

RIETUMU BANK GROUP

Consolidated 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, the Rietumu Bank Group 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 EUR 75 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.

The Rietumu Bank Group 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 Group

	2008	2007	2006	2005
At year end (LVL'000)				
Total assets	1,102,874	1,216,241	921,507	704,197
Loans and receivables from customers	561,954	599,436	374,695	256,276
Other interest earning assets (bonds)	50,483	98,595	90,308	78,671
Due to customers	652,038	876,791	659,943	602,578
Total shareholder's equity attributable to equity holders of the Bank	130,345	121,331	96,158	71,942
For the year (LVL'000)				
Net profit before tax	21,813	40,199	33,937	22,052
Net profit after tax	18,801	34,607	29,584	18,960
Operating income	68,295	64,754	55,279	42,978
Ratios				
Earnings per share (LVL)				
After tax	0.84	1.54	1.31	0.89
Before tax	0.97	1.79	1.51	1.06
Dividend per share (LVL)	0.228	0.39	0.33	0.225
Return on equity				
Before tax	17.33%	36.97%	35.29%	37.92%
After tax	14.94%	31.82%	30.77%	32.60%
Return on assets				
Before tax	1.98%	3.31%	3.68%	3.13%
After tax	1.70%	2.85%	3.21%	2.69%
Capital adequacy ratio	14.62%	14.04%	14.85%	13.99%
Profit margin	32%	62.08%	61.39%	52.46%
Number of employees	787	631	657	648

STATEMENT OF MANAGEMENT RESPONSIBILITY

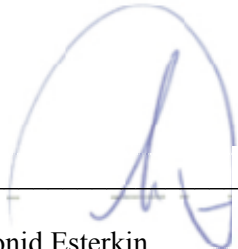
The management of Rietumu Bank is responsible for the preparation of the consolidated financial statements of the Bank and its subsidiaries (the Group) as well as for the preparation of the financial statements of the Bank.

The consolidated financial statements on pages 9 to 70 are prepared in accordance with the source documents and present fairly the financial position of the Group 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 Group 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 consolidated 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 Group's assets and the prevention and detection of fraud and other irregularities in the Group. The Management is also responsible for operating the Bank in compliance with the Law on Credit Institutions, regulations of the Finance and Capital Markets Commission and other legislation of the Republic of Latvia applicable institutions.

On behalf of the Management of the Bank:



Leonid Esterkin
AS "Rietumu Banka"
Padomes priekšsēdētāja vietnieks
ARKĀDIJS SUHARENKO

Chairman of the Council
Board



Alexander Kalinovsky

Chairman of the Executive

Riga, 20 March 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

<i>Name</i>	<i>Position</i>	<i>Date of appointment</i>
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

<i>Name</i>	<i>Position</i>	<i>Date of appointment</i>
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

<i>Name</i>	<i>Position</i>	<i>Date of appointment</i>
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 Group during the period beginning December 31, 2008 through to the date of the signing of these financial statements.



KPMG Baltics SIA
Vesetas iela 7
Riga LV 1013
Latvia

Phone +371 670 380 00
Fax +371 670 380 02
Internet: www.kpmg.lv

Independent Auditors' Report

To the shareholders of AS "Rietumu Banka"

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of AS Rietumu Banka and its subsidiaries ("the Group"), which comprise the consolidated balance sheet as at 31 December 2008, and the consolidated income statement, consolidated statement of changes in equity and consolidated 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 70.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated 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 consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Group's preparation and fair presentation of the consolidated 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 Group'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 consolidated 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 consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2008, and of its consolidated financial performance and its consolidated 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 Management, as set out on pages 3 to 4, the preparation of which is the responsibility of management, is consistent with the consolidated financial statements. Our work with respect to the Management report was limited to the aforementioned scope and did not include a review of any information other than drawn from the financial statements of the Group. In our opinion, the management report is consistent with the consolidated financial statements.

KPMG Baltics SIA
License No 55



Stephen Young
Chairman of the Board
Riga, Latvia
20 March 2009



Inga Lipšāne
Sworn Auditor
Certificate No 112

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

INCOME STATEMENT

For the year ended 31 December 2008

	Note	2008 '000 LVL	2007 '000 LVL
Interest income	6	66,167	58,497
Interest expense	6	(26,423)	(21,787)
Net interest income		39,744	36,710
Fee and commission income	7	17,582	16,065
Fee and commission expense	8	(3,924)	(4,439)
Net fee and commission income		13,658	11,626
Net gain/(loss) on financial instruments at fair value through profit or loss	9	(2,152)	(433)
Net foreign exchange income	10	9,592	12,534
Net realized gain on available-for-sale assets		625	-
Share of the profit of associates accounted for using equity method		42	39
Other income and expense	11	6,786	4,278
Operating Income		68,295	64,754
Impairment losses	12	(22,208)	(2,648)
General administrative expenses	13	(24,274)	(21,907)
Profit before income tax		21,813	40,199
Income tax expense	14	(3,012)	(5,592)
Net profit for the period		18,801	34,607
Attributable to:			
Equity holders of the parent		18,964	34,607
Minority interest		(163)	-

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 70.



Chairman of the Council
 Leonid Esterkin

AS "Rietumu Banka"
 Padomes priekšsēdētāja vietnieks
 ARKĀDIJS SUHARENKO



Chairman of the Board
 Alexander Kalinovskiy

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	154,383	78,046
Loans and receivables from banks	16	238,579	405,464
Loans and receivables from customers	18	561,954	599,436
Available-for-sale assets	19	1,481	1,477
Held-to-maturity investments	20	20,869	23,934
Investments in associates	21	97	52
Property, plant and equipment	22	35,619	32,533
Intangible assets	23	4,500	2,978
Deferred tax asset		52	-
Investment property	24	12,629	-
Non-current assets held for sale	25	6,788	-
Current tax asset		3,903	-
Other assets	26	16,473	6,011
Total Assets		1,102,874	1,216,241
LIABILITIES AND SHAREHOLDERS' EQUITY			
Financial instruments at fair value through profit or loss	17	849	360
Deposits and balances from banks	27	155,365	159,479
Current accounts and deposits from customers	28	652,038	876,791
Amounts payable under repurchase agreements		150,097	51,037
Provisions	35	387	378
Other borrowed funds	29	1,299	-
Current tax liability		-	316
Deferred tax liability	31	756	1,291
Other liabilities	30	9,941	5,258
Total Liabilities		970,732	1,094,910
Share capital	32	22,500	22,500
Share premium		4,809	4,809
Revaluation reserve		2,130	3,284
Other reserves		172	16
Revaluation reserve – foreign currency translation		(179)	-
Retained earnings		100,913	90,722
Total Equity Attributable to Equity Holders of the Bank		130,345	121,331
Minority interest		1,797	-
Total Shareholders' Equity		132,142	121,331
Total Liabilities and Shareholders' Equity		1,102,874	1,216,241
Commitments and Contingencies	34	65,555	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 70.

Chairman of the Council
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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		21,813	40,199
Amortisation and depreciation	22, 23	1,940	1,910
Loss on disposal of property		-	(4,039)
Impairment losses	12	22,208	2,648
Increase in cash and cash equivalents before changes in assets and liabilities, as a result of ordinary operations		45,961	40,718
Decrease in loans and receivables from banks – term deposits		119,158	24,913
(Decrease)/Increase in loans and receivables from non-banking customers		41,405	(226,883)
(Increase)/decrease in assets available-for-sale investments		(4)	374
Increase in financial instruments at fair value through profit or loss		(76,337)	(41,601)
Increase in derivative liabilities		489	78
Increase in provisions		9	378
Increase in other assets		(15,382)	(118)
Increase in deposit from banks – term deposits		8,693	22,856
(Decrease)/Increase in deposits from non-banking customers		(224,753)	216,848
Increase in amounts payable under repurchase agreements		99,060	18,716
Increase in other liabilities		4,667	592
(Decrease)/Increase in cash and cash equivalents from operating activities before corporate income tax		2,966	56,871
Corporate income tax paid		(7,744)	(6,079)
Net cash and cash equivalents from/(used in) operating activities		(4,778)	50,792
CASH FLOW FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment		(8,170)	(19,855)
Increase in investment property		(7,529)	-
Acquisition of subsidiaries, net of cash acquired		(31,049)	-
Decrease in held-to-maturity investments		3,065	33,572
Proceeds from sale of property, plant and equipment		254	6,440
Cash and cash equivalents from investing activities		(43,429)	20,157
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		(55,683)	63,524
Cash and cash equivalents at the beginning of the year		327,065	263,541
Cash and cash equivalents at the end of the year	33	271,382	327,065

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 70.

