AS PAREX BANKA

ANNUAL REPORT
FOR THE YEAR ENDED 31 DECEMBER 2008

TOGETHER WITH INDEPENDENT AUDITORS' REPORT

Table of Contents

AS Parex banka
Smilšu 3, Riga,
LV-1522, Latvia

Phone: (371) 67010 000
Facsimile: (371) 67010 001

Registration number: 40003074590

The year 2008 brought major change to *Parex banka*, including substantial changes in shareholders structure and the management of the bank in the last months of 2008.

This report has been prepared by the new Management Board and Supervisory Council of the Bank and they are committed to leading the Bank into a new phase of development.

Financial crisis and its implications on *Parex banka*

The year of 2008 brought unprecedented challenges for the financial sector both in Latvia and worldwide. The global credit crunch, starting in the United States of America, caused a chain reaction all over the world and intensified the economic difficulties in Latvia. The financial sector in Latvia has been affected in a number of ways, mostly through reduced availability of funding and liquidity from international financial markets, a weakening economy and the resulting decline of asset quality. The crisis has necessitated the adoption of new approaches to the financial sector and has led to a thorough reconsideration of its practices.

Parex banka itself experienced a severe impact from the crisis of 2008. Notwithstanding the first stages of the global economic crash, *Parex banka* successfully coped with the challenges of the market, continuing to increase its deposits by 6% during the first nine months of 2008, outperforming the rest of the sector. However the situation in the sector rapidly changed in mid-September 2008, following the collapse of Lehman Brothers and the resulting turmoil in the global financial markets.

In the third quarter of 2008 there was a risk that the Bank would need additional liquidity as the prior business model of the Bank accounted for reasonable availability of short-term funding. Historically, the liquidity of the Bank was managed also through maintaining a liquidity cushion in its securities portfolio. However, the impact of the Lehman Brothers collapse was so deep that part of the portfolio became practically unmarketable, significantly reducing the Bank's ability to honour increasing customer demands for repayment of their funds. The inaccessibility of tradable instruments and outflow of deposits triggered the liquidity crunch at the Bank. Moreover, on the back of the global liquidity crisis western financial institutions severely cut their credit and transaction limits to Eastern European Banks and *Parex banka* was no exception to this.

Though the Bank has a well-established platform for providing quality financial services to its customers, the liquidity problems related not only to the global financial crisis, but to some extent also to the business model adopted in previous years. Increased exposure to the property market, certain reliance on limited number of major non-resident depositors, portion of short-term financing used to finance medium and long-term assets, high operation costs in combination with the adverse external factors made the Bank more vulnerable to the financial crisis.

Furthermore, in October 2008, the Swedish government implemented its programme to support the financial sector, anticipating state support for the stabilisation of its banks. This step placed *Parex banka* and other locally-owned banks in a disadvantageous situation, as there were no similar programmes in place in Latvia at that moment. As a result, *Parex banka* experienced a considerable deposit outflow, which undermined the Bank's liquidity and support from the government became vitally important.

In the end of October 2008, the Bank applied to the Government of the Republic of Latvia for support. On 10 November 2008, prior to providing the liquidity support, the State and State Joint-Stock Company "Latvijas Hipotēku un zemes banka" (*Mortgage and Land Bank of Latvia)* entered into an agreement with the major shareholders of the Bank Valērijs Kargins and Viktors Krasovickis for the sale of 51% of their shareholding for a symbolic price of 2 lats to the *Mortgage and Land Bank of Latvia*. The Government bail-out was a self-evident requirement as *Parex banka* has had a very important role in the Latvian banking system in recent years and has also been an integral part of the Latvian financial system and economy in general, being significant holder of municipalities', state and municipal companies' deposits, as well as important player ensuring local and international payments and transactions in Latvian foreign exchange market. The initial response to the takeover was a significant increase in the outflows of deposits during the first days after the announcement, mainly due to the lack of public certainty as to whether the State support was temporary or permanent.

On 1 December 2008, with the aim of stabilising the situation in the Bank the Cabinet of Ministers of the Republic of Latvia and the Financial and Capital Market Commission (FCMC), as a temporary measure under the Credit Institutions Law of Latvia, jointly decided to impose withdrawal restrictions on the Bank's deposits.

In order to achieve further stabilisation of *Parex banka*, a decision to increase the State's shareholding was made and amendments to the previous agreement were made on 3 December 2008. Under the terms of the amendments a further 33.83% or in total 84.83% of *Parex banka's* shares owned by Valērijs Kargins and Viktors Krasovickis were sold to the *Mortgage and Land Bank of Latvia*. The existing minority shareholders of *Parex banka* retained the remaining 15.17% of the Bank's share capital. Thus, the *Mortgage and Land Bank of Latvia* became the majority shareholder of *Parex banka*.

On 15 December the Latvian Govermnent made the decision to increase the state participation in *Parex banka* through obtaining 200,000 shares from *Svenska Handelsbanken AB*. On 22 January 2009, the share purchase agreement was signed between *Svenska Handelsbanken AB* and *Mortgage and Land Bank of Latvia*, increasing the State participating in *Parex banka* by 85.14%.

On 24 February 2009, the Latvian Government decided to transfer the shares of *Parex banka* owned by the *Mortgage and Loan Bank of Latvia* to the *Latvian Privatisation Agency*, to ensure more optimal management of the State's investment and prepare the Bank for a capital increase and a further sale. Pursuant to this decision the *Privatisation Agency* acquired all *Parex banka's* shares owned by the *Mortgage and Land Bank of Latvia*, and respective amendments were made in the shareholders' registry on 27 February 2009.

Following Government involvement in the stabilisation process of *Parex banka*, as part of the liquidity support programme the State Treasury of the Republic of Latvia has deposited a total amount of 674 million lats. All of the State Treasury's deposits have been guaranteed with pledges of *Parex banka's* loans with a balance sheet value of 827.6 million lats. Detailed information about the financing received from State Treasury is disclosed in Note 24 of the financial statements.

Financial results

In 2008, *Parex Group* experienced an overall slowdown in growth as compared to prior years. The Group's assets have grown 3.9% as compared to 35.8% in 2007. Loans have increased 6.5% on a gross basis reaching 2.15 billions lats. The amount of the Group's deposits represented 2.02 billion lats.

In August 2008, *Parex banka* opened two new offices in Estonia, in Tallinn and Tartu. The total number of customers in Estonia in 2008 increased by 41%, including an increase in private individuals by 64%. As at 31 December 2008, the Estonian branch of *Parex banka* served approximately 3,800 customers – more than 75% of them being private individuals. In comparison to the end of 2007, the term deposit portfolio of private individuals has increased by 3.4%; the increase is substantially larger for deposit amounts which do not exceed the state guaranteed EUR 50,000. Comparing the results of 2007 with the end of 2008 the total amount of deposits in the Estonian branch nearly doubled.

In September, 2008 *Parex banka* opened its third office in Sweden, in Gothenburg. The *Parex banka* subsidiary in Lithuania *Parex bankas* increased its market share in 2008 from 1.99% up to 2.44%, receiving the Lithuanian award "Nameja Balva" in the nomination as *the most rapidly developing company in 2008* and is among the five best online banking service providers.

Despite the liquidity turmoil and the related deposit reduction, on the funding side the Bank remains predominantly funded by customer deposits, having 20 thousand corporate and 271 thousand private deposit customers. As at 31 December 2008, *Parex banka's* market share of deposits from private and legal persons was 12.3% (excluding State Treasury deposits), according to information provided by the Association of Latvian Commercial Banks. Its market share in terms of assets comprised 15.4%, while loans reached 11.1%. As at 31 December 2008, in terms of total assets and deposits (excluding State treasury financing) the Bank was among largest 4 credit institutions in Latvia. Nevertheless, as a result of the difficulties the Bank experienced, its ratings were lowered. Currently, *Moody's* assigned long-term rating is B2 and is on review for possible downgrade, financial strength rating is E and the outlook remains stable and short-term rating is *Not Prime*. *Fitch Ratings* has assigned long-term issuer rating *RD* and support rating – '5', while individual rating is 'F'.

The financial result for the year was substantially impacted by provisions established to reflect the deterioration in asset quality. The loan portfolio was deeply affected by the rapidly worsening Latvian economic situation and stagnation in the Latvian real estate sector. As a result of a prudent assessment of its portfolio in the light of current trends and given the adverse situation in the financial markets, the Management established net provisions amounting to 160 million lats. As a result of the above, the net loss for the Group for the year ended 2008 comprised 131 million lats.

Significant recent events

Despite the global financial crisis and changes in the bank's operations and due to continuous support from the Government, *Parex banka* has successfully concluded negotiations with its syndicated lenders, restructuring the outstanding loans and the repayment terms. The Bank has received a State guarantee for the roll-over repayment of *Parex banka's* syndicated loans in line with the agreement negotiated between *Parex banka* and its syndicated lenders with the following loan repayment schedule: 30% (EUR 232.5 million) from the loan amount was repaid in March 2009, 40% (EUR 310 million) will be repaid in February 2010 and 30% (EUR 232.5 million) will be repaid in May 2011. Please refer to Note 23 and Note 36 in the financial statements for more information about the syndicated loan facilities.

The financial crisis has also had an adverse impact on the Bank's capital, which, starting from the end of 2008, lead to a breach of several regulatory requirements (ratios) set by the FCMC. The Bank was in breach of the capital adequacy ratio, the limits on foreign currency open positions, as well as large exposure limits. Further, mandatory reserve requirements in the Bank of Latvia were not met. On 24 March 2009, the Government of Latvia decided to increase the Bank's capital, which will enable most of these breaches to be remedied. Restoring an acceptable level of foreign currency open positions is not only dependent on the capital increase, but also on the Bank's ability to commence dealing once more on the international foreign exchange market, to which access has been very limited since the beginning of the liquidity crisis. Please refer to Note 36 for additional details on the capital increase.

The capital increase and the successful completion of the syndicated debt restructuring negotiations allow the Bank to start working on a more detailed strategy for the near-term, focusing on regaining customer trust, increasing the deposit base and gradually returning to the lending market. In this regard, one of the most urgent tasks for the management of the Bank is to take the necessary steps so that the FCMC will feel fully confident in lifting the remaining restrictions on the Bank's operations. The management of the Bank realises the importance of these efforts and believes that it will soon begin to produce positive results for its customers and other stakeholders.

New Management and Supervisory body of *Parex banka*

On 5 December 2008, the new Management Board of *Parex banka* was elected. The following senior managers of the Bank have been appointed to the Board of the Bank: Guntis Beļavskis, Senior Vice President and Head of Customer Services Division, Valters Ābele, Head of Credit Risk Division, Vladimirs Ivanovs, Vice President, Customer Service Department. On 9 January 2009, Roberts Stuģis, Vice President of Finance, also was appointed as a member of the Management Board. The new Management Board of *Parex banka* is chaired by Nils Melngailis, a former Executive Director of *Lattelecom*, the leading communications company in the Baltics.

Subsequently in the second part of December 2008 an extraordinary shareholders meeting elected a new Supervisory Council. The Council consists of the following members: Andžs Ūbelis, Rolands Paņko, Kaspars Āboliņš, Gints Freimanis, Carl Hakan Kallaker and Žaneta Jaunzeme – Grende. Andžs Ūbelis, the Deputy State Secretary of the Ministry of Finance of Latvia and Alternate Director from Latvia in the Board of Directors of the European Investment Bank, was elected as the Chairman of the Supervisory Council of *Parex banka.*

The new Management of the Bank has a clear vision of the Bank's further development and since its election all its efforts have been directed towards stabilising the Bank and regaining the trust of customers. Restructuring of the external debt, recapitalisation of the Bank and efforts towards attracting EBRD as an investor are some of the most strategically important accomplishments of the Board. While implementing enhanced management systems, the Bank's corporate governance has significantly improved.

Current initiatives and future prospects

In 2009, the priority of *Parex banka* is to return to normal operations and the provision of a full range services to its customers, including lending. In order to achieve this, the foremost task of the Management is to undertake necessary steps and meet conditions that would allow FCMC take a positive decision on lifting the restrictions. The Management is actively working to put in place new business strategy that aims at operational model that implies high standards of effectiveness as well as higher risk awareness to minimise potential vulnerability of bank in further. In particular, Bank will work hard on improving the operational efficiency, diversification of customer base, liquidity management and planning, as well as reducing exposures to riskier segments. Furthermore, the new business strategy will pay special attention to the need to overcome the crisis of customer trust experienced in October and November 2008. This includes investment in the development of new services to adapt successfully to changing customer needs.

