595	-	595
Total liabilities	**735,722**	**46,129**	**93,217**	**109,116**	**-**	**595**	**-**	**984,779**
Net position as at 31 December 2008	**(220,218)**	**27,089**	**19,844**	**73,648**	**191,235**	**29,758**	**11,141**	**132,497**
Net position as at 31 December 2007	**(214,549)**	**(15,870)**	**42,938**	**34,000**	**196,634**	**48,243**	**30,814**	**122,210**

The amounts in the tables above represent carrying amounts of the assets and liabilities as at the reporting date and do not include future interest payments.

40 Maturity analysis, continued

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

Assets	**Less than 1 month ’000 LVL**	**1 to 3 months ’000 LVL**	**3 months to 1 year ’000 LVL**	**1 to 5 years ’000 LVL**	**More than 5 years ’000 LVL**	**No maturity ’000 LVL**	**Overdue ’000 LVL**	**Total ’000 LVL**
Cash	3,832	-	-	-	-	-		3,832
Due from the Bank of Latvia	62,478	-	-	-	-	-	-	62,478
Placements with banks and other financial institutions	395,470	3,536	5,500	-	-	-	-	404,506
Financial instruments at fair value through profit or loss	77,168	-	-	-	-	-	-	77,168
Loans and receivables from customers	127,976	14,258	71,089	159,145	195,417	-	30,814	598,699
Available-for-sale assets	-	-	-	-	-	234	-	234
Held-to-maturity investments	-	2,463	2,417	10,269	8,785	-	-	23,934
Investments in subsidiaries	-	-	-	-	-	14,304	-	14,304
Intangible assets	-	-	-	-	-	2,977	-	2,977
Property and equipment	-	-	-	-	-	32,015	-	32,015
Other assets	4,332	1,417	23	140	-	-	-	5,912
Total assets	**671,256**	**21,674**	**79,029**	**169,554**	**204,202**	**49,530**	**30,814**	**1,226,059**

40 Maturity analysis, continued

	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	More than 5 years	No maturity	Overdue	Total
	'000 LVL	'000 LVL	'000 LVL	'000 LVL	'000 LVL	'000 LVL	'000 LVL	'000 LVL
Liabilities								
Financial instruments at fair value through profit or loss	418	-	-	-	-	-	-	418
Deposits and balances from banks	28,095	3,897	-	127,542	-	-	-	159,534
Amounts payable under repurchase agreements	51,037	-	-	-	-	-	-	51,037
Current accounts and deposits from customers	801,255	33,331	36,091	7,634	7,568	-	-	885,879
Provisions	-	-	-	378	-	-	-	378
Other liabilities	5,000	316	-	-	-	-	-	5,316
Deferred tax liability	-	-	-	-	-	1,287	-	1,287
Total liabilities	**885,805**	**37,544**	**36,091**	**135,554**	**7,568**	**1,287**	**-**	**1,103,849**
Net position as at 31 December 2007	**(214,549)**	**(15,870)**	**42,938**	**34,000**	**196,634**	**48,243**	**30,814**	**122,210**
Net position as at 31 December 2006	**(164,072)**	**18,949**	**(41,777)**	**67,223**	**159,236**	**33,943**	**21,649**	**95,151**