Chairman of the Council
Leonid Esterkin

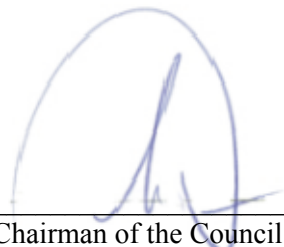
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STATEMENT OF CHANGES IN THE SHAREHOLDERS' EQUITY
For the year ended 31 December 2008

	Share capital	Share premium	Revaluation reserve	Other reserves	Revaluation reserve-FC translation	Retained earnings/(accumulated losses)	Total	Minority interest	Total equity
	'000 LVL	'000 LVL	'000 LVL	'000 LVL	'000 LVL	'000 LVL	'000 LVL	'000 LVL	'000 LVL
Balance at 1 January 2007	22,500	4,809	4,623	16	738	63,472	96,158	-	96,158
Net income/(loss) for the period	-	-	-	-	-	34,607	34,607	-	34,607
Transfers	-	-	(59)	-	(738)	68	(729)	-	(729)
Revaluation and disposal of property, plant and equipment, net of deferred tax of 15%	-	-	(1,280)	-	-	-	(1,280)	-	(1,280)
Dividends paid	-	-	-	-	-	(7,425)	(7,425)	-	(7,425)
Balance at 31 December 2007	22,500	4,809	3,284	16	-	90,722	121,331	-	121,331
Prior year adjustment	-	-	-	-	-	141	141	-	141
Minority share on acquisition of subsidiaries	-	-	-	-	-	-	-	1,960	1,960
Net income/(loss) for the period	-	-	-	-	-	18,964	18,964	(163)	18,801
Other reserves	-	-	-	156	-	(156)	-	-	-
Revaluation reserve-FC translation	-	-	-	-	(179)	-	(179)	-	(179)
Transfers	-	-	(17)	-	-	17	-	-	-
Revaluation of property, plant and equipment, net of deferred tax of 15%	-	-	(1,137)	-	-	-	(1,137)	-	(1,137)
Dividends declared	-	-	-	-	-	(8,775)	(8,775)	-	(8,775)
Balance at 31 December 2008	22,500	4,809	2,130	172	(179)	100,913	130,345	1,797	132,142

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 70.


Chairman of the Council
Leonid Esterkin

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ARKĀDIJS SUHARENKO


Chairman of the Board
Alexander Kalinovskiy

1 Background

Principal activities

These consolidated financial statements include the financial statements of AS “Rietumu Bank” (the “Bank”) and its subsidiaries (together referred to as the “Group”). The principal subsidiaries of the Bank are set out below.

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 Group during the year was 787 (2007: 631).

The principal subsidiaries of the Bank are as follows:

Name	Country of incorporation	Principal Activities	Ownership %	Ownership %
			31 December 2008	31 December 2007
RB Securities Ltd	Stasinou Street 1, Mitsui Bulding, 2 nd floor, office 5, Plateia Eleftherias, P.C. 1060, Nicosia, Cyprus	Financial services	99.99%	99.99%
SIA “RB Investments”	Vesetas 7, Riga, Latvia	Investments	100%	100%
AS “RB Securities” IBS	Vesetas 7, Riga, Latvia	Financial services	100%	100%
AS “RB Asset management” IPS	Vesetas 7, Riga, Latvia	Financial services	100%	100%
SIA “RB Drošība”	Vesetas 7, Riga, Latvia	Security services	100%	100%
SIA “RB Vidzeme”	Vesetas 7, Riga, Latvia	Investments	100%	100%
SIA “RB Namu serviss”	Vesetas 7, Riga, Latvia	Real estate operating	100%	-
“Westleasing” OOO	Fabriciusa street 8, 4 th floor, office42, Minsk Belarus	Leasing company	50%	-
“Westtransinvest” OOO	Fabriciusa street 8, 4 th floor, office18, Minsk Belarus	Leasing Company	50%	-
“Westleasing-M” OOO	Kostjakova street 10, Moscow, Russia	Leasing Company	50%	-
SIA “Elektro bizness”	Vesetas 7, Riga, Latvia	Electricity production company	90%	-
Rietumu bankas Labdarības fonds	Vesetas 7, Riga, Latvia	Charity	-	-

In the subsidiaries with 50% share the Group has the right to majority votes in Board of Directors.

2 Basis of preparation

(a) Statement of compliance

The accompanying consolidated 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.

Latvian accounting legislation requires the Bank to prepare separate financial statements in accordance with IFRS as adopted by the European Union.

The financial statements were authorized for issue by the Board of Directors on March 20, 2009. The consolidated 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 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 to fair value 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.

The functional currencies of subsidiaries of the Bank are as follows:

<u>Name</u>	
RB Securities Ltd	USD
SIA “RB Investments”	LVL
AS “RB Securities” IBS	LVL
AS “RB Asset management” IPS	LVL
SIA “RB Drošība”	LVL
SIA “RB Vidzeme”	LVL
SIA”RB Namu serviss”	LVL
SIA “Elektro bizness”	LVL
“Westleasing” OOO	BYR
“Westtransinvest” OOO	BYR
“Westleasing-M” OOO	RUB
Rietumu bankas Labdarības fonds	LVL

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

(i) *Foreign currency transactions*

Transactions in foreign currencies are translated into the respective functional currency of the Bank and subsidiaries at the spot exchange rate on 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 non-monetary items with gains and losses, which are recognised directly in equity.

(ii) *Foreign operations*

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated into LVL at exchange rates set by Bank of Latvia at the reporting date. The income and expenses of foreign operations are translated into LVL at average exchange rate for the year. Foreign currency differences arising on translation to the Bank functional currency are directly recognised in equity in a foreign currency translation reserve.

(b) Basis of consolidation

(i) *Subsidiaries*

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

(ii) *Associates*

Associates are those enterprises in which the Group has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the Group holds between 20 and 50% of the voting power of associated entity. The consolidated financial statements include the Group's share of the total recognised gains and losses of associates on an equity accounted basis, from the date that significant influence effectively commences until the date that significant influence effectively ceases. When the Group's share of losses exceeds the Group's interest in the associate, that interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Bank has incurred obligations in respect of the associate.

3 Significant accounting policies, continued

(b) Basis of consolidation, continued

(iii) *Transactions eliminated on consolidation*

Intra-Group balances and transactions, and any unrealised gains arising from intra-Group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with associates are eliminated to the extent of the Group's interest in the enterprise. Unrealised gains resulting from transactions with associates are eliminated against the investment in the associate. Unrealised losses are eliminated in the same way as unrealised gains except that they are only eliminated to the extent that there is no evidence of impairment.

(iv) *Funds management*

The Group manages and administers assets held in unit trusts and other investment vehicles on behalf of investors. The financial statements of these entities are not included in these consolidated financial statements except when the Group controls the trust or investment vehicle.

(c) Goodwill

Goodwill represents the excess of the cost of a business combination over the Group'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 income statement.

(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.

3 Significant accounting policies, continued

(e) Financial instruments, continued

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Group 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 Group intends to sell immediately or in the near term;
- the Group upon initial recognition designates as at fair value through profit or loss;
- the Group upon initial recognition designates as available- for-sale; or
- the Group 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 and finance lease.

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

When assets are held subject to finance lease, the present value of the minimum lease payments is recognised as a receivable. The difference between the gross receivable and the present value of the receivable before allowance is recognised as unearned finance income.

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.

3 Significant accounting policies, continued

(e) Financial instruments, continued

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

(ii) Recognition

The Group 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 Group 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.

Held-to-maturity investments and loans and receivables are carried at amortised 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 carried at cost.