Parex banka's primary objectives are the successful return to the private sector, the repayment of short-term liquidity support provided by the Government of Latvia, and the release of the State Treasury guarantee arrangements. The Management acknowledge that attracting a strategic investor to the Bank would greatly facilitate achieving the aforementioned objectives, thus it also is a high-priority task in the coming years. A comprehensive plan has been developed by the Bank's Management Board with the support of the Supervisory Council and external advisors, which seeks to re-position *Parex banka* as a strong viable pan-Baltic financial institution with a strong set of products and services and make it attractive for a strategic investor.

Currently, the Latvian economy experiences significant downturn. The latest forecast as published by the Bank of Latvia indicates 16.5% GDP decrease in 2009. In the first quarter of 2009, the unemployment rate has reached already 13.9% from 5.3% at the end of 2007. It should be mentioned though that the rapid deterioration in economic environment in Latvia has also brought some improvements in the significant macroeconomic imbalances accumulated over the years of rapid growth. Current account deficit has experienced significant decrease and even entered the surplus zone in the first quarter of 2009 (0.02% of GDP), inflation is expected to average at 2.5-3.5% in 2009. Nevertheless, the reduction in economy results also in a considerable increase in the Government's fiscal deficit, which is expected to reach 7% of GDP in 2009 according to Government's forecast. Even though the Government intends to carry out large-scale structural reforms in order to stop the recession and improve the economic situation as agreed with the international donors, the sustainable recovery is hard to imagine without improvement of external factors (export demand, global credit flows etc.). The Management believes that year 2009 and 2010 will be very challenging, as a result due caution has been applied in restructuring the Group's operations to address these challenges. Thus, the structural changes currently implemented throughout the Group and aimed at cost efficiency increase, reduction in risk exposures as well as improved customer service, will play crucial role in the Bank's and Group's way to recovery.

In light of the current economic conditions, a significant priority of the Bank is cost optimisation. Management has shown its commitment to increased efficiency through reducing total expenses by 25-30%. In future, the Bank plans to implement a Group-wide remuneration system based on performance, which requires an appraisal system and skills development. Certainly, this is a difficult process of internal change, but the Management will ensure that cost reduction takes place in a controlled and professional manner. The Bank's cost optimisation efforts are aimed at achieving cost-income ratio of around 50% in long-term. Once the economy will return to the growth and the business conditions will normalise, the Bank aims to ensure approximately 20% return on equity to its shareholders by means of overhauled business strategy to be implemented over the coming year.

On 24 March 2009, the Government of Latvia made a decision to increase the share capital and to provide subordinated loan to the Bank totalling LVL 227 mln subject to approval by the European Commission ("EC"). On 11 May 2009, EC approved share capital increase of LVL 141 mln and additional subordinated loan amounting to LVL 50 mln. On 22 May 2009, the respective amounts were paid in by the Latvian Privatisation Agency. The residual of the Government's approved increase of LVL 36 mln is subject to additional EC approval. On 16 April 2009, a share purchase agreement was concluded to sell 25% plus one share of the Bank's newly issued shares to the European Bank for Reconstruction and Development at par. The completion of this transaction is subject to fulfilling of several conditions. The decision to invest in *Parex banka* was made on the basis of the Bank's stability and the quality of its management. After entering *Parex banka's* shareholder structure, the EBRD will also prepare proposals on the future strategy and operations of the Bank. The EBRD has great experience in the restructuring of banking businesses and its support for the Bank is a positive signal of its underlying strengths and development potential, enhancing the international standing of the Bank and its adoption of best banking practices.

The Government of Latvia and other partners have demonstrated significant commitment in assisting *Parex banka* in its stabilisation process. The fact that the bank has received substantial State aid also means that the management of the bank should perform according the highest standards of accountability and do the outmost both to return the aid in shortest period possible as well as assist the Government, within the framework of European Union rules applicable to the entities receiving state aid, in efforts of promoting economic growth. Therefore we believe that *Parex banka* has to play a significant part in the stabilisation of the financial sector in Latvia in 2009 hence contributing to recovery of the Latvian economy as a whole in forthcoming years.

Nils Melngailis
President/
Chairman of the Management Board

Andžs Ūbelis
Chairman of the Council

Riga,
25 May 2009

Council of the Bank as at the date of signing these financial statements:

Andžs Ūbelis	Chairman of the Council
Rolands Paņko	Deputy Chairman of the Council
Kaspars Āboliņš	Member of the Council
Gints Freimanis	Member of the Council
Carl Hakan Kallaker	Member of the Council
Žaneta Jaunzeme-Grende	Member of the Council

Management Board as at the date of signing these financial statements:

Nils Melngailis	President and Chairman of the Management Board, p.p.
Guntis Beļavskis	Member of the Management Board, p.p.
Roberts Stuģis	Member of the Management Board
Vladimirs Ivanovs	Member of the Management Board
Valters Ābele	Member of the Management Board

Changes in management bodies during the reporting year and until the signing of these financial statements:

Name	Position	Date of changes	Type of changes
Andžs Ūbelis	Chairman of the Council	19.12.2008	Appointed
Rolands Paņko	Deputy Chairman of the Council	19.12.2008	Appointed
Kaspars Āboliņš	Member of the Council	19.12.2008	Appointed
Gints Freimanis	Member of the Council	19.12.2008	Appointed
Carl Hakan Kallaker	Member of the Council	19.12.2008	Appointed
Žaneta Jaunzeme-Grende	Member of the Council	19.12.2008	Appointed
Nils Melngailis	President and Chairman of the Management Board, p.p.	05.12.2008	Appointed
Guntis Beļavskis	Member of the Management Board, p.p.	05.12.2008	Appointed
Valters Ābele	Member of the Management Board	05.12.2008	Appointed
Vladimirs Ivanovs	Member of the Management Board	05.12.2008	Appointed
Roberts Stuģis	Member of the Management Board	09.01.2009	Appointed
Guntars Grīnbergs	Chairman of the Council	19.12.2009	Removed
Valdis Birkavs	Deputy Chairman of the Council	19.12.2009	Removed
Hans Eberhard Berndt	Member of the Council	19.12.2009	Removed
Aija Poča	Member of the Council	19.12.2009	Removed
Gints Poišs	Member of the Council	19.12.2009	Removed
Viesturs Neimanis	Deputy Chairman of the Council	19.12.2009	Removed
Valērijs Kargins	*Until 12.11.2008* - as President and Chairman of the Management Board *12.11.2008-04.12.2008* - as Deputy Chairman of the Management Board	04.12.2008.	Resigned
Viktors Krasovickis	*Until 12.11.2008* - as Deputy Chairman of the Management Board *12.11.2008-04.12.2008* - as Member of the Management Board	04.12.2008.	Resigned
Aleksandrs Kvasovs	Member of the Management Board	12.11.2008.	Resigned
Līga Puriņa	Member of the Management Board	04.12.2008.	Resigned
Arnis Lagzdiņš	Member of the Management Board	05.12.2008.	Resigned
Vladislavs Skrebelis	Member of the Management Board	04.12.2008.	Resigned
Jānis Skrastiņš	Member of the Management Board	25.11.2008.	Resigned
Inesis Feiferis	Chairman of the Management Board	12.11.2008.-02.12.2008.	Resigned

The Management of AS Parex banka (hereinafter – the Bank) are responsible for the preparation of the financial statements of the Bank as well as for the preparation of the consolidated financial statements of the Bank and its subsidiaries (hereinafter – the Group).

The financial statements set out on pages 9 to 79 are prepared in accordance with the source documents and present fairly the financial position of the Bank and the Group as at 31 December 2008 and 2007 and the results of their operations, changes in shareholders' equity and cash flows for the years then ended. The management report set out on pages 3 to 6 presents fairly the financial results of the reporting year and future prospects of the Bank and the Group.

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

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

Nils Melngailis President/ Chairman of the Management Board	Andžs Ūbelis Chairman of the Council

Riga,
25 May 2009

AS Parex banka
Statements of Income
for the years ended 31 December 2008 and 2007

	Notes	2008 Group	2007 Group	2008 Bank	2007 Bank
		LVL 000's			
Interest income	3	228,657	185,125	202,292	168,371
Interest expense	3	(132,045)	(100,123)	(125,759)	(96,855)
Net interest income		96,612	85,002	76,533	71,516
Commission and fee income	4	47,186	47,730	38,298	40,228
Commission and fee expense	4	(11,374)	(9,836)	(10,875)	(9,921)
Net commission and fee income		35,812	37,894	27,423	30,307
(Loss)/ gain on transactions with financial instruments, net	5	(3,362)	20,903	(4,657)	18,974
Other income	6	12,588	10,110	8,073	6,953
Other expense		(1,515)	(878)	(1,062)	(710)
Administrative expense	7,8	(109,092)	(91,466)	(82,638)	(71,863)
Amortisation and depreciation charge	18,19	(9,314)	(7,629)	(7,346)	(5,748)
Impairment charges and reversals, net	9	(159,732)	(4,617)	(146,655)	(2,355)
Net gains on disposal of assets held for sale		(391)	-	-	-
Profit before taxation		(138,394)	49,319	(130,329)	47,074
Corporate income tax	10	7,424	(7,899)	6,321	(6,928)
Net profit for the year		(130,970)	41,420	(124,008)	40,146
Attributable to:					
Equity holders of the Bank		(130,970)	41,420	(124,008)	40,146
Minority interest		-	-	-	-
		(130,970)	41,420	(124,008)	40,146

AS Parex banka
Balance Sheets
as at 31 December 2008 and 2007

	Notes	31/12/2008 Group	31/12/2007 Group	31/12/2008 Bank	31/12/2007 Bank
		LVL 000's			
Assets					
Cash and deposits with central banks	11	116,350	257,280	95,179	236,062
Balances due from credit institutions	12	274,724	430,868	498,685	522,633
Securities held for trading:					
- fixed income	15	2,314	5,575	2,000	4,323
- shares and other non-fixed income	16	4,401	39,809	4,401	38,466
Derivative financial instruments	28	19,203	11,516	19,152	11,785
Financial assets designated at fair value through profit and loss		1,629	277	-	-
Available-for-sale securities:					
- fixed income	15	146,187	475,042	141,304	438,175
- shares and other non-fixed income	16	12,504	548	12,418	57
Loans and receivables to customers	13,14	2,036,001	2,006,642	1,744,871	1,738,330
Held-to-maturity securities	15	758,546	40,224	797,989	73,898
Current income tax assets	10	8,147	3,356	7,666	3,209
Non-current assets and disposal groups classified as held for sale	20	7,109	2,378	2,814	2,345
Fixed assets	19	60,492	50,514	20,238	18,610
Goodwill and intangible assets	18	4,048	5,014	782	990
Investments in subsidiaries	17	-	-	51,442	56,477
Deferred income tax assets	10	12,199	1,141	9,679	830
Other assets	21	19,949	22,440	9,419	10,110
Total assets		3,483,803	3,352,624	3,418,039	3,156,300
Liabilities					
Derivative financial instruments	28	9,509	12,951	9,670	13,288
Financial liabilities designated at fair value through profit and loss		314	277	-	-
Financial liabilities measured at amortised cost:					
- balances due to credit institutions and central banks	23	1,189,621	777,111	1,261,440	775,345
- deposits from customers	24	2,022,994	2,081,965	1,901,886	1,909,128
- issued debt securities	22	88,982	187,907	88,712	187,907
- other financial liabilities		2,341	2,970	-	-
Current income tax liabilities	10	440	315	-	-
Deferred income tax liabilities	10	347	631	-	-
Other liabilities	25	37,227	34,438	25,883	25,372
Subordinated liabilities	26	52,957	28,113	52,960	28,113
Total liabilities		3,404,732	3,126,678	3,340,551	2,939,153
Equity					
Paid-in share capital	27	65,027	65,027	65,027	65,027
Share premium		12,694	12,694	12,694	12,694
Fair value revaluation reserve – held-to-maturity securities		(9,216)	-	(8,279)	-
Fair value revaluation reserve – available-for-sale securities		(24,991)	(18,302)	(24,991)	(17,619)
Retained earnings		35,557	166,527	33,037	157,045
Total shareholders' equity attributable to the shareholders of the Bank		79,071	225,946	77,488	217,147
Minority interest		-	-	-	-
Total equity		79,071	225,946	77,488	217,147
Total liabilities and equity		3,483,803	3,352,624	3,418,039	3,156,300