41 Currency analysis

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

	LVL ’000 LVL	USD ’000 LVL	EUR ’000 LVL	Other currencies ’000 LVL	Total ’000 LVL
Assets					
Cash	1,093	830	794	107	2,824
Due from the Bank of Latvia	41,806	-	917	-	42,723
Financial instruments at fair value through profit or loss	88	154,226	-	-	154,314
Loans and receivables from banks	-	145,004	75,875	16,434	237,313
Loans and receivables to customers	1,879	192,123	375,185	1,870	571,057
Available-for-sale assets	10,567	212	-	-	10,779
Held-to-maturity investments	11,367	5,864	-	3,638	20,869
Investments in subsidiaries	16,197	-	-	-	16,197
Property and equipment	5,684	-	-	-	5,684
Intangible assets	3,135	-	-	-	3,135
Other assets	52,191	32	158	-	52,381
Total assets	**144,007**	**498,291**	**452,929**	**22,049**	**1,117,276**
Liabilities					
Financial instruments at fair value through profit or loss	-	511	-	-	511
Deposits and balances from banks	259	1,185	149,926	2,338	153,708
Amounts payable under repurchase agreements	-	150,097	-	-	150,097
Current accounts and deposits from customers	31,343	361,727	259,612	17,929	670,611
Other borrowed funds	-	1,299	-	-	1,299
Provisions	-	387	-	-	387
Other liabilities	2,495	3,905	1,171	-	7,571
Deferred tax liability	595	-	-	-	595
Total liabilities	**34,692**	**519,111**	**410,709**	**20,267**	**984,779**
Shareholder’s equity	**132,497**	**-**	**-**	**-**	**-**
Net on balance sheet position as of 31 December 2008	**(23,182)**	**(20,820)**	**42,220**	**1,782**	**-**
Net off balance sheet position as of 31 December 2008	**23,411**	**17,295**	**(41,578)**	**872**	**-**
Net on and off balance sheet positions as of 31 December 2008	**229**	**(3,525)**	**642**	**2,654**	**-**
Net on and off balance sheet positions as of 31 December 2007	**(12,251)**	**3,222**	**9,273**	**(244)**	**-**

41 Currency analysis, continued

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

	LVL '000 LVL	USD '000 LVL	EUR '000 LVL	Other currencies '000 LVL	Total '000 LVL
Assets					
Cash	1,738	850	1,126	118	3,832
Due from the Bank of Latvia	62,329	-	149	-	62,478
Financial instruments at fair value through profit or loss	-	77,168	-	-	77,168
Loans and receivables from banks	-	366,094	28,976	9,436	404,506
Loans and receivables to customers	2,878	160,486	429,387	5,948	598,699
Available-for-sale assets	25	209	-	-	234
Held-to-maturity investments	-	23,934	-	-	23,934
Investments in subsidiaries	14,304	-	-	-	14,304
Property and equipment	32,015	-	-	-	32,015
Intangible assets	2,977	-	-	-	2,977
Other assets	5,912	-	-	-	5,912
Total assets	**122,178**	**628,741**	**459,638**	**15,502**	**1,226,059**
Liabilities					
Financial instruments at fair value through profit or loss	-	418	-	-	418
Deposits and balances from banks	6,582	3,997	147,293	1,662	159,534
Amounts payable under repurchase agreements	-	51,037	-	-	51,037
Current accounts and deposits from customers	33,142	576,866	262,485	13,386	885,879
Provisions	-	378	-	-	378
Other liabilities	5,316	-	-	-	5,316
Deferred tax liability	1,287	-	-	-	1,287
Total liabilities	**46,327**	**632,696**	**409,778**	**15,048**	**1,103,849**
Shareholders' equity	**122,210**	**-**	**-**	**-**	**-**
Net on balance sheet position as of 31 December 2008	**(46,359)**	**(3,955)**	**49,860**	**454**	**-**
Net off balance sheet position as of 31 December 2008	**34,108**	**7,177**	**(40,587)**	**(698)**	**-**
Net on and off balance sheet positions as of 31 December 2008	**(12,251)**	**3,222**	**9,273**	**(244)**	**-**
Net on and off balance sheet positions as of 31 December 2007	**(1,680)**	**518**	**-**	**1,162**	**-**

42 Interest rate risk analysis

Overview of terms of changing contractual interest rate of assets, liabilities and shareholders' equity of the Bank as at December 31, 2008 was as follows:

Assets	**Less than 1 month ’000 LVL**	**1 to 3 months ’000 LVL**	**3 months to 1 year ’000 LVL**	**1 to 5 years ’000 LVL**	**More than 5 years ’000 LVL**	**Non-interest bearing ’000 LVL**	**Total ’000 LVL**
Cash	-	-	-	-	-	2,824	2,824
Due from the Bank of Latvia	41,806	-	-	-	-	917	42,723
Placements with banks and other financial institutions	219,836	-	-	-	-	17,477	237,313
Financial instruments at fair value through profit or loss	150,050	-	-	-	-	4,264	154,314
Loans and receivables from customers	74,024	34,617	80,340	175,379	187,680	19,017	571,057
Available-for-sale assets	-	-	-	-	-	10,779	10,779
Held-to-maturity investments	-	9,888	2,453	5,904	2,624	-	20,869
Investments in subsidiaries	-	-	-	-	-	16,197	16,197
Intangible assets	-	-	-	-	-	3,135	3,135
Property and equipment	-	-	-	-	-	5,684	5,684
Investment property	-	-	-	-	-	5,100	5,100
Assets held for sale	-	-	-	-	-	38,268	38,268
Other assets	-		-	-	-	9,013	9,013
Total assets	**485,716**	**44,505**	**82,793**	**181,283**	**190,304**	**132,675**	**1,117,276**