All loans and receivables and financial liabilities at amortised 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 amortised cost. Amortised cost is calculated using the effective interest method. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortised based on the effective interest rate of the instrument.

(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 Group 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.

3 Significant accounting policies, continued

(e) Financial instruments, continued

If a market for a financial instrument is not active, the Group 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 Group, 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.

Assets and long positions are measured at a bid price; liabilities and short positions are measured at an asking price. Where the Group has positions with offsetting risks, mid-market prices are used to measure the offsetting risk positions and a bid or asking price adjustment is applied only to the net open position as appropriate. Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit. Fair value estimates obtained from models are adjusted for any other factors, such as liquidity risk or model uncertainties, to the extent that the Group 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 amortised cost, a gain or loss is recognised in the income statement when the financial asset or liability is derecognised or impaired, and through the amortisation process.

3 Significant accounting policies, continued

(e) Financial instruments, continued

(vi) Derecognition

A financial asset is derecognised when the contractual rights to the cash flows from the financial asset expire or when the Group 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.

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 swaps, forwards, futures, and options in interest rate, foreign exchange, precious metals and stock markets, and any combinations of these instruments. The Group 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 Group 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.

3 Significant accounting policies, continued

(f) Property, plant and equipment

(i) Owned assets

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

(ii) Leased assets

Leases under which the Group 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 Group 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
Machinery	6.7 to 20 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, use in the production or supply of goods and services or for administrative purposes. The Group 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.

3 Significant accounting policies, continued

(h) Non-current assets held for sale

The Group 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 Group measures assets classified as held for sale at the lower of their carrying amount and fair value less costs to sell.

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 Latvian law, the Group cannot assume 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 Group is assuming the constructive title to the asset, the Group classifies the asset as non-current asset held-for-sale.

(i) Intangible assets

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

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

(j) Impairment

(i) Financial assets

At each balance sheet date the Group 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 Group on terms that the Group 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 held-to-maturity investment securities and loans and receivables from customers are assessed for specific impairment. Accordingly, the Group does not set aside a collective impairment allowance on held-to-maturity investment securities and loans and receivables from customers, except for loans and receivables from finance lease.

For the lease contracts for which the specific impairment allowance is not recognised to align with the statistics on the current market conditions on average non-recoverability of finance lease receivables from legal entities the collective impairment allowance is recognised as percentage of net investments in finance lease before allowance without accrued interest based on historical experience. In 2008, the percentage for collective allowance amounts to 0.25%.

3 Significant accounting policies, continued

(j) Impairment, continued

Loans and receivables are stated in the balance sheet at amortised 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.

Impairment losses on assets carried at amortised cost are measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against loans and 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 amortisation, and the current fair value, less any impairment loss previously recognised in profit or loss. Changes in impairment allowance 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 Group'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 amortisation, if no impairment loss had been recognised.

3 Significant accounting policies, continued

(k) Provisions

A provision is recognised in the balance sheet when the Group 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 Group 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 Group 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 Group to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

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

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.

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.

3 Significant accounting policies, continued

(m) Taxation, continued

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 rate 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 amortised 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 as other income when there is legal or constructive evidence that the Group 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 Group 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.

(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 Group's 2009 financial statements and will be applicable retrospectively. The interpretation is not relevant to the Group.

3 Significant accounting policies, continued

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

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

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 debt issue costs, will be expensed as incurred
- any pre-existing interest in an acquiree will be measured at fair value, which the related gain or loss recognised in profit or loss
- any non-controlling (minority) interest will be measured at either fair value, or at its proportionate interest in the identifiable assets and liabilities of and acquiree, on a transaction-by-transaction basis.

Revised IFRS 3, which becomes mandatory for the Group'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 Group does not have to disclose reporting according to segment, therefore the new standard is not applicable to its consolidated 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 Group will apply this amendment from the annual period beginning 1 January 2009.

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 Group's 2009 financial statements and will constitute a change in accounting policy for the Group. In accordance with the transitional requirements, the Group will apply the revised IAS 23 to qualifying assets for which capitalisation of borrowing costs commences on or after the effective date. Therefore there will be no impact on prior periods in the Group's 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 Group's 2010 financial statements, do not have a significant impact on these financial statements.

3 Significant accounting policies, continued

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

Amendments to IAS 32 and IAS 1 *Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation* require puttable instruments and instruments that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation to be classified as equity if certain conditions are met. The amendments, which become mandatory for the Group's 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 Group's 2010 financial statements, with retrospective application required. The Group 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 Group's operations as the Group does not provide real estate construction services or develop real estate for sale.

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

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

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

3 Significant accounting policies, continued

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

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 Group has exposure to the following risks:

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

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

(a) Risk management policies and procedures

The Group's risk management policies aim to identify, analyse and manage the risks faced by the Group, 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 Group 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 Group is responsible for monitoring and implementation of risk mitigation measures and making sure that the Group operates within the established risk parameters. The Head of the Risk Department of the Group 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 in all Group companies. He reports directly to the First Vice President of the Group and indirectly to the Board of Directors. The Head of the Risk Department delegates responsibilities of risk management, compliance functions to risk managers of significant subsidiaries, who report directly to him in regards of implementation of controls, monitoring, measuring and managing financial and non-financial risks.

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 Group'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 Group'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 Divisions.

The Group 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 Group 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 Group's overall position. Stress tests provide an indication of the potential size of losses that could arise in extreme conditions. The stress tests carried out by the Group 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 Group'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 Group's income or the value of its portfolios of financial instruments.

The Group 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 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 Group has assets and liabilities denominated in several foreign currencies. Foreign currency risk arises when the actual or forecasted assets in a foreign currency are either greater or less than the liabilities in that currency. For further information on the Group's 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 Group'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, EUR, RUB or BYR to LVL exchange rates is as follows:

'000 LVL	2008		2007	
	Net income	Equity	Net income	Equity
5% appreciation of USD against LVL	(411)	(411)	443	443
5% depreciation of USD against LVL	411	411	(443)	(443)
5% appreciation of EUR against LVL	2,579	2,579	2,087	2,087
5% depreciation of EUR against LVL	(2,579)	(2,579)	(2,087)	(2,087)
5% appreciation of RUB against LVL	192	192	-	-
5% depreciation of RUB against LVL	(192)	(192)	-	-
5% appreciation of BYR against LVL	20	20	-	-
5% depreciation of BYR against LVL	(20)	(20)	-	-

(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 Group takes a long or short position in a financial instrument.

An analysis of sensitivity of the Group'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:

'000 LVL	2008		2007	
	Net income	Equity	Net income	Equity
5% increase in securities prices	7,719	7,719	3,902	3,902
5% decrease in securities prices	(7,719)	(7,719)	(3,902)	(3,902)

(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 Group. The Group has developed unified 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 credit risk in all Group companies. The credit policy is reviewed and approved by the Management Board.

4 Risk management, continued

(c) Credit risk, continued

The 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.

The Group 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 Group. The current market value of collateral is regularly assessed by either independent appraisal companies or the Group's specialists.

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

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

The Group 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".

(d) Liquidity risk

Liquidity risk is the risk that the Group 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 Group. It is unusual for financial institutions ever to be completely matched since business transacted is often of an uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses.

The Group 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 Group's liquidity policy is reviewed and approved by the Management Board.

4 Risk management, continued

(d) Liquidity risk, continued

The Group 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 Group 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 Group 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 Group are presented to senior management on a daily basis. Decisions on the Group's liquidity management are made by the Asset and Liability Management Committee and implemented by the Treasury Department.

(e) Operational risks

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

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

4 Risk management, continued

(e) Operational risks, continued

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

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

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

(f) Capital management

The Group's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholders returns is also recognised and the Group 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 capitalisation.

The Group defines as capital those items defined by statutory regulation as capital. Under the current capital requirements the Group 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 Group was in compliance with the statutory capital ratio during the years ended 31 December 2007 and 31 December 2008.