Changes in the Group's equity are as follows:

	Attributable to equity holders of the Bank					
	Issued share capital	Share premium	Fair value revaluation reserve, attributable to: Held-to-maturity securities*	Fair value revaluation reserve, attributable to: Available-for-sale securities	Retained earnings	Total equity
Balance as at 31 December 2006	**65,027**	**12,694**	**-**	**(2,200)**	**125,107**	**200,628**
Fair value revaluation reserve charged to statement of income	-	-	-	(1,755)	-	(1,755)
Changes in fair value of available for sale securities	-	-	-	(14,817)	-	(14,817)
Deferred income tax charged directly to equity	-	-	-	470	-	470
Total income/ (expense) recognized directly in equity	-	-	-	*(16,102)*	-	*(16,102)*
Net profit for the year	-	-	-	-	41,420	41,420
Total recognised income and (expense) for the year				*(16,102)*	*41,420*	*25,318*
Balance as at 31 December 2007	**65,027**	**12,694**	**-**	**(18,302)**	**166,527**	**225,946**
Reclassification of securities (incl. deferred tax)*	-	-	(12,236)	12,236	-	-
Amortisation*	-	-	1,071	-	-	1,071
Impairment of securities	-	-	1,883	5,501	-	7,384
Fair value revaluation reserve charged to statement of income	-	-	-	6,536	-	6,536
Changes in fair value of available for sale securities	-	-	-	(31,375)	-	(31,375)
Deferred income tax charged directly to equity	-	-	66	413	-	479
Total expense recognized directly in equity			*(9,216)*	*(6,689)*	-	*(15,905)*
Net loss for the year	-	-	-	-	(130,970)	(130,970)
Total recognised expense for the year			*(9,216)*	*(6,689)*	*(130,970)*	(146,875)
Balance as at 31 December 2008	**65,027**	**12,694**	**(9,216)**	**(24,991)**	**35,557**	**79,071**

* In 2008, the Bank decided to reclassify part of available-for-sale securities to held-to-maturity portfolio. Please see Note 15 for more details on the reclassification. The accounting treatment of the revaluation reserve attributable to the securities reclassified is described in section *Financial instruments* of the Note 2 *Summary of significant accounting policies*.

Changes in the Bank's equity are as follows:

	Issued share capital	Share premium	Fair value revaluation reserve, attributable to:		Retained earnings	Total equity
			Held-to-maturity securities*	Available-for-sale securities		
Balance as at 31 December 2006	**65,027**	**12,694**	**-**	**(1,949)**	**116,899**	**192,671**
Fair value revaluation reserve charged to statement of income	-	-	-	(1,608)	-	(1,608)
Changes in fair value of available for sale securities	-	-	-	(14,532)	-	(14,532)
Deferred income tax charged directly to equity	-	-	-	470	-	470
Total income/ (expense) recognized directly in equity	-	-	-	*(15,670)*	-	*(15,670)*
Net profit for the year	-	-	-	-	40,l46	40,146
Total recognised income and (expense) for the year				*(15,670)*	*40,l46*	*24,476*
Balance as at 31 December 2007	**65,027**	**12,694**	**-**	**(17,619)**	**157,045**	**217,147**
Reclassification of securities (incl. deferred tax)*	-	-	(11,075)	11,075	-	-
Amortisation*	-	-	935	-	-	935
Impairment of securities	-	-	1,883	5,501	-	7,384
Fair value revaluation reserve charged to statement of income	-	-	-	7,095	-	7,095
Changes in fair value of available for sale securities	-	-	-	(31,344)	-	(31,344)
Deferred income tax charged directly to equity	-	-	(22)	301	-	279
Total expense recognized directly in equity			*(8,279)*	*(7,372)*	-	*(15,651)*
Net loss for the year	-	-	-	-	(124,008)	(124,008)
Total recognised expense for the year			*(8,279)*	*(7,372)*	*(124,008)*	(139,659)
Balance as at 31 December 2008	**65,027**	**12,694**	**(8,279)**	**(24,991)**	**33,037**	**77,488**

* In 2008, the Bank decided to reclassify part of available-for-sale securities to held-to-maturity portfolio. Please see Note 15 for more details on the reclassification. The accounting treatment of the revaluation reserve attributable to the securities reclassified is described in section *Financial instruments* of the Note 2 *Summary of significant accounting policies*.

	Notes	2008 Group	2007 Group	2008 Bank	2007 Bank
		LVL 000's			
Cash flows from operating activities					
(Loss)/ profit before tax		(138,394)	49,319	(130,329)	47,074
Amortisation of intangible assets, depreciation of fixed assets		9,314	7,629	7,346	5,748
Impairment and provision charges		158,730	(925)	144,511	(3,013)
Other non-cash items		1,027	2,915	629	2,378
Cash generated before changes in assets and liabilities		**30,677**	**58,938**	**22,157**	**52,187**
Change in derivative financial instruments		(12,265)	2,285	(10,985)	2,392
(Increase) in other assets		(1,934)	(10,337)	(215)	(3,951)
Increase/ (decrease) in other liabilities		(1,516)	16,332	(499)	7,922
Decrease/ (increase) in trading investments		37,354	35,451	36,388	30,599
(Increase)/ decrease in balances due from credit institutions		13,361	10,716	173,153	(72,040)
(Increase) in loans and receivables to customers		(130,802)	(577,383)	(110,801)	(422,262)
Increase in balances due to credit institutions and central banks		98,487	24,612	94,842	42,493
(Decrease)/ increase in deposits from customers		(58,971)	520,481	(7,242)	447,341
Cash generated from operating activities before corporate income tax		**(25,609)**	**81,095**	**196,798**	**84,681**
Corporate income tax (paid)		(8,003)	(14,294)	(6,603)	(12,270)
Net cash flow from operating activities		**(33,612)**	**66,801**	**190,195**	**72,411**
Cash flows from investing activities					
(Purchase) of intangible and fixed assets		(39,903)	(23,887)	(9,545)	(9,903)
Proceeds from disposal of intangible and fixed assets		1,503	553	779	119
Acquisitions and investments in subsidiaries		-	-	-	(23,817)
(Purchase) of held-to-maturity securities		(15,347)	(9,176)	(40,415)	(13,415)
Cash inflows from maturing held-to-maturity securities		33,392	15,786	32,842	15,786
(Purchase) of available-for-sale securities, net		(40,247)	(109,346)	(52,475)	(110,719)
Net cash flow from investing activities		**(60,602)**	**(126,070)**	**(68,814)**	**(141,949)**
Cash flows from financing activities					
Repayment/ repurchase of debt securities		(98,925)	-	(99,718)	-
Repayment of syndicated loans		(263,551)	(358,431)	(263,551)	(358,431)
Proceeds from received syndicated loans		193,271	621,982	193,271	621,982
Raised subordinated capital		24,844	28,113	24,847	28,113
Net cash flow from financing activities		**(144,361)**	**291,664**	**(145,151)**	**291,664**
Net cash flow for the year		**(238,575)**	**232,395**	**(23,770)**	**222,126**
Cash and cash equivalents at the beginning of the year	31	**600,063**	**367,668**	**579,700**	**357,574**
Cash and cash equivalents at the end of the year	31	**361,488**	**600,063**	**555,930**	**579,700**

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

	2008 Group	2007 Group	2008 Bank	2007 Bank
	LVL 000's			
Interest income received during the year	222,273	195,937	198,703	178,998
Interest expense paid during the year	(129,758)	(107,081)	(123,024)	(102,253)

Figures in parenthesis represent amounts as at 31 December 2007 or for year ended 31 December 2007, if not stated otherwise. If not mentioned otherwise, referral to Group's policies and procedures should be also considered as referral to the respective Bank's policies and procedures.

AUTHORISATION OF THE FINANCIAL STATEMENTS

These financial statements have been authorised for issuance by the Management on 25 May 2009. In accordance with the Commercial Law of the Republic of Latvia, the shareholders' meeting has the right to make decision on approval of the financial statements.

NOTE 1. GENERAL INFORMATION

AS Parex banka (hereinafter – the Bank) was registered as a joint stock company on 14 May 1992. The Bank commenced its operations in June 1992.

The Bank's head office and three main branches are located in Riga, Latvia. As at 31 December 2008, the Bank was operating a total of 74 (72) branches and client service centres in Riga and throughout Latvia. The Bank has 11 (8) foreign branches and client service centres – in Tallinn (Estonia), Narva (Estonia), Tartu (Estonia), Berlin (Germany), Hamburg (Germany), Munich (Germany), Malmo (Sweden), Stockholm (Sweden) and Goteborg (Sweden). The Bank owns directly and indirectly 29 (27) subsidiaries, which operate in various financial markets sectors. The Bank is parent company of the Group.

The Bank's main areas of operation include accepting deposits from customers, granting short-term and long-term loans to the State Treasury of Latvia, local municipalities, corporate customers, private individuals and other credit institutions, issuing and servicing payment cards, dealing with finance lease and foreign exchange transactions. The Bank offers its clients also trust management and investment banking services, performs local and international payments, as well as provides a wide range of other financial services.

As at 31 December 2008, the Group had 3,593 (3,607) employees.

Impact of financial crisis on the Group and Bank

The collapse of Lehman Brothers in mid-September 2008 and the unprecedented events in subsequent weeks intensified the turmoil in global financial markets leading to increased public uncertainty about the stability of the Latvian financial sector and standalone banks, which did not enjoy support from larger international financial institutions, in particular. Notwithstanding the overall growth in the deposit base until the end of September 2008, the Bank experienced deposit outflows as well as a decrease in the liquidity of its securities portfolio, part of which was held as a liquidity cushion. As a result, in the end of October 2008, the Bank applied to the Government of the Republic of Latvia for support. On 10 November 2008, prior to providing the liquidity support, the State and State Joint-Stock Company "Latvijas Hipotēku un zemes banka" (*Mortgage and Land Bank of Latvia)* entered into an agreement with the major shareholders of the Bank Valērijs Kargins and Viktors Krasovickis for the sale of 51% of their shareholding for a symbolic price of 2 lats to the *Mortgage and Land Bank of Latvia*. The initial response to the takeover was a significant increase in the outflows of deposits during the first days after the announcement, mainly due to the lack of public certainty as to whether the State support was temporary or permanent.

On 1 December 2008, with the aim of stabilising the situation in the Bank the Cabinet of Ministers of the Republic of Latvia and the Financial and Capital Market Commission (FCMC), as a temporary measure under the Credit Institutions Law of Latvia, jointly decided to impose withdrawal restrictions on the Bank's deposits. In order to further stabilise Parex banka, a decision to increase the State's shareholding was made and amendments to the agreement concluded on 10 November 2008 were made on 3 December 2008. Under the terms of the amendment, a further 33.83% of Parex banka's shares were sold to the state-owned *Mortgage and Land Bank of Latvia*, increasing its share to 84.83%. Following this initial Government involvement, the Bank has received further liquidity support from the State Treasury of the Republic of Latvia when necessary.

The economic environment in the Group's main markets for the years 2009 and 2010 is going to be very difficult. On its way to fully restoring the level of business activity and ensuring further development, the Group will face many challenges, the most important of these being regaining and continuously strengthening customer confidence. Even though a number of significant steps towards stabilisation of the Bank have already been taken by the Bank in the first months of 2009 (see below), Management acknowledge that strengthening customer relationships and their confidence in the Bank will remain a priority in the forthcoming years. It will enable the Group to strengthen its liquidity position and plan for the repayment of the financing received from the State Treasury.

Since the end of 2008, the Bank has effectively resolved several significant uncertainties in respect to the Group's ability to successfully cope with market challenges, continue its operations on a going concern basis and return to normal business conditions. The most important of these are:

- Syndicated loan repayment has been restructured and the repayment of the first part of the principal has been made;
- A decision has been made to strengthen the Bank's capital base with an injection amounting to LVL 227 million; and
- EBRD has committed to become a shareholder of the Bank.

As mentioned previously, the Government of Latvia has made a decision to strengthen the capital of the Bank by LVL 227 million, consisting of LVL 165 million share capital and LVL 62 million subordinated loans. On 11 May 2009, the European Commission has approved a share capital increase of LVL 140,750 thousand and a subordinated loan amounting to LVL 50,270 thousand. On 22 May 2009, *Privatisation Agency* paid up the respective capital increase and issued subordinated loan.. The rest of the increase as approved by the Government of Latvia will be subject to additional approval from the European Commission. Furthermore, EBRD has signed an agreement to purchase 25% share of the Bank's share capital, which will follow the increase of the capital by the State. More details on the above mentioned events are provided in Note 36.