42 Interest rate risk analysis, continued

	Less than 1 month ’000 LVL	1 to 3 months ’000 LVL	3 months to 1 year ’000 LVL	1 to 5 years ’000 LVL	More than 5 years ’000 LVL	Non-interest bearing ’000 LVL	Total ’000 LVL
Liabilities							
Financial instruments at fair value through profit or loss	-	-	-	-	-	511	511
Deposits and balances from banks	2,542	-	58,785	91,013	-	1,368	153,708
Amounts payable under repurchase agreements	150,097	-	-	-	-	-	150,097
Current accounts and deposits from customers	254,756	44,579	33,926	15,297	-	322,053	670,611
Other borrowed funds	1,299	-	-	-	-	-	1,299
Provisions	-	-	-	-	-	387	387
Other liabilities	-	-	-	-	-	7,571	7,571
Deferred tax liability	-	-	-	-	-	595	595
Shareholders’ equity	-	-	-	-	-	132,497	132,497
Total liabilities	**408,694**	**44,579**	**92,711**	**106,310**	**-**	**464,982**	**1,117,276**
Net position as at 31 December 2008	**77,022**	**(74)**	**(9,918)**	**74,973**	**190,304**	**(332,307)**	**-**
Net position as at 31 December 2007	**37,015**	**(13,074)**	**38,843**	**34,238**	**196,170**	**(293,192)**	**-**

42 Interest rate risk analysis, continued

Overview of terms of changing contractual interest rate of assets, liabilities and shareholders' equity of the Bank as at December 31, 2007 was as follows:

Assets	**Less than 1 month ’000 LVL**	**1 to 3 months ’000 LVL**	**3 months to 1 year ’000 LVL**	**1 to 5 years ’000 LVL**	**More than 5 years ’000 LVL**	**Non-interest bearing ’000 LVL**	**Total ’000 LVL**
Cash	-	-	-	-	-	3,832	3,832
Due from the Bank of Latvia	62,478	-	-	-	-	-	62,478
Placements with banks and other financial institutions	390,461	3,536	5,325	-	-	5,184	404,506
Financial instruments at fair value through profit or loss	74,247	-	-	-	-	2,921	77,168
Loans and receivables from customers	132,584	14,258	71,089	159,145	195,417	26,206	598,699
Available-for-sale assets	-	-	-	-	-	234	234
Held-to-maturity investments	-	2,463	2,417	10,269	8,321	464	23,934
Investments in subsidiaries	-	-	-	-	-	14,304	14,304
Intangible assets	-	-	-	-	-	2,977	2,977
Property and equipment	-	-	-	-	-	32,015	32,015
Other assets	-		-	-	-	5,912	5,912
Total assets	**659,770**	**20,257**	**78,831**	**169,414**	**203,738**	**94,049**	**1,226,059**

42 Interest rate risk analysis, continued

	Less than 1 month ’000 LVL	1 to 3 months ’000 LVL	3 months to 1 year ’000 LVL	1 to 5 years ’000 LVL	More than 5 years ’000 LVL	Non-interest bearing ’000 LVL	Total ’000 LVL
Liabilities							
Financial instruments at fair value through profit or loss	-	-	-	-	-	418	418
Deposits and balances from banks	17,309	-	3,897	127,542	-	10,786	159,534
Amounts payable under repurchase agreements	51,037	-	-	-	-	-	51,037
Current accounts and deposits from customers	554,409	33,331	36,091	7,634	7,568	246,846	885,879
Provisions	-	-	-	-	-	378	378
Other liabilities	-	-	-	-	-	5,316	5,316
Deferred tax liability	-	-	-	-	-	1,287	1,287
Shareholders’ equity	-	-	-	-	-	122,210	122,210
Total liabilities	**622,755**	**33,331**	**39,988**	**135,176**	**7,568**	**387,241**	**1,226,059**
Net position as at 31 December 2007	**37,015**	**(13,074)**	**38,843**	**34,238**	**196,170**	**(293,192)**	**-**
Net position as at 31 December 2006	**358,164**	**21,361**	**(41,480)**	**88,804**	**158,727**	**(585,576)**	**-**