4 Risk management, continued

(f) Capital management, continued

The following table shows the composition of the Group'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	172	16
Minority interest	1,797	-
Revaluation reserve-foreign currency translation	(179)	-
Retained earnings from prior years	81,949	56,115
Current year profit	18,964	34,607
Deductions from the capital base		
Intangible assets	(4,500)	(2,978)
Other deductions	(1,840)	-
Dividends declared or proposed	(5,130)	(8,775)
Total tier 1 capital	118,542	106,294
Tier 2 capital		
Asset revaluation reserve	57	2,299
Total tier 2 capital	57	2,299
Total capital	118,599	108,593
Capital requirement	65,082	62,382
Total capital adequacy ratio	14.62%	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 Group is subject to minimum capital adequacy requirements calculated in accordance with the Basle Accord established by covenants under liabilities incurred by the Group. The Group 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 Group uses valuation models based on quoted market prices of similar products.

For the purposes of impairment loss measurement, the Group'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, countries in which Group companies operate have been experiencing economic downturn which has affected, and may continue to affect, the activities of enterprises operating in these environments.

The economies of the Republic of Belarus and the Russian Federation, where the Bank's leasing subsidiaries operate, are characterized by relatively high level of taxation and high degree of State regulation. Business legislation of the Republic of Belarus is at the development stage and constantly changes. There is a considerable degree of uncertainty in the Republic of Belarus surrounding the continued success of the domestic economic policy. The recoverability of the Belarus Leasing companies' assets and the future operations of the Belarus Leasing companies are dependent on future results of the economic policy of the country.

The accompanying consolidated financial statements reflect management's assessment of the impact of the local and global business environment on the operations and the financial position of the Group. Future developments in the business environment may differ from management's assessment.

6 Net interest income

	2008	2007
	'000 LVL	'000 LVL
Interest income		
Loans and receivables from customers	50,868	40,263
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
	66,167	58,497
Interest expense		
Current accounts and deposits from customers	15,167	13,046
Deposits and balances from banks and other financial institutions	9,634	6,605
Amounts payable under repurchase agreements	93	686
Certificates of deposit and promissory notes	58	-
Other interest expense	1,471	1,450
	26,423	21,787

7 Fee and commission income

	2008	2007
	'000 LVL	'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	1,753	1,096
	17,582	16,065

8 Fee and commission expense

	2008	2007
	'000 LVL	'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	510	466
Cash withdrawal fees	12	9
Other	429	771
	3,924	4,439

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

	2008	2007
	'000 LVL	'000 LVL
Equity instruments	(80)	(433)
Debt instruments	(2,085)	-
Other	13	-
	(2,152)	(433)

10 Net foreign exchange income

	2008	2007
	'000 LVL	'000 LVL
Loss from revaluation of financial assets and liabilities	(2,085)	(94)
Gain on spot transactions and derivatives	11,677	12,628
	9,592	12,534

11 Other income/expense

	2008	2007
	'000 LVL	'000 LVL
Dividends received	26	45
Penalties received	1,714	356
Profit from sale of property	-	4,038
Income from operating lease	449	-
Provision for litigation	-	(408)
Other	4,597	247
	6,786	4,278

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	2007
	'000 LVL	'000 LVL
Impairment losses		
Loans and receivables from customers	(21,700)	(2,400)
Held-to maturity financial instruments	(327)	-
Property, plant and equipment	(91)	(97)
Assets available for sale	-	(120)
Other assets	(420)	(289)
	(22,538)	(2,906)
Reversals of impairment losses		
Loans and receivables from customers	232	258
Property, plant and equipment	97	-
Other assets	1	-
	(22,208)	(2,648)

13 General administrative expenses

	2008	2007
	'000 LVL	'000 LVL
Employee compensation	10,015	8,408
Depreciation and amortisation	1,940	1,909
Payroll taxes	2,122	1,714
Salaries to Board of Directors and Council	1,725	1,694
Repairs and maintenance	1,011	697
Taxes other than on income	1,018	831
Communications and information services	989	941
Charity and sponsorship	871	590
Security	7	-
Rent	661	765
Insurance	777	224
Travel expenses	330	312
Advertising and marketing	261	526
Professional services	300	186
Stationery	62	106
Other	2,185	3,004
	24,274	21,907

14 Income tax expense

Recognised in the income statement	2008	2007
	'000 LVL	'000 LVL
Current tax expense		
Current year	3,525	5,835
Under/(over) provided in prior years	-	16
	3,525	5,851
Deferred tax expense		
Reversal of temporary differences	(513)	(259)
Total income tax expense in the income statement	3,012	5,592

The tax rate applicable to countries in which group entities operate:

	2008
Latvia	15.00%
Belarus	26.28%
Cyprus	10.00%
Russia	24.00%

14 Income tax expense, continued

Reconciliation of effective tax rate:

	2008	%	2007	%
	'000 LVL		'000 LVL	
Income before tax	21,813	-	40,199	-
Income tax at the applicable tax rate	3,202	14.68%	6,030	15.00%
Non-deductible expenses	583	2.67%	800	1.99%
Tax exempt income	(33)	(0.15%)	(100)	(0.25%)
Reversal of previously non-recognised tax loss	(113)	(0.52%)	-	-
Tax relief on donations	(685)	(3.14%)	(1,140)	(2.84%)
Effect of different tax rate in other countries	58	0.27%	(14)	(0.03%)
Under/(over) provided in prior years	-	-	16	0.04%
	3,012	13.81%	5,592	13.91%

Income tax recognised directly in equity

	2008	2007
	'000 LVL	'000 LVL
Deferred tax expense		
Revaluation of buildings	(267)	(250)
Total income tax recognised directly in equity	(267)	(250)

15 Cash and balances with central bank

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

	2008	2007
	'000 LVL	'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.

16 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	46,392	45,891
Total nostro accounts	228,185	275,912
Loans and deposits		
Latvian commercial banks	6,930	6,776
OECD banks	205	111,714
Non-OECD banks	3,259	11,062
Total loans and deposits	10,394	129,552
	238,579	405,464

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		
Trading portfolio		
European Union	-	7,301
USA	150,050	64,720
Russia	-	2,263
Other regional authorities and municipal bonds	-	841
Total government and municipal bonds	150,050	75,125
Derivative financial assets	1,240	1,358
Equity investments	3,093	1,563
Total financial assets at fair value through profit or loss	154,383	78,046
<i>Of which pledged under sale and repurchase agreements</i>		
- Government and municipal bonds		
USA	150,050	48,576
Total Government and municipal bonds	150,050	48,576
Derivative financial liabilities	849	360
Total financial assets at fair value through profit or loss	849	360

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

Equity investments include non-listed 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. Other equity investments of LVL 396 thousands are valued based on quoted market price.

Reclassification of financial instruments

Pursuant to the amendments to IAS 39 and IFRS 7, the Group reclassified certain trading assets to Loans and receivables from customers. The Group 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 Group had the intention and ability to hold them for the foreseeable future or until maturity. For the trading assets identified for reclassification, the Group 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.

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:

‘000LVL	1 July 2008		31 December 2008	
	Carrying value	Fair value	Carrying value	Fair value
Financial instruments held for trading reclassified to Loans and receivables from customers	23,554	23,554	23,980	24,211

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	(853)
Period after reclassification	
Financial instruments reclassified to Loans and receivables from customers	
Interest income	854
Net impairment loss	-

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

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	657

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

Derivative financial assets and liabilities

	2008 ‘000 LVL		2007 ‘000 LVL	
	Carrying value	Notional value	Carrying value	Notional value
Assets				
Forward contracts	183	31,648	192	54,354
Option premium	49	49	-	-
Embedded derivatives separated from host contract	1,008	-	1,166	-
Total derivative financial assets	1,240		1,358	
Liabilities				
Options on equities	8	-	-	-
Future contracts	330	-	-	-
Forward contracts	511	31,902	360	54,480
Total derivative liabilities	849		360	

18 Loans and receivables from customers

	2008 ‘000 LVL	2007 ‘000 LVL
Private companies		
Finance leases	23,527	-
Other secured lending	487,445	504,431
Individuals	71,039	97,918
Impairment allowance specific	(18,467)	(2,913)
Impairment allowance collective	(1,590)	-
Net Loans and receivables from customers	561,954	599,436