The financial statements have been prepared on a going concern basis. The validity of this assumption is dependant upon the continuity of State support and on-going roll-overs in maturity of existing State Treasury deposits, as well as on the Group's ability to restore customer confidence and appropriate clearance being obtained from the European Commission in relation to the residual of the Government's approved share capital increase. It can not be excluded that the existence of these uncertainties may cast doubt on the ability of the Group to continue to operate on a going concern basis for the foreseeable future. If the Group were unable to continue as a going concern, adjustments may have to be made to reduce the monetary value of assets to their recoverable amounts and provide for further liabilities that might arise.

Management of the Bank are positive that the Bank, taking into account the support from its shareholders, if such would be needed, is well positioned to resolve the aforementioned uncertainties and that the Group and the Bank will have adequate resources to restore the normal course of business in the foreseeable future. For these reasons, the Management continue to adopt the going concern basis in preparing the annual report and financial statements.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Adoption of new and/ or changed IFRSs and IFRIC interpretations

The Group has adopted the following new and amended IFRS and IFRIC interpretations during the year:
- Amendments to IAS 39 *Financial Instruments: Recognition and Measurement* and IFRS 7 *Financial Instruments: Disclosures* – Reclassification of Financial Assets;
- IFRIC 11 *IFRS 2 – Group and Treasury Share Transactions.*

The principal effects of these changes are as follows:
- *Amendments to IAS 39 and IFRS 7 – Reclassification of Financial Assets*
  Through these amendments the IASB implemented additional options for reclassification of certain financial instruments categorised as held-for-trading or available-for-sale under specified circumstances. Related disclosures were added to IFRS 7. The Group did not have financial instruments impacted by these amendments.
- IFRIC 11 *IFRS 2 – Group and Treasury Share Transactions*
  The interpretation provides guidance on classification of transactions as equity-settled or as cash-settled and also gives guidance on how to account for share-based payment arrangements that involve two or more entities within the same group in the individual financial statements of each group entity. The Group has not issued instruments impacted by this interpretation.

Standards issued but not yet effective

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

- Amendments to IFRS 1 ***First-time Adoption of International Financial Reporting Standards*** and IAS 27 ***Consolidated and Separate Financial Statements*** (effective for financial years beginning on or after 1 January 2009 once adopted by the EU).
  The amendment to IFRS 1 allows an entity to determine the 'cost' of investments in subsidiaries, jointly controlled entities or associates in its opening IFRS financial statements in accordance with IAS 27 or using a deemed cost. The amendment to IAS 27 requires all dividends from a subsidiary, jointly controlled entity or associate to be recognised in the income statement in the separate financial statements. The amendment will have no impact on the financial statements of the Group.

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

- Amendment to IFRS 2 ***Share-based Payment*** (effective for financial years beginning on or after 1 January 2009).
  The amendment clarifies the definition of a vesting condition and prescribes the treatment for an award that is effectively cancelled. The amendment will have no impact on the financial position or performance of the Group, as the Group does not have share-based payments.

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

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

- IFRS 8 ***Operating Segments*** (effective for financial years beginning on or after 1 January 2009).
  The standard sets out requirements for disclosure of information about an entity's operating segments and also about the entity's products and services, the geographical areas in which it operates, and its major customers. IFRS 8 replaces IAS 14 *Segment Reporting*. The Group expects that the operating segments determined in accordance with IFRS 8 will not materially differ from the business segments previously identified under IAS 14.

- Amendment to IAS 1 ***Presentation of Financial Statements*** (effective for financial years beginning on or after 1 January 2009).
  This amendment introduces a number of changes, including introduction of a new terminology, revised presentation of equity transactions and introduction of a new statement of comprehensive income as well as amended requirements related to the presentation of the financial statements when they are restated retrospectively. The Group is still evaluating whether it will present all items of recognised income and expense in one single statement or in two linked statements.

- Amendment to IAS 23 ***Borrowing Costs*** (effective for annual periods beginning on or after 1 January 2009).
  The revised standard eliminates the option of expensing all borrowing costs and requires borrowing costs to be capitalised if they are directly attributable to the acquisition, construction or production of a qualifying asset. In accordance with the transitional requirements of the Standard, the Group will adopt this as a prospective change. Accordingly, borrowing costs, if any, will be capitalised on qualifying assets with a commencement date after 1 January 2009.

- Amendments to IAS 32 ***Financial Instruments: Presentation*** and IAS 1 ***Presentation of Financial Statements*** – Puttable Financial Instruments and Obligations Arising on Liquidation *(*effective for financial years beginning on or after 1 January 2009 once adopted by the EU).
  The revisions provide a limited scope exception for puttable instruments to be classified as equity if they fulfil a number of specified features. The amendments to the standards will have no impact on the financial position or performance of the Group, as the Group has not issued such instruments.

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

Improvements to IFRSs

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

- *IFRS 7 Financial Instruments: Disclosures.* Removal of the reference to 'total interest income' as a component of finance costs.
- *IAS 1 Presentation of Financial Statements*. Assets and liabilities classified as held for trading in accordance with IAS 39 are not automatically classified as current in the balance sheet.
- *IAS 8 Accounting Policies, Change in Accounting Estimates and Errors.* Clarification that only implementation guidance that is an integral part of an IFRS is mandatory when selecting accounting policies.
- *IAS 36 Impairment of Assets.* When discounted cash flows are used to estimate 'fair value less cost to sell' additional disclosure is required about the discount rate, consistent with disclosures required when the discounted cash flows are used to estimate 'value in use'.

IFRIC 13 ***Customer Loyalty Programmes*** (effective for financial years beginning on or after 1 July 2008).
This interpretation requires customer loyalty award credits to be accounted for as a separate component of the sales transaction in which they are granted and therefore part of the fair value of the consideration received is allocated to the award credit and deferred over the period that the award credit is fulfilled. This interpretation will have no impact on the financial position or

performance of the Group.

a) Reporting Currency

The accompanying financial statements are reported in thousands of Lats (LVL 000's).

b) Basis of Consolidation

As at 31 December 2008 and 2007, the Bank had a number of investments in subsidiaries, in which the Bank held directly and indirectly more than 50% of the shares and voting rights, and accordingly, had the ability to exercise control. The investments in the subsidiaries are presented in the Bank's financial statements at acquisition cost. More detailed information on the group's subsidiaries is presented in Note 17.

The financial statements of AS Parex banka and its subsidiaries are consolidated in the Group's financial statements on a line by line basis by adding together like items of assets and liabilities as well as income and expenses. For the purposes of consolidation, intra-group balances and intra-group transactions, including interest income and expense as well as unrealised profits and loss resulting from intra-group transactions, are eliminated in the Group's financial statements. However, intra-group losses may indicate an impairment that requires recognition in the Group's financial statements.

c) Income and Expense Recognition

Interest income and expense items are recognised on an accrual basis using the effective interest rate.

Commissions in respect of the acquisition of financial assets or the issue of financial liabilities that are not at fair value through profit or loss are deferred and recognised as an adjustment to the effective yield on the respective asset or liability. Other commissions and fees are credited and/ or charged to the statement of income as services are provided or on the execution of a significant act, as applicable, under the line "commission and fee income" or "commission and fee expense", as appropriate.

d) Foreign Currency Translation

Transactions denominated in foreign currencies are recorded in Lats at actual rates of exchange effective at the date of the transaction. Non-monetary items that are measured at fair value in a foreign currency, such as investments in equity instruments, are translated using the exchange rates at the date, when the fair value was determined. Monetary assets and liabilities denominated in foreign currencies are translated into Lats at the official rate of exchange prevailing at the end of the year. Any gain or loss resulting from a change in rates of exchange subsequent to the date of the transaction is included in the statement of income as a profit or loss from revaluation of foreign currency positions.

e) Taxation

For the year ended 31 December 2008 corporate income tax is applied at the rate of 15% (2007: 15%) on taxable income generated by the Bank for the taxation period.

Deferred corporate income tax arising from temporary differences in the timing of the recognition of items in the tax returns and these financial statements is assessed using the balance sheet liability method. The deferred corporate income tax is determined based on the tax rates that are expected to apply when the temporary differences reverse based on tax rates enacted or substantively enacted by the balance sheet date. The principal temporary differences arise from differing rates of accounting and tax depreciation on the fixed assets, revaluation of securities, as well as the treatment of collective impairment allowances, deferred commissions for financial assets and vacation pay reserve.

The carrying amount of deferred corporate income tax asset, if any, is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

f) Financial instruments

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

Financial assets in the scope of IAS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale financial assets, as appropriate. At initial recognition, the financial assets are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable incremental transaction costs. The classification of investments between the categories is determined at acquisition based on the guidelines established by the Management.

All "regular way" purchases and sales of investments are recognised using settlement date accounting. The settlement date is the date when an asset is delivered to or by the Group. Settlement date accounting refers to the recognition of an asset on the day it is transferred to the Group and to the derecognition of an asset, on the day that it is transferred by the Group. All other purchases or sales are recognised as derivative instruments until settlement occurs.

Financial assets and liabilities held for trading

Financial assets and liabilities classified as held for trading are included in the category "financial assets/ liabilities at fair value through profit or loss". Financial assets and/ or liabilities are classified as held for trading if they are either acquired for generating a profit from short-term fluctuations in price or dealer's margin, or are included in a portfolio in which a pattern of short-term profit taking exists. Held for trading financial assets and liabilities are subsequently re-measured at fair value based on available market prices or quotes of brokers. The result of re-measuring trading financial assets and liabilities at fair value is charged directly to the statement of income.

Financial assets/ liabilities designated at fair value through profit and loss

Included in this category are (a) unit-linked investment contract liabilities and respective investments and (b) certain securities, which are managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy. According to unit-linked investment contract term, the credit risk associated with the investments made by the insurance underwriter is fully attributable to the counterparty entering the insurance agreement and not the underwriter. As such, by designating both assets acquired and liabilities undertaken at fair value through profit and loss, potential accounting mismatch is avoided.

Excluding interest on interest rate swaps, interest on financial assets at fair value through profit or loss held on own account is included in net interest income. Revaluation and trading gains and losses arising from changes in fair value of the respective assets, as well as interest on interest rate swaps are included directly in the income statement's line "(Loss)/gain on transactions with financial instruments, net".

Held to maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held to maturity if the Group has both the positive intent and ability to hold these investments to maturity. Held to maturity financial assets are carried at amortised cost using the effective interest rate method, less any allowance for impairment.

A financial asset is impaired if its carrying amount is greater than its estimated recoverable amount. The amount of the impairment loss for assets carried at amortised cost is calculated as the difference between the asset's carrying amount and the present value of expected future cash flows discounted at the financial instrument's original effective interest rate.

When available-for-sale assets are reclassified to held to maturity category, the fair value of the reclassified available-for-sale asset as at the date of reclassification further is measured at amortised cost. The fair value revaluation reserve attributable to reclassified assets are amortised until the asset's maturity using effective interest rate method. If there is objective evidence that the value of reclassified assets has been impaired, the unamortised negative fair value revaluation reserve that has been recognised directly in equity is charged to the statement of income.

Available for sale financial assets

Available for sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the three preceding categories. The Group's available for sale financial assets are intended to be held for an undefined period of time and may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

Available for sale financial assets are subsequently re-measured at fair value based on available market prices or quotes of brokers. The result of fair value revaluation of available for sale securities is recognised in equity as a fair value revaluation reserve. The difference between the initial carrying amount and amortised cost determined by the effective interest rate method is treated as interest income. When the securities are disposed of, the related accumulated fair value revaluation is included in the statement of income as profit/ (loss) from sale of securities available for sale. If there is objective evidence that the value of an investment has been impaired, the cumulative net loss that has been recognised directly in equity is charged to the statement of income. In the case of the debt securities classified as available for sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. In the case of equity instruments classified as available for sale, the impairment is measured as the difference between the acquisition cost and the current fair value.

Derivative Financial Instruments

In the ordinary course of business, the Group engages as a party to contracts for forward foreign exchange rate, currency and interest rate swap instruments and other derivative financial instruments. Except for designated and effective hedging instruments, all derivatives are classified as held-for-trading. The accounting treatment of derivatives designated as hedging instruments is described further in sub-section "Hedge accounting".