43 Classification of assets and liabilities

Classification of assets, liabilities and shareholders' equity of the Bank as at December 31, 2008 was as follows:

Assets	Financial assets / liabilities at amortised cost '000 LVL	Financial assets / liabilities at fair value through profit and loss '000 LVL	Financial assets available for sale '000 LVL	Non-financial assets / liabilities '000 LVL	Total '000 LVL
Cash and deposit with the Bank of Latvia	45,547	-	-	-	45,547
Placements with banks and other financial institutions	237,313	-	-	-	237,313
Financial instruments at fair value through profit or loss	-	154,314	-	-	154,314
Loans and receivables from customers	571,057	-	-	-	571,057
Available-for-sale assets	-	-	10,779	-	10,779
Held-to-maturity investments	20,869	-	-	-	20,869
Investments in subsidiaries	-	-	-	16,197	16,197
Intangible assets	-	-	-	3,135	3,135
Property and equipment	-	-	-	5,684	5,684
Investment property	-	-	-	5,100	5,100
Assets held for sale	-	-	-	38,268	38,268
Other assets	9,013		-	-	9,013
Total assets	**883,799**	**154,314**	**10,779**	**68,384**	**1,117,276**
Liabilities					
Financial instruments at fair value through profit or loss	-	511	-	-	511
Deposits and balances from banks	153,708	-	-	-	153,708
Amounts payable under repurchase agreements	150,097	-	-	-	150,097
Current accounts and deposits from customers	670,611	-	-	-	670,011
Other borrowed funds	1,299	-	-	-	1,299
Provisions	-	-	-	387	387
Other liabilities	7,571	-	-	-	7,571
Deferred tax liability	-	-	-	595	595
Shareholders' equity	-	-	-	132,497	132,497
Total liabilities and equity	**983,286**	**511**	**-**	**133,479**	**1,117,276**

43 Classification of assets and liabilities, continued

Classification of assets, liabilities and shareholders' equity of the Bank as at December 31, 2007 was as follows:

Assets	**Financial assets / liabilities at amortised cost ’000 LVL**	**Financial assets / liabilities at fair value through profit and loss ’000 LVL**	**Financial assets available for sale ’000 LVL**	**Non-financial assets / liabilities ’000 LVL**	**Total ’000 LVL**
Cash and deposit with the Bank of Latvia	66,310	-	-	-	66,310
Placements with banks and other financial institutions	404,506	-	-	-	404,506
Financial instruments at fair value through profit or loss	-	77,168	-	-	77,168
Loans and receivables from customers	598,699	-	-	-	598,699
Available-for-sale assets	-	-	234	-	234
Held-to-maturity investments	23,934	-	-	-	23,934
Investments in subsidiaries	-	-	-	14,304	14,304
Intangible assets	-	-	-	2,977	2,977
Property and equipment	-	-	-	32,015	32,015
Other assets	5,912		-	-	5,912
Total assets	**1,099,361**	**77,168**	**234**	**42,296**	**1,226,059**
Liabilities					
Financial instruments at fair value through profit or loss	-	418	-	-	418
Deposits and balances from banks	159,534	-	-	-	159,534
Amounts payable under repurchase agreements	51,037	-	-	-	51,037
Current accounts and deposits from customers	885,879	-	-	-	885,879
Other borrowed funds	-	-	-	-	-
Provisions	-	-	-	378	378
Other liabilities	5,316	-	-	-	5,316
Deferred tax liability	-	-	-	1,287	1,287
Shareholders' equity	-	-	-	122,210	122,210
Total liabilities and equity	**1,101,766**	**418**	**-**	**123,875**	**1,226,059**