18 Loans and receivables from customers, continued

(a) Finance lease

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

	2008 '000 LVL	2007 '000 LVL
Gross investment in finance leases, receivable		
Less than one year	16,587	-
Between one and five years	14,942	-
Total gross investment in finance leases	31,529	-
Unearned finance income	(7,773)	-
Net investment in finance lease before allowance	23,756	-
Impairment allowance	(229)	-
Net investment in finance lease	23,527	-
	2008 '000 LVL	2007 '000 LVL
The net investment in finance leases comprises:		
Less than one year	11,746	-
Between one and five years	11,781	-
Net investment in finance lease	23,527	-

(b) Credit quality of loan portfolio

(i) Ageing structure of loan portfolio

	Total LVL'000	Of which not past due on the reporting date	Of which past due by the following terms				Net carrying value of overdue loans
			Less than 30 days	31-90 days	91-180 days	More than 180 days	
As at 31 Dec 2007							
Net carrying amount	599,436	540,217	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	766,264	685,153	40,853	5,026	27,936	7,296	81,111
As at 31 Dec 2008							
Net carrying amount	561,954	494,427	54,578	5,161	5,276	2,512	67,527
Out of which impaired	60,088	44,928	3,637	4,670	5,020	1,833	15,160
Assessed fair value of collateral	786,771	706,646	60,421	7,002	8,175	4,527	80,125

18 Loans and receivables from customers, continued

(i) *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	209,780	37.33	199,981	33.36
Commercial assets pledge	126,467	22.50	117,320	19.57
Land mortgage	85,265	15.17	130,171	21.71
Mortgage on residential properties	42,821	7.62	50,655	8.45
Traded securities	35,343	6.29	61,245	10.22
Trading financial instruments reclassified to Loans and receivables from customers	24,878	4.43	-	-
Guarantee	13,447	2.39	13,639	2.28
Deposit	1,949	0.35	8,125	1.36
Other	22,004	3.92	18,300	3.05
Total	561,954	100	599,436	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.

(ii) *Impaired loans*

	2008 '000 LVL	2007 '000 LVL
Impaired loans gross	78,555	11,004
Impairment allowance specific	(18,467)	(2,913)
Net Loans and receivables from customers	60,088	8,091
Fair value of collateral related to impaired loans	90,006	15,346

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

2008 '000 LVL	Gross	Impairment allowance specific
Standard	504,250	-
Watch	40,188	(4,699)
Substandard	33,161	(10,435)
Doubtful	4,264	(3,185)
Lost	148	(148)
Total	582,011	(18,467)

18 Loans and receivables from customers, continued

(iii) *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
Allowance for impairment		
Balance at 1 January	2,913	942
Increase in allowance as a result of acquisition of subsidiaries	1,795	-
Charge for the year	21,700	2,400
Reversal of impairment loss	(232)	(258)
Effect of foreign currency translation	(125)	(51)
Write offs	(5,994)	(120)
Balance at 31 December	20,057	2,913

(iv) *Restructured loans*

As at 31 December 2008, the Group 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	-
Commercial movable equipment	1,434	-
Total	12,610	-

When loans foreclose and recovery through sale or repossession of collateral commences, the Group reclassifies the carrying value of the loan to non-current assets held for sale or investment property, accordingly. The assets are valued at the lower of cost and net realizable value and are shown in Notes 24 and 25.

(c) **Industry analysis of the loan portfolio**

	2008 '000 LVL	2007 '000 LVL
Real estate management	161,776	271,058
Financial services	143,474	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	24,878	-
Investments in finance lease	23,749	-
Food industry	23,108	13,795
Transport and communication	9,776	32,600
Tourism	616	3,241
Other	25,566	21,354
Total	561,954	599,436

18 Loans and receivables from customers, continued

(d) Geographical analysis of the loan portfolio

	2008	2007
	'000 LVL	'000 LVL
Latvia	264,749	310,460
OECD countries	166,583	167,759
Non-OECD countries	130,622	121,217
	561,954	599,436

(e) Significant credit exposures

As at 31 December 2008 and 2007 the Group 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 Group 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 Group was in compliance with this requirement.

19 Available-for-sale assets

	2008	2007
	'000 LVL	'000 LVL
Equity investments		
Corporate shares	1,481	1,597
Specific impairment loss allowances	-	(120)
	1,481	1,477

Unlisted available for sale corporate shares include SWIFT shares, shares of NASDAQ OMX Riga stock exchange and shares of Latvian companies.

Analysis of movements in the impairment allowance

	2008	2007
	'000 LVL	'000 LVL
Balance at the beginning of the year	120	-
Net charge/(recovery) for the year	-	120
Write offs	(120)	-
Balance at the end of the year	-	120

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 Investments in associates

The Company owns following share in associates, both associated companies are providing transportation services and their assets consists mainly from fixed assets for their operations. The total assets and revenues are not material for Group and therefore it would be impracticable to disclose the information.

Name	Country of incorporation	Principal Activities	Ownership %	Amount of investment	Ownership %	Amount of investment
			31 December 2008		31 December 2007	
SIA "AED Real Service"	Latvia	Information services for the rail way	43.00%	50	43.00%	20
SIA "Dzelzcela Tranzits"	Latvia	Information services for the rail way	49.12%	47	45.61%	32
Total				97		52

22 Property, plant and equipment

'000 LVL	<u>Land and buildings</u>	<u>Const- ruction in progress</u>	<u>Vehicles</u>	<u>Office equipment</u>	<u>Machinery</u>	<u>Leasehold improvements</u>	<u>Total</u>
Cost/Revalued amount							
At 1 January 2008	7,955	20,056	2,194	8,314	-	206	38,725
Additions	425	5,894	10	1,420	-	-	7,749
Acquisition of subsidiaries	257	442	32	24	867	-	1,622
Disposals	(196)	(113)	(321)	(390)	-	-	(1,020)
Impairment losses	-	(91)	-	-	-	-	(91)
Reversal of impairment loss	97	-	-	-	-	-	97
Revaluation	(1,404)	-	-	-	-	-	(1,404)
Transferred to Investment property	(5,100)	-	-	-	-	-	(5,100)
Transfers	26,327	(25,371)	125	710	-	-	1,791
At 31 December 2008	28,361	817	2,040	10,078	867	206	42,369
Depreciation and impairment losses							
At 1 January 2008	152	-	935	4,899	-	206	6,192
Depreciation charge	10	-	409	881	24	-	1,324
Disposals	(100)	-	(289)	(377)	-	-	(766)
At 31 December 2008	62	-	1,055	5,403	24	206	6,750
Carrying value							
At 31 December 2008	28,299	817	985	4,675	843	-	35,619
At 31 December 2007	7,803	20,056	1,259	3,415	-	-	32,533

During 2008, the construction of the office building at Vesetas Street 7, Riga, was completed and the majority of the Group's staff and divisions were relocated into this building. As of 30 June 2008 the building was shown as a non-current asset held for sale; however, due to change in circumstances, the Group does not plan to sell the building.

22 Property, plant and equipment, continued

In September 2008, the Group 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.

'000 LVL	Land and buildings	Const- ruction in progress	Vehicles	Office equipment	Leasehold improvements	Total
Cost/Revalued amount						
At 1 January 2007	11,169	4,691	1,852	6,303	206	24,221
Additions	834	15,365	753	2,647	-	19,599
Revaluation	1,114	-	-	-	-	1,114
Impairment losses	(97)	-	-	-	-	(97)
Disposals	(5,065)	-	(411)	(636)	-	(6,112)
At 31 December 2007	7,955	20,056	2,194	8,314	206	38,725
Depreciation and impairment losses						
At 1 January 2007	522	-	894	4,367	205	5,988
Depreciation charge	158	-	378	734	1	1,271
Revaluation	(347)	-	-	-	-	(347)
Disposals	(181)	-	(337)	(202)	-	(720)
At 31 December 2007	152	-	935	4,899	206	6,192
Carrying value						
At 31 December 2007	7,803	20,056	1,259	3,415	-	32,533
At 31 December 2006	10,647	4,691	958	1,936	1	18,233

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	(6)	97
Write-offs	-	-
Balance at the end of the year	91	97