Subsequent to initial recognition, outstanding forward foreign exchange rate contracts, currency swaps and other derivative financial instruments are carried in the balance sheet at their fair value. The fair value of these instruments is recognised on the balance sheet under designated assets and liabilities caption "Derivative financial instruments". The notional amounts of these financial instruments are reported in off-balance sheet accounts.

Gains or losses from changes in the fair value of outstanding forward foreign exchange rate contracts, currency and interest rate swaps and other derivative financial instruments, which are not designated as hedging instruments, are recognised in the statement of income as they arise.

Hedge accounting

In order to manage particular risks arising from changes in interest rates the Bank uses derivative instruments and applies hedge accounting for transactions meeting the specified criteria.

At inception of the hedge relationship, a formal documentation is prepared of the relationship between the hedged item and the hedging instrument, including the objective and strategy for undertaking the hedge and the method that will be used to assess the effectiveness of the hedging relationship.

Further, at the inception of the hedge relationship, a formal assessment is undertaken to ensure that the hedge relationship is expected to be highly effective. A hedge is considered to be highly effective if the changes in fair value or cash flows attributable to the hedged risk during the period for which the hedge is designated are expected to offset in a range of 80% to 125%.

For the purposes of hedge accounting, hedges are classified into two categories: (a) fair value hedges which hedge the exposure to changes in the fair value of a recognised asset or liability; and (b) cash flow hedges which hedge exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a forecasted transaction.

In relation to hedges (fair value and cash flow hedges), which meet the conditions for hedge accounting, any gain or loss from re-measuring the hedging instrument to fair value is recognised immediately in the statement of income except for the fair value change in relation to the effective part of a cash flow hedge, which is recognised directly in equity. For fair value hedges the hedged item is adjusted for fair value changes relating to the risk being hedged and the difference is recognised in the statement of income. Where the adjustment relates to a hedged interest-bearing financial instrument and the hedge instrument is terminated or designated, the adjustment is amortised to the statement of income on a systematic basis using effective interest rate so that it is fully amortised by its maturity date.

Dollar-offset method is used to calculate the retrospective and prospective effectiveness of the hedging relationships.

For derivatives, which do not qualify for hedge accounting, any gains or losses arising from changes in the fair value are taken directly to the statement of income for the period.

Hedge accounting is discontinued prospectively when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting.

Own credit risk in valuations of derivative liabilities

The Group's own credit changes are reflected in valuations of derivative liabilities, where the Group's own credit risk would be considered by market participants and excludes derivatives for which it is established market practice not to include an entity-specific adjustment for own credit. This amount represents the estimated difference in the market value of identical obligations issued by a riskless intermediary, relative to the market value of those obligations issued by the Group, as judged from the perspective of the holders of those obligations. Own credit changes were calculated based on credit default swap spreads. At 31 December 2008, the own credit gain for financial liabilities at fair value still held at reporting date, amounts to LVL 766 thousand.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in income when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Loans and receivables are recognised on drawdown. From the date of signing a contractual agreement till drawdown they are accounted for as loan commitments off balance sheet.

When the loans or receivables cannot be recovered, they are written-off and charged against impairment for credit losses. The management of the Group makes the decision on writing-off loans. Recoveries of loans previously written-off are credited to the statement of income.

Included in the category of “loans and receivables” are such financial instruments: a) cash and deposits with central banks, b) balances due from credit institutions and c) loans and receivables to customers.

Issued debt, subordinated debt and other borrowed funds

The Group recognises financial liabilities on its balance on drawdown.

After initial measurement, being fair value plus directly attributable transaction costs, debt issued, subordinated debt and borrowings are measured at amortised cost and any difference between net proceeds and value at redemption is recognised in the statement of income over the period of borrowings using the effective interest rate.

g) Sale and Repurchase Agreements

These agreements are accounted for as financing transactions. Under sale and repurchase agreements, where the Group is the transferor, assets transferred remain on the Group’s balance sheet and are subject to the Group’s usual accounting policies, with the purchase price received included as a liability owed to the transferee.

Where the Group is the transferee, the assets are not included in the Group’s balance sheet, but the purchase price paid by it to the transferor is included as an asset. Interest income or expense arising from outstanding sale and repurchase agreements is recognised in the statement of income over the term of the agreement.

h) Derecognition of Financial Assets and Liabilities

Financial assets

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

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

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

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

Financial liabilities

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

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

i) Leases

Finance leases – Group as lessor

Finance leases, which transfer substantially all the risks and rewards incidental to ownership of the assets, are recognised as assets at amounts equal at the inception of the lease to the net investment in the lease. The finance income is allocated to periods during the lease term to produce a constant periodic return on the net investments outstanding in respect of the finance leases.

For the purposes of these financial statements, finance lease receivables are included in loans and receivables to customers.

Operating leases – Group as lessor

The Group presents assets subject to operating leases in the balance sheets according to the nature of the asset. Lease income from operating leases is recognized in statement of income on a straight-line basis over the lease term as other income. The aggregate cost of incentives provided to lessees is recognized as a reduction of rental income over the lease term on a straight-line basis. Initial direct costs incurred specifically to earn revenues from an operating lease are added to the carrying amount of the leased asset.

The depreciation policy for depreciable leased assets is consistent with the lessor's normal depreciation policy for similar assets, and depreciation is calculated in accordance with accounting policies, used for the Group's property, plant and equipment.

Operating leases – Group as lessee

Leases of assets under which substantially all the risks and rewards of ownership are retained by the lessor are classified as operating leases. Lease payments under an operating lease are recognized as expenses on a straight-line basis over the lease term and included into administrative expenses.

j) Impairment of loans and receivables to customers

The Group has granted commercial and consumer loans to customers throughout its market area. The economic conditions of the market the Group operates in may have an impact on the borrowers' ability to repay their debts. The Management of the Group have considered both specific and portfolio-level risks in determining the balance of impairment allowance for incurred credit losses.

The Management of the Group assess at each balance sheet date whether there is objective evidence that a loan or portfolio of loans and receivables to customers is impaired. A loan or portfolio of loans and receivables to customers is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more loss events that occurred after the initial recognition of the loan and that loss event (or events) has had an impact such that the estimated present value of future cash flows is less than the current carrying value of the loan or portfolio of loans and receivables to customers, and can be reliably estimated.

Objective evidence that a loan or portfolio of loans and receivables to customers is potentially impaired includes the following observable data that comes to the attention of the Group:

- significant financial difficulty of the borrower;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- the granting to the borrower of a concession, for economic or legal reasons relating to the borrower's financial difficulty, that the Group would not otherwise consider;
- it becoming probable that the insolvency process may be initiated against the borrower, or the borrower will enter other financial reorganisation;
- the worsening of economic conditions in the market segment, where the borrower operates; or
- observable data indicating the there is a measurable decrease in the estimated future cash flows from a portfolio of loans and receivables to customers since the initial recognition of those of loans and receivables, although the decrease cannot yet be identified with the individual loans in the portfolio, including:
  - adverse changes in the payment status of borrowers in the portfolio; or
  - national or local economic conditions that correlate with defaults on the loans and receivables in the portfolio.

The Group first assesses whether objective evidence of impairment exists individually for loans and receivables that are individually significant, and individually or collectively for loans and receivables that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed loan, whether significant or not, it includes that loan in a group of loans and receivables with similar credit risk characteristics and collectively assesses them for impairment. Collectively assessed impairment losses represent an interim step pending the identification of impairment losses on individual loans in a group of loans and receivables. As soon as information is available that specifically identifies losses on individually impaired loans in a group, those loans are removed from the group. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

For loans and receivables, the amount of impairment loss is measured as the difference between the loan's carrying amount and the present value of estimated future cash flows discounted at the loan's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. The calculation of the present value of the estimated future cash flows of a collateralised loan reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable. The amount of the loss is recognised in the statement of income.

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

When a borrower fails to make a contractually due payment of interest or principal, but the Group believes that impairment is not appropriate on the basis of the level of security/ collateral available and/ or the stage of collections of amounts owed to the Group, the carrying amount of the loan is classified as past due but not impaired.

When loans and receivables cannot be recovered, they are written off and charged against impairment allowance. They are not written off until the necessary legal procedures have been completed and the amount of the loss is finally determined. Subsequent recoveries of amounts previously written off are reported in the statement of income as other operating income.

k) Impairment of available-for-sale and held-to-maturity securities

Evidence of impairment is assessed by reference to the most up to date market valuations, market depth of the respective security, past trading performance and all other available information. The determination of whether or not objective evidence of impairment is present requires the exercise of management judgement. If the Group does not have market valuations, the evidence of impairment is assessed based on credit risk triggers (event of insolvency, any delay of payments, restructuring of debt) and individual credit risk analysis of the issuer.

l) Business combinations and goodwill

Business combinations are accounted for using the purchase method of accounting, which, in essence, involves recognizing identifiable assets, liabilities and contingent liabilities of the acquired business at fair value. Any excess of the cost of acquisition over the fair value of identifiable net assets acquired is recognized as goodwill. If the cost of acquisition is less than fair value of the identifiable net assets acquired, the discount on acquisition is recognized in the income statement in the year of acquisition.

Following the initial recognition, in Group accounts the goodwill arising from the business combinations is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment at each reporting date, or more frequently if events or changes in circumstances indicate that the carrying amount of the goodwill may be impaired.

m) Intangible Assets

Intangible assets comprise software and capitalised costs relating to leasehold rights. The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition. Subsequent the initial recognition, intangible assets are carried at cost less accumulated amortisation and any accumulated impairment loss.

Leasehold rights are amortised over the remaining lease contract on a straight-line basis. Annual amortisation rates applied on a straight-line basis to software and other intangible assets range from 7% to 50%. All intangible assets, except for goodwill, are with definite lives.

n) Fixed Assets

Fixed assets are recorded at historical cost less accumulated depreciation less any impairment losses. Fixed assets are periodically reviewed for impairment. If the recoverable value of a fixed asset is lower than its carrying amount, the respective asset is written down to its recoverable amount.

Depreciation is calculated using the straight-line method based on the estimated useful life of the asset. The following depreciation rates have been applied:

Category	Annual depreciation rate
Buildings	2%
Transport vehicles	20%
Other fixed assets	20% - 33%

Leasehold improvements are capitalised and depreciated over the remaining lease contract period on a straight-line basis. Assets under construction are not depreciated.

Certain reconstruction and renovation costs of buildings, which improve their quality and performance, are capitalised and amortised over the estimated useful life on a straight-line basis.

Maintenance and repair costs are charged to the statement of income as incurred.

o) Assets held for sale

The Group from time to time repossesses from its customers certain assets serving as collateral, when the customer cannot otherwise meet his payment obligations and other loan work-out measures have been unsuccessful. Such assets are classified as held for sale, because they are acquired primarily for the purpose of selling them in the near term. Assets classified as held for sale are stated at the lower of their carrying amount and fair value less costs to sell. At least at each reporting date, the Group assesses, whether the value of the repossessed assets is impaired. The impairment loss reduces carrying amount of the asset and is included in the income statement's line "Impairment charges and reversals, net".

p) Provisions

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

q) Off-balance Sheet Financial Commitments and Contingent Liabilities

In the ordinary course of business, the Group is involved with off-balance sheet financial commitments and contingent liabilities comprising commitments to extend loans and receivables to customers, commitments for unutilised credit lines or credit card limits, financial guarantees and commercial letters of credit.

Such financial instruments are recorded in the financial statements as follows:
- commitment to extend loans and advances, credit card and overdraft facilities are recognized on drawdown; and
- financial guarantees and letters of credit are recognized when the related fee received as consideration is recognized.

Commitments to extend loans and receivables and commitments for unutilised credit lines or credit card limits represent contractual commitments to make loans and revolving credits. Commitments generally have fixed expiration dates, or other termination clauses. Since commitments may expire without being drawn upon, the total contract amounts do not necessarily represent future cash requirements.

On initial recognition financial guarantee contracts are measured at fair value. Subsequently, they are carried at the higher of the amount initially recognised less cumulative amortisation over the life of the guarantee and the amount determined in accordance with the accounting policy for provisions when enforcement of the guarantee has become probable.

The methodology for provisioning against possible losses arising from off-balance sheet financial commitments and contingent liabilities is consistent with that described in paragraph *p)*.

r) Trust Activities

Funds managed by the Group on behalf of individuals, corporate customers, trusts and other institutions are not regarded as assets of the Group and, therefore, are not separately included in the balance sheet. Funds under trust management are presented in these financial statements only for disclosure purposes.

s) Fair Values of Financial Assets and Liabilities

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable and willing parties in an arm's length transaction. Where available and reasonably reliable, fair values are determined by reference to observable market prices. Where representative market prices are not available or are unreliable, fair values are determined by using valuation techniques which refer to observable market data. These include prices obtained from independent market surveys, comparisons with similar financial instruments, discounted cash flow analyses and other valuation techniques commonly accepted and used by market participants.

Future events may occur which will cause the assumptions used in arriving at the estimates to change. The effect of any changes in estimates will be recorded in the financial statements, when determinable. Further, changes and movement in market conditions may affect accuracy of the fair value calculations so that the actual outcome of the transactions is different from the one reported in the financial statements. Also, when changed, management estimates used in preparing these financial statements could impact the reported result of the Group.

t) Cash and Cash Equivalents

For the purpose of presentation in the statement of cash flows, cash and cash equivalents are defined as the amounts comprising cash and demand deposits with central banks and other credit institutions with an insignificant risk of changes in value and a remaining maturity of not more 3 months from the date of acquisition, less demand deposits due to credit institutions.

u) Offsetting

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

v) Use of estimates in the preparation of financial statements

The preparation of financial statements in conformity with International Financial Reporting Standards as adopted by EU, requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses and disclosure of contingencies. The management has applied reasonable and prudent estimates and judgments in preparing these financial statements. The significant areas of estimation used in the preparation of the accompanying financial statements relate to evaluation of impairment for financial assets losses, determining fair values of the financial assets and liabilities and estimating future periods' taxable profit in order to assess amount of deferred tax assets that can be utilised and, as such, recognised.

<u>Impairment of loans</u>
The Group regularly reviews its loans and receivables to assess impairment. The estimation of potential impairment losses is inherently uncertain and dependant upon many factors. On an on-going basis potential issues are identified promptly as a result of individual loans being regularly monitored. Impairment losses are calculated on an individual basis with reference to expected future cash flows including those arising from the realisation of collateral. The Group uses its experienced judgement to estimate the amount of any impairment loss considering matters such as future economic conditions and the resulting trading performance of the borrower and the value of collateral, for which there may not be a readily accessible market. As a result, the impairment losses can be subject to significant variation as time progresses and the circumstances become clearer. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

In addition, the Group estimates collective impairment losses to cover losses inherent in the loan portfolio where there is objective evidence to suggest that it contains impaired loans, although the individual impaired loans cannot yet be identified. The collective impairment losses take account of observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans and receivables with similar credit risk characteristics, although the decrease cannot yet be identified with the individual loans in the portfolio.

Future cash flows in a portfolio of loans and receivables that are collectively evaluated for impairment are estimated on the basis of historical loss experience for loans and receivables with credit risk characteristics similar to those in the portfolio. Historical loss experience is adjusted for current observable market data using the Group's experienced judgement to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

The future credit quality of the loan portfolio for which the collective impairment losses are estimated is subject to uncertainties that could cause actual credit losses to differ materially from reported impairment losses. These uncertainties include factors such as international and local economic conditions, borrower specific factors, industry and market trends, interest rates, unemployment rates and other external factors

<u>Impairment of securities</u>
The Group makes various estimates to determine the value of securities assessed for impairment. When the value of securities, for which loss event have occurred, is assessed for impairment, an estimate is made involving factors such as liquidity (quoted prices and volumes from several reliable providers as well as judgemental evaluation), spreads (estimation of securities' spreads and spreads on securities rated Caa1 and below), ratings (subordination) and loss-given-default (LGD) rates.

The future credit quality of the securities for which the impairment losses are estimated is subject to uncertainties that could cause actual credit losses to differ materially from reported impairment losses. These uncertainties include factors such as international, regional and local economic conditions, issuer specific factors, market activity and depth, interest rates and other external factors.

w) Events after the balance sheet date

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

NOTE 3. INTEREST INCOME AND EXPENSE

	LVL 000's			
	2008 Group	2007 Group	2008 Bank	2007 Bank
Interest income:				
- interest on financial assets measured at amortised cost:	207,411	159,102	181,864	143,815
- interest on loans and receivables to customers	*179,973*	*142,324*	*143,375*	*122,627*
- interest on balances due from credit institutions and central banks	*15,410*	*13,862*	*22,417*	*16,753*
- interest on held-to-maturity securities	*12,028*	*2,916*	*16,072*	*4,435*
- interest income on financial assets designated at fair value through profit or loss	32	12	-	-
- interest on held for trading securities	290	970	242	916
- interest on available-for-sale securities	20,924	25,041	20,186	23,640
Total interest income	**228,657**	**185,125**	**202,292**	**168,371**
Interest expense:				
- interest on financial liabilities measured at amortised cost:				
- interest on deposits from customers	*(78,200)*	*(55,027)*	*(72,479)*	*(51,875)*
- interest on balances due to credit institutions and central banks	*(42,357)*	*(34,096)*	*(41,971)*	*(34,026)*
- interest on issued debt securities	*(7,172)*	*(10,483)*	*(7,164)*	*(10,483)*
- interest on subordinated liabilities	*(4,145)*	*(471)*	*(4,145)*	*(471)*
- interest on other financial liabilities	*(171)*	*(46)*	-	-
Total interest expense	**(132,045)**	**(100,123)**	**(125,759)**	**(96,855)**
Net interest income	**96,612**	**85,002**	**76,533**	**71,516**

In 2008, the Bank reclassified interest income and expenses in amount of 1,742 thousand, respectively to income statements line "(Loss)/gains on transactions with financial instruments, net" (see Note 5). The amounts related to interest rate swaps used as hedging instruments.

	LVL 000's			
	2008 Group	2007 Group	2008 Bank	2007 Bank
Interest income recognised on impaired assets	1,229	1,040	133	242

NOTE 4. COMMISSION AND FEE INCOME AND EXPENSE

	LVL 000's			
	2008 Group	2007 Group	2008 Bank	2007 Bank
Commission and fee income:				
- transactions with settlement cards	21,389	18,395	20,312	18,039
- payment transfer fee	9,682	9,691	8,490	8,610
- custody, trust and asset management fees	5,404	4,408	508	34
- securities, financial instrument brokerage fees	2,407	3,794	2,286	3,491
- cash disbursement/ transaction commission	1,939	2,141	1,636	1,837
- financial consulting fees*	1,207	3,593	1,207	3,593
- cash collection	1,141	857	1,141	856
- service fee for account maintenance	782	618	692	549
- letters of credit and guarantees	693	646	597	549
- review of loan applications and collateral evaluation	550	1,267	476	1,199
- investment banking services	340	1,251	340	1,251
- other fees	1,652	1,069	613	220
Total commission and fee income	**47,186**	**47,730**	**38,298**	**40,228**

* Financial consulting fees comprise fees received by the Bank for assistance in arranging a third party financing transactions.

	LVL 000's			
	2008 Group	2007 Group	2008 Bank	2007 Bank
Commission and fee expense:				
- fees related to settlement card operations	(7,356)	(5,593)	(6,821)	(5,411)
- fees related to correspondent accounts	(2,772)	(2,697)	(2,480)	(2,480)
- brokerage and custodian fees:*	(1,005)	(1,012)	(1,475)	(1,672)
- securities, financial instrument brokerage fees	*(791)*	*(810)*	*(533)*	*(643)*
- custody, trust and asset management fees	*(214)*	*(202)*	*(942)*	*(1,029)*
- other fees	(241)	(534)	(99)	(358)
Total commission and fee expense	**(11,374)**	**(9,836)**	**(10,875)**	**(9,921)**
Net commission and fee income	**35,812**	**37,894**	**27,423**	**30,307**

* The Bank has reclassified LVL 206 thousand from line "securities, financial instrument brokerage fees" to line "custody, trust and asset management fees" in year 2007 disclosure. The respective amount has also been reclassified in the Group's disclosure.

Commission and fee income and expense from financial instruments not at fair value through profit and loss, other than amounts included in determining the effective interest rate, can be specified as follows:

	LVL 000's			
	2008 Group	2007 Group	2008 Bank	2007 Bank
Commission and fee income	47,186	47,730	38,298	40,228
Commission and fee expense	(11,370)	(9,812)	(10,869)	(9,880)

NOTE 5. (LOSS)/ GAIN ON TRANSACTIONS WITH FINANCIAL INSTRUMENTS, NET

	LVL 000's			
	2008 Group	2007 Group	2008 Bank	2007 Bank
Gain/ (loss) from trading and revaluation of fixed income securities held for trading purposes, net	(42)	(881)	(42)	(881)
Gain/ (loss) from trading and revaluation of non-fixed income securities held for trading purposes, net	(9,618)	4,767	(9,529)	4,695
Gain/ (loss) from disposal of fixed income available for sale securities, net	(7,977)	1,861	(6,992)	1,714
(Loss) from disposal of non-fixed income available for sale securities, net	(103)	-	(103)	-
Gain/ (loss) on financial liabilities measured at amortised cost, net	3,770	(106)	3,770	(106)
Gain from foreign exchange trading and revaluation of open positions, net	6,701	15,712	4,212	14,007
Gain/ (loss) from trading and revaluation of other derivatives, net	3,907	(450)	4,027	(455)
Gain on trading with financial instruments, net	**(3,362)**	**20,903**	**(4,657)**	**18,974**

	LVL 000's			
	2008 Group	2007 Group	2008 Bank	2007 Bank
Net gain/ (loss) on financial instruments not at fair value through profit or loss	(4,310)	1,755	(3,325)	1,608
Net gain/ (loss) on financial instruments at fair value through profit or loss	948	19,148	(1,332)	17,366
Total gain/ (loss) on financial instruments, net	**(3,362)**	**20,903**	**(4,657)**	**18,974**

NOTE 6. OTHER OPERATING INCOME

	LVL 000's			
	2008 Group	2007 Group	2008 Bank	2007 Bank
Penalties received	8,967	2,951	7,032	1,731
Dividends received	360	346	358	345
Other income	3,261	6,813	683	4,877
Total other operating income	**12,588**	**10,110**	**8,073**	**6,953**

NOTE 7. ADMINISTRATIVE EXPENSE

	LVL 000's			
	2008 Group	2007 Group	2008 Bank	2007 Bank
Personnel expense	66,491	51,735	50,227	39,887
Advertising, marketing and sponsorship	7,204	8,171	6,036	7,280
Rent for premises	5,957	4,756	3,708	3,222
Business travel expense	4,938	5,520	4,471	5,211
IT equipment and software related expense	2,939	1,990	1,350	1,183
Consulting and professional fees	2,858	2,207	2,249	1,617
Communications (telephone, mail, etc.)	2,845	2,672	2,106	2,171
Repairs and maintenance	2,625	2,635	2,095	2,144
Office expense	1,326	1,153	793	745
Representation	1,210	1,859	999	1,630
Security	703	675	589	562
Insurance	445	350	204	234
Real estate and other taxes	258	199	47	35
Non-refundable value added tax	3,682	3,753	2,908	3,186
Other administrative expense	5,611	3,791	4,856	2,756
Total administrative expense	**109,092**	**91,466**	**82,638**	**71,863**

NOTE 8. PERSONNEL EXPENSE

Personnel expense has been presented in these financial statements within administrative expense. Personnel expense includes remuneration for work to the personnel and related social security contributions and bonuses and other short-term benefits costs.