23 Intangible assets

'000 LVL	Goodwill	Software	Other	Total
Cost				
At 1 January 2008	751	5,166	368	6,285
Additions	1,969	150	438	2,557
Transfers	-	412	(226)	186
At 31 December 2008	2,720	5,728	580	9,028
Amortisation and impairment losses				
At 1 January 2008	-	3,302	5	3,307
Impairment loss	605	-	-	605
Amortisation charge	-	612	4	616
At 31 December 2008	605	3,914	9	4,528
Carrying value				
At 31 December 2008	2,115	1,814	571	4,500
At 31 December 2007	751	1,864	363	2,978
'000 LVL				
Cost				
At 1 January 2007	751	5,048	246	6,045
Additions	-	134	122	256
Disposals	-	(16)	-	(16)
At 31 December 2007	751	5,166	368	6,285
Depreciation and impairment losses				
At 1 January 2007	-	2,682	2	2,684
Depreciation charge	-	636	3	639
Disposals	-	(16)	-	(16)
At 31 December 2007	-	3,302	5	3,307
Carrying value				
At 31 December 2007	751	1,864	363	2,978
At 31 December 2006	751	2,366	244	3,361

23 Intangible assets, continued

In 2008 the Bank acquired the following subsidiaries:

	Westleasing	Westtransinvest	Westleasing-M	Elektrobizness
Date of acquisition	25.03.2008.	25.03.2008.	18.08.2008.	17.10.2008
Share %	50%	50%	50%	90%

The acquisition of the subsidiaries had the following effect on the Group's assets and liabilities at the date of acquisition:

'000 LVL	West-leasing	West-transinvest	West-leasing-M	Elektro-bizness	Other subsidiaries	Total
Assets						
Placements with banks and other financial institutions	166	485	329	-	157	1,137
Loans to customers	1,788	9,037	13,290	-	-	24,115
Property and equipment	9	131	227	1,127	128	1,622
Investment property	-	-	-	-	1,621	1,621
Other assets	186	2,590	4,033	31	47	6,887
Liabilities						
Deposits and balances from banks and other financial institutions	(1,608)	(10,386)	(14,913)	(548)	(1,031)	(28,486)
Current accounts and deposits from customers	-	(89)	-	(420)	(79)	(588)
Other liabilities	(129)	(415)	(836)	(22)	(43)	(1,445)
Deferred tax liability	-	(113)	-	(9)	(71)	(193)
Net identifiable assets and liabilities	412	1,240	2,130	159	729	4,670
Net identifiable assets and liabilities attributable to the Group shareholders						
Goodwill	-	-	601	1,368	-	1,969
Goodwill/(negative goodwill) on acquisition	(150)	(451)	-	-	(384)	(985)
Consideration paid	56	169	1,666	1,511	298	3,700
Net identifiable assets and liabilities attributable to Minority	206	620	1,065	16	47	1,954

Negative goodwill was recognised in profit and loss of 2008.

The carrying values of assets and liabilities as at the date of acquisition approximate their fair values.

24 Investment property

	2008	2007
	'000 LVL	'000 LVL
Balance at 1 January	-	-
Acquisition of subsidiaries	1,621	-
Transfer in of property Brivibas 54, Riga, at fair value	5,100	-
Collateral from loans assumed	5,821	-
Other investment property	87	-
Balance at 31 December	12,629	-

The investment property from collateral assumed is represented by land and buildings, which will be rented out. The fair value of the property was estimated using valuation technique based on discounted cash flows from rental agreement.

25 Non-current assets held for sale

	2008	2007
	'000 LVL	'000 LVL
Collateral from loans assumed	6,788	-
	6,788	-

When loans foreclose and recovery through sale of collateral commences, the Group reclassifies the carrying value of the loan to non-current assets held for sale or investment property, accordingly. The collateral from loans assumed include land and commercial buildings, residential buildings and vehicles.

26 Other assets

	2008	2007
	'000 LVL	'000 LVL
Auction deposit	6,814	-
Prepayments	2,276	1,754
Recoverable VAT	1,035	1,215
Other	6,960	3,464
Impairment allowance	(612)	(422)
	16,473	6,011

The Group paid in auction deposit to be able to formally gain title to collateral of a restructured loan. The deposit was settled in February 2009.

Analysis of movements in the impairment allowance

	2008	2007
	'000 LVL	'000 LVL
Balance at the beginning of the year	422	391
Net charge/(recovery) for the year	420	289
Write-offs	(231)	(258)
Currency revaluation	1	-
Balance at the end of the year	612	422

27 Deposits and balances from banks

	2008	2007
	'000 LVL	'000 LVL
Vostro accounts	2,350	15,157
Term deposits	153,015	144,322
	155,365	159,479

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	2007
	'000 LVL	'000 LVL
Current accounts and demand deposits		
- State enterprises	44	83
- Private companies	29,681	29,017
- Individuals	29,622	41,969
- Private companies non-residents	406,052	520,674
- Individuals non-residents	42,744	44,231
Total current account and demand deposits	508,143	635,974
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 from customers	652,038	876,791

(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	2007
	'000 LVL	'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	2007
	'000 LVL	'000 LVL
Deferred income	5,052	-
Dividends payable	4	4
Estimated payable for annual leave	845	639
Estimate payable for management bonus	-	636
Other	4,040	3,979
	9,941	5,258

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	
	2008	2007	2008	2007	2008	2007
'000 LVL						
Financial instruments at fair value through profit or loss	165	-	-	(37)	165	(37)
Property, plant and equipment	291	605	(921)	(2,109)	(630)	(1,504)
Investment property	-	-	(417)	-	(417)	-
Other assets	56	-	-	-	56	-
Other liabilities	122	174	-	-	122	174
Total deferred tax assets/(liabilities)	634	779	(1,338)	(2,146)	(704)	(1,367)
Unrecognised deferred tax assets/(liabilities)	-	-	-	76	-	76
Recognised net deferred tax assets/(liabilities)	634	779	(1,338)	(2,070)	(704)	(1,291)

The tax rate applicable to countries in which group entities operate:

	2008
Latvia	15.00%
Belarus	26.28%
Cyprus	10.00%
Russia	24.00%

Movement in temporary differences during the year ended 31 December 2008

	Balance 1 January 2008	Acquisition of subsidiaries	Recognised in income	Recognised in equity	Balance 31 December 2008
'000 LVL					
Financial instruments at fair value through profit or loss	37	-	(202)	-	(165)
Property and equipment	1,504	113	(410)	(577)	630
Investment property	-	80	27	310	417
Other assets	-	-	(56)	-	(56)
Other liabilities	(174)	-	52	-	(122)
Under/(over) provided in prior years	(76)	-	76	-	-
	1,291	193	(513)	(267)	704

32 Share capital

(a) Issued capital

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

	2008	2007
	'000 LVL	'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) Reserves

The Group creates the following reserve in equity:

- reserve on revaluation of land and buildings to fair value net of deferred tax;
- reserve on revaluation from foreign currency translation of financial information from subsidiaries that have reporting currency different the Group reporting currency;
- other reserve that is created based on statutory requirements in legislations of the subsidiaries.

(c) Dividends

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

	2008	2007
	'000 LVL	'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	2007
	'000 LVL	'000 LVL
Cash	2,824	3,832
Balances due from the Bank of Latvia	42,723	62,478
Demand Loans and receivables from banks	228,185	275,912
Demand deposits from banks	(2,350)	(15,157)
Total	271,382	327,065

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	2007
	'000 LVL	'000 LVL
Contracted amount		
Loan and credit line commitments	48,588	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	65,555	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 Group is subject to legal actions and complaints. A provision of LVL 387 thousand (2007: LVL 378 thousand) or 50% of an amount disputed denominated in USD was made in 2007 for claims where management based on the professional advice to the Group, 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 Group on behalf of customers. The Group earns commission income for holding such securities. The Group 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 Group on behalf of customers and assets under management were LVL 161,075 thousand (2007: LVL 236,079 thousand).

36 Trust and custody activities, continued

(b) Custody activities

The Group 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 Group 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.