	LVL 000's			
	2008 Group	2007 Group	2008 Bank	2007 Bank
Remuneration (incl. bonuses):				
- management	2,224	1,974	563	1,060
- other personnel	53,676	41,583	42,004	32,967
Total remuneration for work	**55,900**	**43,557**	**42,567**	**34,027**
Social security contributions:				
- management	335	292	53	52
- other personnel	10,256	7,886	7,607	5,808
Total social security contributions	**10,591**	**8,178**	**7,660**	**5,860**
Total personnel expense	**66,491**	**51,735**	**50,227**	**39,887**
Average number of personnel during the year	3,819	3,363	2,688	2,501

NOTE 9. IMPAIRMENT OF ASSETS AND CHANGES IN IMPAIRMENT ALLOWANCES

An analysis of the change in allowances for impairment of loans and receivables and provisions for off-balance sheet commitments is presented as follows:

	LVL 000's			
	2008 Group	2007 Group	2008 Bank	2007 Bank
Total allowance for impairment at the beginning of the year, including:	**14,134**	**14,329**	**10,558**	**12,840**
- loans - specifically assessed impairment	6,436	9,582	3,988	8,317
- loans - collectively assessed impairment	7,698	4,747	6,570	4,523
Charge:	**108,925**	**7,560**	**108,447**	**5,194**
- loans - specifically assessed impairment	101,662	4,600	104,209	3,147
- loans - collectively assessed impairment	6,253	2,960	3,228	2,047
- off-balance sheet commitments - specifically assessed impairment	1,010	-	1,010	-
Release:	**(1,658)**	**(3,140)**	**(33)**	**(3,035)**
- loans - specifically assessed impairment	(1,482)	(3,131)	(33)	(3,035)
- loans - collectively assessed impairment	(176)	(9)	-	-
Provision charged to the statement of income, net, including:	**107,267**	**4,420**	**108,414**	**2,159**
- loans - specifically assessed impairment	100,180	1,469	104,176	112
- loans - collectively assessed impairment	6,077	2,951	3,228	2,047
- off-balance sheet commitments - specifically assessed impairment	1,010	-	1,010	-
Change of allowance due to write-offs, net	**(4,571)**	**(4,093)**	**(3,793)**	**(3,921)**
Effect of changes in currency exchange rates:	**(367)**	**(522)**	**20**	**(520)**
- loans - specifically assessed impairment	(248)	(522)	20	(520)
- loans - collectively assessed impairment	(119)	-	-	-
Total allowance for impairment at the end of the year, including:	**116,463**	**14,134**	**115,199**	**10,558**
- loans - specifically assessed impairment	101,797	6,436	104,391	3,988
- loans - collectively assessed impairment	13,656	7,698	9,798	6,570
- off-balance sheet commitments - specifically assessed impairment	1,010	-	1,010	-

An analysis of the change in impairment of other assets is presented as follows:

	LVL 000's			
	2008 Group	2007 Group	2008 Bank	2007 Bank
Total allowance for impairment at the beginning of the year, including:	**790**	**1,520**	**789**	**1,520**
- available-for-sale securities	423	694	423	694
- held-to-maturity securities	199	722	199	722
- non-financial assets	168	104	167	104
Charge:	**45,081**	**220**	**30,857**	**219**
- available-for-sale securities	15	-	15	-
- held-to-maturity securities	22,611	43	22,611	43
- due from credit institutions	1,343	-	1,343	-
- non-financial assets	21,112	177	6,888	176
Charge from equity reserves due to impairment*	**7,384**	**-**	**7,384**	**-**
- available-for-sale securities	5,501	-	5,501	-
- held-to-maturity securities	1,883	-	1,883	-
Release:	**-**	**(23)**	**-**	**(23)**
- available-for-sale securities	-	-	-	-
- held-to-maturity securities	-	(21)	-	(21)
- non-financial assets	-	(2)	-	(2)
Provision charged to the statement of income, net, including:	**52,465**	**197**	**38,241**	**196**
- available-for-sale securities	5,516	-	5,516	-
- held-to-maturity securities	24,494	22	24,494	22
- due from credit institutions	1,343	-	1,343	-
- non-financial assets	21,112	175	6,888	174
Change of allowance due to write-offs, net:	**(30)**	**(842)**	**(30)**	**(842)**
- available-for-sale securities	-	(220)	-	(220)
- held-to-maturity securities	-	(521)	-	(521)
- non-financial assets	(30)	(101)	(30)	(101)
Effect of changes in currency exchange rates:	**(12)**	**(85)**	**(11)**	**(85)**
- available-for-sale securities	9	(51)	9	(51)
- held-to-maturity securities	18	(24)	18	(24)
- non-financial assets	(39)	(10)	(38)	(10)
Total allowance for impairment at the end of the year, including:	**51,330**	**790**	**37,106**	**789**
- available-for-sale securities	5,948	423	5,948	423
*- held-to-maturity securities**	22,828	199	22,828	199
- due from credit institutions	1,343	-	1,343	-
- non-financial assets	21,211	168	6,987	167

* In calculation of outstanding balance sheet amount at the end of the period are not included the amounts relating to fair value revaluation reserves in equity and charged to income statement due to impairment of securities, because the respective amounts are already considered in the respective securities' balance sheet value.

NOTE 10. TAXATION

Corporate income tax expense comprises the following items:

	LVL 000's			
	2008 Group	2007 Group	2008 Bank	2007 Bank
Current corporate income tax	1,190	6,858	-	5,641
Deferred income tax	(10,863)	(910)	(8,570)	(921)
Tax withheld abroad	2,147	2,130	2,147	2,130
Prior year adjustments	102	(179)	102	78
Total corporate income tax expense	**(7,424)**	**7,899**	**(6,321)**	**6,928**

The reconciliation of the Bank's and the Group's pre-tax profit for the year to the corporate income tax expense for the year may be specified as follows:

	LVL 000's			
	2008 Group	2007 Group	2008 Bank	2007 Bank
Profit before corporate income tax	(138,394)	49,319	(130,329)	47,074
Corporate income tax (at standard rate)*	**(20,759)**	**7,398**	**(19,549)**	**7,061**
Permanent differences, net	5,655	1,867	7,188	976
Prior year adjustments	102	(179)	102	78
Unrecognised deferred tax assets	7,578	-	5,938	-
Tax reductions (donations and other deductions)	-	(1,187)	-	(1,187)
Total effective corporate income tax	**(7,424)**	**7,899**	**(6,321)**	**6,928**

* standard rate for the year ended 31 December 2008 was 15% (2007: 15%).

The movements in deferred corporate income tax liability can be specified as follows:

	LVL 000's			
	2008 Group	2007 Group	2008 Bank	2007 Bank
As at 1 January	(510)	870	(830)	561
Charge to statement of income	(10,863)	(910)	(8,570)	(921)
Charge to equity**	(479)	(470)	(279)	(470)
Total deferred income tax (asset) at the end of the year	**(11,852)**	**(510)**	**(9,679)**	**(830)**

Deferred corporate income tax assets and liabilities can be specified as follows:

	LVL 000's			
	2008 Group	2007 Group	2008 Bank	2007 Bank
Deferred tax liabilities:				
Accumulated excess of tax depreciation over accounting depreciation	1,113	1,347	882	904
Revaluation of securities and derivatives**	284	205	176	205
Other deferred tax liabilities	474	287	-	-
Deferred tax assets:				
Vacation pay accrual	(974)	(260)	(877)	(257)
Non-taxable impairment allowance	(1,843)	(986)	(1,470)	(986)
Unutilised tax losses	(15,285)	(22)	(13,129)	-
Other deferred tax assets	(3,199)	(1,081)	(1,199)	(696)
Net deferred corporate income tax (asset)	**(19,430)**	**(510)**	**(15,617)**	**(830)**
Unrecognised deferred tax asset	7,578	-	5,938	-
Recognised deferred corporate income tax (asset)	**(11,852)**	**(510)**	**(9,679)**	**(830)**

** all changes in deferred tax liability that are charged directly to equity are related to revaluation of securities.

The movements in tax accounts of the Bank during 2008 can be specified as follows:

	LVL 000's			
	Balance as at 31/12/2007	Calculated in 2008	Paid in 2008	Balance as at 31/12/2008
Corporate income tax	3,209	(2,147)	6,604	7,666
including corporate income tax withheld abroad	-	*(2,147)*	*2,147*	-
Social security contributions	(29)	(10,042)	9,286	(785)
Personal income tax	(62)	(9,631)	9,168	(525)
Value added tax	821	2	(280)	543
Real estate tax	-	(33)	33	-
Total tax (payable)/ receivable	**3,939**			**6,899**

NOTE 11. CASH AND DEPOSITS WITH CENTRAL BANKS

	LVL 000's			
	31/12/2008 Group	31/12/2007 Group	31/12/2008 Bank	31/12/2007 Bank
Cash	51,924	60,203	46,538	55,566
Deposits with the Bank of Latvia	36,616	178,827	32,616	178,827
Demand deposits with other central banks	27,810	18,250	16,025	1,669
Total cash and deposits with central banks	**116,350**	**257,280**	**95,179**	**236,062**

According to the resolution of the Council of the Bank of Latvia, credit institutions should comply with the compulsory reserve requirement calculated on the basis of attracted funding. The Bank's compulsory reserve must be exceeded by a credit institution's average monthly LVL balance on its correspondent account with the Bank of Latvia. Similar requirements also apply to the funding attracted by the Bank's branch in Estonia and Germany. During the reporting year, the Bank was in compliance with these requirements of the Bank of Estonia and Germany's Bundesbank.

Due to difficult liquidity situation as from November 2008, the Bank was unable to hold sufficient balances with to the Bank of Latvia to meet the mandatory reserve requirement. As a result, the Bank sustained penalties in amount of LVL 1,245 thousand.

Demand deposits with other central banks include balances with central banks of Lithuania, Estonia, Germany and Switzerland. As at 31 December 2008 and 2007, none of the amounts due from central banks were past due.

NOTE 12. BALANCES DUE FROM CREDIT INSTITUTIONS

	LVL 000's			
	31/12/2008 Group	31/12/2007 Group	31/12/2008 Bank	31/12/2007 Bank
Due from credit institutions registered in OECD countries	243,276	308,900	196,371	280,645
Due from credit institutions registered in Latvia	7,654	68,768	6,273	68,331
Due from credit institutions registered in other non-OECD countries	25,137	53,200	297,384	173,657
Total gross balances due from credit institutions	**276,067**	**430,868**	**500,028**	**522,633**
Impairment allowance	(1,343)	-	(1,343)	-
Total net balances due from credit institutions	**274,724**	**430,868**	**498,685**	**522,633**

As at 31 December 2008, the Bank had inter-bank deposits with 3 (2007: 3) Latvian credit institutions and 2 (2007: 5) OECD region credit institutions. Corresponding balances comprised 0% (2007: 60%) and 21% (2007: 64%) of total balances due from credit institutions registered in Latvia and OECD, respectively. As at 31 December 2008 and 2007, none of the amounts due from credit institutions were past due.

The Bank's balances with its subsidiary Parex Bankas (Lithuania) accounted for 96% (2007: 72%) of the total balances due from credit institutions registered in other non-OECD countries.

	LVL 000's			
	31/12/2008 Group	31/12/2007 Group	31/12/2008 Bank	31/12/2007 Bank
Correspondent accounts (nostro)	64,629	83,343	43,490	76,108
Overnight deposits	29,815	95,548	70,757	81,486
Total demand deposits	**94,444**	**178,891**	**114,247**	**157,594**
Term deposits with credit institutions:				
due within 1 month	140,997	223,632	335,439	237,419
due within 1-3 months	22,350	8,597	21,468	46,459
due within 3-6 months	15,475	8,648	26,215	50,570
due within 6-12 months	2,320	6,872	1,005	27,455
due within 1-5 years	481	4,228	1,654	3,136
Total term deposits	**181,623**	**251,977**	**385,781**	**365,039**
Total gross balances due from credit institutions	**276,067**	**430,868**	**500,028**	**522,633**
Impairment allowance	(1,343)	-	(1,343)	-
Total net balances due from credit institutions	**274,724**	**430,868**	**498,685**	**522,633**

As at 31 December 2008, no balances due from Latvian and non-OECD credit institutions (2007: LVL 24,457 thousand) were collateralised by deposits (2007: LVL 26,700 thousand) (see also Note 23).

NOTE 13. LOANS AND RECEIVABLES TO CUSTOMERS

	Group, LVL 000's					
	31/12/2008			31/12/2007		
	Balance sheet amount	Off-balance sheet credit exposure	Total gross credit exposure	Balance sheet amount	Off-balance sheet credit exposure	Total gross credit exposure
Regular loans	1,531,233	33,267	1,564,500	1,434,493	30,246	1,464,739
Utilised credit lines	211,351	31,172	242,523	191,859	106,331	298,190
Finance leases	245,068	576	245,644	225,247	2,457	227,704
Debit balances on settlement cards	105,483	106,006	211,489	74,560	134,900	209,460
Overdraft facilities	30,000	8,052	38,052	24,089	41,527	65,616
Loans under reverse repurchase agreements	1,248	-	1,248	32,949	29,914	62,863
Factoring	22,993	559	23,552	26,426	-	26,426
Due from investment and brokerage firms	4,078	-	4,078	11,153	-	11,153
Total loans and receivables to customers	**2,151,454**	**179,632**	**2,331,086**	**2,020,776**	**345,375**	**2,366,151**
Impairment allowance	(115,453)	(1,010)	(116,463)	(14,134)	-	(14,134)
Total net loans and receivables to customers	**2,036,001**	**178,622**	**2,214,623**	**2,006,642**	**345,375**	**2,352,017**

Off-balance sheet credit exposure comprises various committed financing facilities to the borrowers.