Total remuneration included in employee compensation (Note 13):

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

38 Fair value of financial instruments

	Carrying amount	Fair value	Carrying amount	Fair value
	2008	2008	2007	2007
	'000 LVL	'000 LVL	'000 LVL	'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	154,383	154,383	78,046	78,046
Loans and receivables from banks	238,579	238,579	405,464	405,464
Loans and receivables from customers	561,954	561,954	599,436	599,436
Available-for-sale assets	1,481	1,481	1,477	1,477
Held-to-maturity investments	20,869	20,826	23,934	23,872
Total	1,022,813	1,022,770	1,174,667	1,174,605

	Carrying amount	Fair value	Carrying amount	Fair value
	2008	2008	2007	2007
	'000 LVL	'000 LVL	'000 LVL	'000 LVL
Financial liabilities				
Financial instruments at fair value through profit and loss	849	849	360	360
Deposits and balances from banks	155,365	155,365	159,479	159,479
Current accounts and deposits from customers	652,038	652,038	876,791	876,791
Amounts payable under repurchase agreements	150,097	150,097	51,037	51,037
Other borrowed funds	1,299	1,299	-	-
Total	959,648	959,648	1,087,667	1,087,667

39 Average effective interest rates

The table below displays the Group'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				
<i>Nostro accounts and due from Central Bank</i>	269,562	2.17%	275,912	2.17%
<i>Loans and deposits</i>	10,394	3.19%	296,735	5.25%
Financial instruments at fair value through profit or loss	150,050	4.21%	75,125	4.83%
Loans and receivables from customers	531,234	9.27%	591,963	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				
<i>Vostro accounts</i>	2,350	3.51%	11,006	3.42%
<i>Term deposits</i>	150,877	5.92%	137,687	5.06%
Amount payable under repurchase agreements	150,097	1.56%	51,037	4.61%
Current accounts and deposits from customers				
<i>Current accounts and demand deposits</i>	346,411	1.75%	440,165	2.97%
<i>Term deposits</i>	142,247	4.51%	240,817	3.75%
Other borrowed funds	1,299	5.22%	-	-

40 Maturity analysis

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

	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
Assets								
Cash	2,824	-	-	-	-	-	-	2,824
Due from the Bank of Latvia	42,723	-	-	-	-	-	-	42,723
Placements with banks and other financial institutions	238,579	-	-	-	-	-	-	238,579
Financial instruments at fair value through profit or loss	154,383	-	-	-	-	-	-	154,383
Loans and receivables from customers	74,024	34,617	73,321	173,295	187,680	-	19,017	561,954
Available-for-sale assets	-	-	-	-	-	1,481	-	1,481
Held-to-maturity investments	-	9,888	2,453	5,904	2,624	-	-	20,869
Investments in associates	-	-	-	-	-	97	-	97
Intangible assets	-	-	-	-	-	4,500	-	4,500
Property, plant and equipment	-	-	-	-	-	35,619	-	35,619
Investment property	-	-	-	-	-	12,629	-	12,629
Assets held for sale	-	-	6,788	-	-	-	-	6,788
Deferred tax asset	-	-	-	-	-	52	-	52
Other assets	-	-	20,376	-	-	-	-	20,376
Total assets	512,533	44,505	102,938	179,199	190,304	54,378	19,017	1,102,874
	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	769	57	23	-	-	-	-	849
Deposits and balances from banks	3,910	481	58,812	91,738	424	-	-	155,365
Amounts payable under repurchase agreements	150,097	-	-	-	-	-	-	150,097
Current accounts and deposits from customers	558,236	44,579	33,926	15,297	-	-	-	652,038
Other borrowed funds	1,299	-	-	-	-	-	-	1,299
Provisions	-	-	-	387	-	-	-	387
Other liabilities	3,176	1,493	2,853	2,419	-	-	-	9,941
Deferred tax liability	-	-	-	-	-	756	-	756
Total shareholders' equity	-	-	-	-	-	132,142	-	132,142
Total liabilities	717,487	46,610	95,614	109,841	424	132,898	-	1,102,874
Net position as at 31 December 2008	(204,954)	(2,105)	7,324	69,358	189,880	(78,520)	19,017	-
Net position as at 31 December 2007	(208,373)	(15,871)	49,239	33,954	196,457	(85,596)	30,190	-

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, liabilities and equity by remaining contractual maturity dates as at 31 December 2007.

	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
Assets								
Cash	3,832	-	-	-	-	-	-	3,832
Due from the Bank of Latvia	62,478	-	-	-	-	-	-	62,478
Placements with banks and other financial institutions	396,428	3,536	5,500	-	-	-	-	405,464
Financial instruments at fair value through profit or loss	78,046	-	-	-	-	-	-	78,046
Loans and receivables from customers	123,260	14,257	77,390	159,099	195,240	-	30,190	599,436
Available-for-sale assets	14	-	-	-	-	1,463	-	1,477
Held-to-maturity investments	-	2,463	2,417	10,269	8,785	-	-	23,934
Investments in subsidiaries	-	-	-	-	-	52	-	52
Intangible assets	-	-	-	-	-	2,978	-	2,978
Property, plant and equipment	-	-	-	-	-	32,533	-	32,533
Other assets	4,431	1,417	23	140	-	-	-	6,011
Total assets	668,489	21,673	85,330	169,508	204,025	37,026	30,190	1,216,241
	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	360	-	-	-	-	-	-	360
Deposits and balances from banks	28,040	3,897	-	127,542	-	-	-	159,479
Amounts payable under repurchase agreements	51,037	-	-	-	-	-	-	51,037
Current accounts and deposits from customers	792,167	33,331	36,091	7,634	7,568	-	-	876,791
Provisions	-	-	-	378	-	-	-	378
Other liabilities	5,258	316	-	-	-	-	-	5,574
Deferred tax liability	-	-	-	-	-	1,291	-	1,291
Total shareholders' equity	-	-	-	-	-	121,331	-	121,331
Total liabilities	876,862	37,544	36,091	135,554	7,568	122,622	-	1,216,241
Net position as at 31 December 2007	(208,373)	(15,871)	49,239	33,954	196,457	(85,596)	30,190	-
Net position as at 31 December 2006	(155,302)	24,496	(41,777)	89,410	83,173	-	-	-

41 Currency analysis

The following table shows the currency structure of assets, liabilities and equity 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	154,295	-	-	154,383
Loans and receivables from banks	-	145,189	75,890	17,500	238,579
Loans and receivables to customers	2,676	184,625	372,686	1,967	561,954
Available-for-sale assets	743	212	526	-	1,481
Held-to-maturity investments	11,367	5,864	-	3,638	20,869
Investments in associates	97	-	-	-	97
Property, plant and equipment	35,619	-	-	-	35,619
Intangible assets	4,500	-	-	-	4,500
Investment property	12,629	-	-	-	12,629
Assets held for sale	6,788	-	-	-	6,788
Deferred tax asset	52	-	-	-	52
Other assets	16,279	380	158	3,559	20,376
Total assets	133,737	491,395	450,971	26,771	1,102,874
Liabilities					
Financial instruments at fair value through profit or loss	-	849	-	-	849
Deposits and balances from banks	259	1,645	150,911	2,550	155,365
Amounts payable under repurchase agreements	-	150,097	-	-	150,097
Current accounts and deposits from customers	30,489	358,728	245,098	17,723	652,038
Other borrowed funds	-	1,299	-	-	1,299
Provisions	-	387	-	-	387
Other liabilities	3,982	3,905	1,171	883	9,941
Deferred tax liability	702	-	-	54	756
Total liabilities	35,432	516,910	397,180	21,210	970,732
Shareholder's equity	132,142	-	-	-	132,142
Net on balance sheet position as of 31 December 2008	(33,837)	(25,515)	53,791	5,561	-
Net off balance sheet position as of 31 December 2008	(15,946)	17,295	(2,221)	872	-
Net on and off balance sheet positions as of 31 December 2008	(49,783)	(8,220)	51,570	6,433	-
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, liabilities and equity 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
Placements with banks and other financial institutions	-	366,094	28,976	10,394	405,464
Financial instruments at fair value through profit or loss	-	78,046	-	-	78,046
Loans and receivables to customers	2,878	160,486	430,124	5,948	599,436
Available-for-sale assets	1,268	209	-	-	1,477
Held-to-maturity investments	-	23,934	-	-	23,934
Investments in subsidiaries	52	-	-	-	52
Property, plant and equipment	32,034	15	-	484	32,533
Intangible assets	2,978	-	-	-	2,978
Other assets	5,985	21	-	5	6,011
Total assets	109,262	629,655	460,375	16,949	1,216,241
Liabilities					
Financial instruments at fair value through profit or loss	-	360	-	-	360
Deposits and balances from banks	6,527	3,997	147,293	1,662	159,479
Amounts payable under repurchase agreements	-	51,037	-	-	51,037
Current accounts and deposits from customers	32,450	572,011	258,944	13,386	876,791
Provisions	-	378	-	-	378
Other liabilities	5,387	187	-	-	5,574
Deferred tax liability	1,291	-	-	-	1,291
Total liabilities	45,655	627,970	406,237	15,048	1,094,910
Shareholders' equity	121,331	-	-	-	121,331
Net on balance sheet position as of 31 December 2007	(57,724)	1,685	54,138	1,901	-
Net off balance sheet position as of 31 December 2007	5,926	7,177	(12,405)	(698)	-
Net on and off balance sheet positions as of 31 December 2007	(51,798)	8,862	41,733	1,203	-
Net on and off balance sheet positions as of 31 December 2006	(1,680)	102	-	1,578	-

42 Interest rate risk analysis

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

	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	More than 5 years	Non-interest bearing	Total
Assets	'000 LVL	'000 LVL	'000 LVL	'000 LVL	'000 LVL	'000 LVL	'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	221,102	-	-	-	-	17,477	238,579
Financial instruments at fair value through profit or loss	150,050	-	-	-	-	4,333	154,383
Loans and receivables from customers	74,024	34,617	73,321	173,295	187,680	19,017	561,954
Available-for-sale assets	-	-	-	-	-	1,481	1,481
Held-to-maturity investments	-	9,888	2,453	5,904	2,624	-	20,869
Investments in associates	-	-	-	-	-	97	97
Intangible assets	-	-	-	-	-	4,500	4,500
Property, plant and equipment	-	-	-	-	-	35,619	35,619
Deferred tax asset	-	-	-	-	-	52	52
Investment property	-	-	-	-	-	12,629	12,629
Assets held for sale	-	-	-	-	-	6,788	6,788
Other assets	-	-	-	-	-	20,376	20,376
Total assets	486,982	44,505	75,774	179,199	190,304	126,110	1,102,874
	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	More than 5 years	Non-interest bearing	Total
	'000 LVL	'000 LVL	'000 LVL	'000 LVL	'000 LVL	'000 LVL	'000 LVL
Liabilities							
Financial instruments at fair value through profit or loss	-	-	-	-	-	849	849
Deposits and balances from banks	2,542	481	58,812	91,738	424	1,368	155,365
Amounts payable under repurchase agreements	150,097	-	-	-	-	-	150,097
Current accounts and deposits from customers	236,183	44,579	33,926	15,297	-	322,053	652,038
Other borrowed funds	1,299	-	-	-	-	-	1,299
Provisions	-	-	-	-	-	387	387
Other liabilities	-	-	-	-	-	9,941	9,941
Deferred tax liability	-	-	-	-	-	756	756
Shareholders' equity	-	-	-	-	-	132,142	132,142
Total liabilities	390,121	45,060	92,738	107,035	424	467,496	1,102,874
Net position as at 31 December 2008	96,861	(555)	(16,964)	72,164	189,880	(341,386)	-
Net position as at 31 December 2007	48,731	(16,971)	42,740	34,238	196,170	(304,908)	-

42 Interest rate risk analysis, continued

Overview of terms of changing contractual interest rate repricing of assets, liabilities and shareholders' equity of the Group as at 31 December 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	391,419	3,536	5,325	-	-	5,184	405,464
Financial instruments at fair value through profit or loss	75,125	-	-	-	-	2,921	78,046
Loans and receivables from customers	133,321	14,258	71,089	159,145	195,417	26,206	599,436
Available-for-sale assets	-	-	-	-	-	1,477	1,477
Held-to-maturity investments	-	2,463	2,417	10,269	8,321	464	23,934
Investments in associates	-	-	-	-	-	52	52
Intangible assets	-	-	-	-	-	2,978	2,978
Property, plant and equipment	-	-	-	-	-	32,533	32,533
Other assets	-	-	-	-	-	6,011	6,011
Total assets	662,343	20,257	78,831	169,414	203,738	81,658	1,216,241
	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	-	-	-	-	-	360	360
Deposits and balances from banks	17,254	3,897	-	127,542	-	10,786	159,479
Amounts payable under repurchase agreements	51,037	-	-	-	-	-	51,037
Current accounts and deposits from customers	545,321	33,331	36,091	7,634	7,568	246,846	876,791
Provisions	-	-	-	-	-	378	378
Other liabilities	-	-	-	-	-	5,258	5,258
Deferred tax liability	-	-	-	-	-	1,607	1,607
Shareholders' equity	-	-	-	-	-	121,331	121,331
Total liabilities	613,612	37,228	36,091	135,176	7,568	386,566	1,216,241
Net position as at 31 December 2007	48,731	(16,971)	42,740	34,238	196,170	(304,908)	-
Net position as at 31 December 2006	358,164	21,361	(41,480)	88,804	158,727	(585,576)	-

43 Classification of assets, liabilities and equity

Classification of assets, liabilities and shareholders' equity of the Group as at 31 December 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	238,579	-	-	-	238,579
Financial instruments at fair value through profit or loss	-	154,383	-	-	154,383
Loans and receivables from customers	561,954	-	-	-	561,954
Available-for-sale assets	-	-	1,481	-	1,481
Held-to-maturity investments	20,869	-	-	-	20,869
Investments in associates	-	-	-	97	97
Intangible assets	-	-	-	4,500	4,500
Property, plant and equipment	-	-	-	35,619	35,619
Deferred tax asset	-	-	-	52	52
Investment property	-	-	-	12,629	12,629
Assets held for sale	-	-	-	6,788	6,788
Other assets	20,376	-	-	-	20,376
Total assets	887,325	154,383	1,481	59,685	1,102,874
Liabilities					
Financial instruments at fair value through profit or loss	-	849	-	-	849
Deposits and balances from banks	155,365	-	-	-	155,365
Amounts payable under repurchase agreements	150,097	-	-	-	150,097
Current accounts and deposits from customers	652,038	-	-	-	652,038
Other borrowed funds	1,299	-	-	-	1,299
Provisions	-	-	-	387	387
Other liabilities	9,941	-	-	-	9,941
Deferred tax liability	-	-	-	756	756
Shareholders' equity	-	-	-	132,142	132,142
Total liabilities and equity	968,740	849	-	133,285	1,102,874

43 Classification of assets, liabilities and equity, continued

Classification of assets, liabilities and shareholders' equity of the Group as at 31 December 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	405,464	-	-	-	405,464
Financial instruments at fair value through profit or loss	-	78,046	-	-	78,046
Loans and receivables from customers	599,436	-	-	-	599,436
Available-for-sale assets	-	-	1,477	-	1,477
Held-to-maturity investments	23,934	-	-	-	23,934
Investments in associates	-	-	-	52	52
Intangible assets	-	-	-	2,978	2,978
Property, plant and equipment	-	-	-	32,533	32,533
Other assets	4,257	-	-	1,754	6,011
Total assets	1,099,401	78,046	1,477	37,317	1,216,241
Liabilities					
Financial instruments at fair value through profit or loss	-	360	-	-	360
Deposits and balances from banks	159,479	-	-	-	159,479
Amounts payable under repurchase agreements	51,037	-	-	-	51,037
Current accounts and deposits from customers	876,791	-	-	-	876,791
Provisions	-	-	-	378	378
Other liabilities	5,258	-	-	-	5,258
Current and deferred tax liability	-	-	-	1,607	1,607
Shareholders' equity	-	-	-	121,331	121,331
Total liabilities and equity	1,092,565	360	-	123,316	1,216,241

44 Subsequent events

On 2 January 2009 the national Bank of the Republic of Belarus devalued the Belorussian rouble against main convertible foreign currencies by 20 per cent. The impact on Group is not significant, refer to notes 4b) and 41.

Vitali Lipanov resigned from the position of the Member of the Council of JSC “Rietumu bank” starting from March 20, 2009.