	Bank, LVL 000's					
	31/12/2008			31/12/2007		
	Balance sheet amount	Off-balance sheet credit exposure	Total gross credit exposure	Balance sheet amount	Off-balance sheet credit exposure	Total gross credit exposure
Regular loans	1,338,251	29,125	1,367,376	1,228,547	15,728	1,244,275
Utilised credit lines	365,078	67,445	432,523	348,427	141,334	489,761
Debit balances on settlement cards	96,708	93,131	189,839	72,041	127,194	199,235
Overdraft facilities	31,099	8,866	39,965	30,063	41,551	71,614
Loans under reverse repurchase agreements	586	70,882	71,468	29,847	29,914	59,761
Factoring	18,964	69	19,033	23,677	-	23,677
Due from investment and brokerage firms	6,770	-	6,770	13,547	-	13,547
Finance leases	1,604	-	1,604	2,739	-	2,739
Total loans and receivables to customers	**1,859,060**	**269,518**	**2,128,578**	**1,748,888**	**355,721**	**2,104,609**
Impairment allowance	(114,189)	(1,010)	(115,199)	(10,558)	-	(10,558)
Total net loans and receivables to customers	**1,744,871**	**268,508**	**2,013,379**	**1,738,330**	**355,721**	**2,094,051**

As at 31 December 2008, loans and receivables to customers totalling LVL 39,770 thousand (2007: LVL 15,791 thousand) or 1.8% (2007: 0.9%) of the Group's total portfolio of net loans and receivables to customers were classified as zero risk, as collateralised by deposits (see Note 24).

The Latvian banking legislation requires that any credit exposure to a non-related entity may not exceed 25% of equity as defined by the Financial and Capital Market Commission (FCMC) (see Note 35) and the total credit exposure to all related parties, except for consolidated subsidiaries, may not exceed 15% of equity as defined by the FCMC. As at 31 December 2008, the Bank was in compliance with the above requirements, except 25% limit on credit exposure of entities not related to the Group. The limit was breached due to low capital base. The breach will be remedied, once the capital increase takes place. Please refer to Note 36 for more details on capital increase.

The table below provides information about loans with renegotiated terms:

	LVL 000's			
	31/12/2008 Group	31/12/2007 Group	31/12/2008 Bank	31/12/2007 Bank
Net carrying amount of loans with renegotiated terms	341,179	52,701	347,063	51,326

Loans and advances by customer profile may be specified as follows:

	LVL 000's			
	31/12/2008 Group	31/12/2007 Group	31/12/2008 Bank	31/12/2007 Bank
Privately held companies	1,291,870	1,211,469	1,212,122	1,126,902
Private individuals	813,312	763,324	605,771	580,455
State owned enterprises	23,184	21,144	20,141	18,186
Public and religious institutions	10,529	11,504	9,648	11,154
Municipality owned enterprises	7,768	8,863	7,665	8,850
Local municipalities	4,756	4,470	3,678	3,339
Government	35	2	35	2
Total gross loans and receivables to customers	**2,151,454**	**2,020,776**	**1,859,060**	**1,748,888**
Impairment allowance	(115,453)	(14,134)	(114,189)	(10,558)
Total net loans and receivables to customers	**2,036,001**	**2,006,642**	**1,744,871**	**1,738,330**

The borrowers' industry analysis of the gross portfolio of loans and receivables to corporate customers before impairment allowance may be specified as follows:

	LVL 000's			
	31/12/2008 Group	31/12/2007 Group	31/12/2008 Bank	31/12/2007 Bank
Real estate purchase and management	441,031	436,427	437,238	397,857
Transport and communications	244,844	259,037	187,903	199,878
Trade	234,289	181,507	158,726	108,460
Construction	89,789	77,081	35,100	25,501
Electricity, gas and water supply	63,724	77,349	62,213	75,721
Financial intermediation	39,600	59,322	235,558	261,034
Manufacturing	73,789	48,346	50,643	26,178
Hotels, restaurants	44,783	21,167	41,699	19,462
Agriculture and forestry	21,811	18,133	3,098	2,594
Other industries	84,482	79,083	41,111	51,748
Total gross loans and receivables to corporate customers	**1,338,142**	**1,257,452**	**1,253,289**	**1,168,433**

In 2008, the Bank made changes in the way industry groupings are made – certain loans were reclassified from the industry the borrower operates into the ones, where the principal risks of the specific loans lie. The comparison between previously reported and restated figures is provided below:

	LVL 000's			
	31/12/2007 Restated Group	31/12/2007 As reported Group	31/12/2007 Restated Bank	31/12/2007 As reported Bank
Real estate purchase and management	436,427	378,638	397,857	340,068
Transport and communications	259,037	236,036	199,878	176,878
Trade	181,507	190,072	108,460	117,026
Construction	77,081	123,253	25,501	71,673
Electricity, gas and water supply	77,349	77,351	75,721	75,723
Financial intermediation	59,322	48,577	261,034	250,289
Manufacturing	48,346	47,496	26,178	25,328
Hotels, restaurants	21,167	29,099	19,462	27,394
Agriculture and forestry	18,133	18,056	2,594	2,518
Other industries	79,083	108,874	51,748	81,536
Total gross loans and receivables to corporate customers	**1,257,452**	**1,257,452**	**1,168,433**	**1,168,433**

The following table represents geographical profile of the portfolio of loans and receivables to customers analysed by the place of customers' reported residence:

	LVL 000's			
	31/12/2008 Group	31/12/2007 Group	31/12/2008 Bank	31/12/2007 Bank
Latvian residents	1,122,555	1,148,539	1,180,304	1,175,854
OECD region residents	54,260	63,890	49,375	56,811
Non-OECD region residents	974,639	808,347	629,381	516,223
Total gross loans and receivables to customers	**2,151,454**	**2,020,776**	**1,859,060**	**1,748,888**
Impairment allowance	(115,453)	(14,134)	(114,189)	(10,558)
Total net loans and receivables to customers	**2,036,001**	**2,006,642**	**1,744,871**	**1,738,330**

NOTE 14. LEASES

The following table represents finance leases analysed by type of assets:

	LVL 000's			
	31/12/2008 Group	31/12/2007 Group	31/12/2008 Bank	31/12/2007 Bank
Transport vehicles	192,568	180,102	369	940
Real estate	6,691	2,758	1,158	1,695
Manufacturing equipment	15,836	19,745	27	41
Other	29,973	22,642	50	63
Total present value of finance lease payments, excluding impairment	**245,068**	**225,247**	**1,604**	**2,739**
Impairment allowance	(8,745)	(1,499)	(80)	(83)
Net present value of finance lease payments	**236,323**	**223,748**	**1,524**	**2,656**

The following table represents reconciliation between the gross investment in the finance leases and the present value of minimum lease payments receivable:

	LVL 000's			
	31/12/2008 Group	31/12/2007 Group	31/12/2008 Bank	31/12/2007 Bank
Gross investment in finance leases receivable:				
within 1 year	58,609	47,611	357	1,463
later than 1 year and no later than in 5 years	209,207	196,134	1,635	1,529
later than in 5 years	31,494	19,135	-	-
Total gross investment in finance leases	**299,310**	**262,880**	**1,992**	**2,992**
Unearned finance income receivable:				
within 1 year	20,784	11,175	88	165
later than 1 year and no later than in 5 years	30,490	25,462	300	88
later than in 5 years	2,968	996	-	-
Total	**54,242**	**37,633**	**388**	**253**
Present value of minimum lease payments receivable:				
within 1 year	37,825	36,436	269	1,298
later than 1 year and no later than in 5 years	178,717	170,672	1,335	1,441
later than in 5 years	28,526	18,139	-	-
Total	**245,068**	**225,247**	**1,604**	**2,739**

NOTE 15. FIXED INCOME SECURITIES

The Group's fixed income securities are further split as follows:

	LVL 000's							
	31/12/2008				31/12/2007			
	Held to maturity	Available for sale	Held for trading	Total	Held to maturity	Available for sale	Held for trading	Total
Government bonds*	608,424	10,937	-	619,361	124	158,575	460	159,159
Municipality bonds	29,740	3,759	-	33,499	865	6,049	-	6,914
Credit institution bonds	101,497	87,374	1,930	190,801	36,030	199,161	2,073	237,264
Corporate bonds	25,566	35,527	384	61,477	-	88,698	3,005	91,703
Other financial institution bonds	14,636	8,590	-	23,226	1,915	22,982	37	24,934
Managed funds	1,511	-	-	1,511	1,489	-	-	1,489
Total gross fixed income securities	**781,374**	**146,187**	**2,314**	**929,875**	**40,423**	**475,465**	**5,575**	**521,463**
Impairment allowance	(22,828)	-	-	(22,828)	(199)	(423)	-	(622)
Total net fixed income securities	**758,546**	**146,187**	**2,314**	**907,047**	**40,224**	**475,042**	**5,575**	**520,841**

* In a special purpose financing scheme between the Bank, State Treasury and Bank of Latvia, part of financing from the State Treasury was used the buy special purpose Latvian Government zero coupon bonds from the State Treasury. These securities were pledged in the Bank of Latvia to receive the actual funding. Thus, there has been no cash movement in respect to purchase these securities. This matter is considered, when preparing cash flow statement for the year 2008. As at 31 December 2008, the amortised cost of the aforementioned bonds amount to LVL 435,127 thousand. For more information of financing received from State Treasury, please refer to Note 24.

The Bank's fixed income securities are further split as follows:

	LVL 000's							
	31/12/2008				31/12/2007			
	Held to maturity	Available for sale	Held for trading	Total	Held to maturity	Available for sale	Held for trading	Total
Government bonds	608,185	8,506	-	616,691	-	140,844	-	140,844
Municipality bonds	27,704	3,759	-	31,463	-	4,330	-	4,330
Credit institution bonds	94,418	84,922	1,930	181,270	34,463	195,680	1,900	232,043
Corporate bonds	21,409	35,527	70	57,006	-	78,988	2,386	81,374
Other financial institution bonds	67,590	8,590	-	76,180	38,145	18,756	37	56,938
Managed funds	1,511	-	-	1,511	1,489	-	-	1,489
Total gross fixed income securities	**820,817**	**141,304**	**2,000**	**964,121**	**74,097**	**438,598**	**4,323**	**517,018**
Impairment allowance	(22,828)	-	-	(22,828)	(199)	(423)	-	(622)
Total net fixed income securities	**797,989**	**141,304**	**2,000**	**941,293**	**73,898**	**438,175**	**4,323**	**516,396**

As at 31 December 2008, the carrying amount of the Group's and Bank's securities on which the payments are past due was LVL 974 thousand (2007: LVL 0).

As at 31 December 2008, the carrying amount of the Group's and Bank's securities, which were impaired but not past due amounted to LVL 15,864 thousand (2007: LVL 1,269 thousand).

As at 31 December 2008 and 2007, there are no securities, which were restructured during the respective year.

In 2008, the Bank resolved to reclassify available-for-sale securities to held-to-maturity portfolio. Carrying amount of the aforementioned securities as at the respective reclassification dates was LVL 305,367 thousand. If the securities were not reclassified, the carrying amount as at 31 December 2008 would be LVL 232,628 thousand.

	Group, LVL 000's					
	31/12/2008			31/12/2007		
	Listed	Unlisted	Total	Listed	Unlisted	Total
Government bonds:						
Latvia	611,268	-	611,268	137,599	-	137,599
OECD	2,729	2,201	4,930	836	-	836
Non-OECD	3,163	-	3,163	20,460	264	20,724
Total government bonds	**617,160**	**2,201**	**619,361**	**158,895**	**264**	**159,159**
Municipality bonds:						
OECD	-	-	-	-	-	-
Non-OECD	33,499	-	33,499	6,183	731	6,914
Total municipality bonds	**33,499**	**-**	**33,499**	**6,183**	**731**	**6,914**
Credit institution bonds:						
Latvia	7,511	-	7,511	7,756	-	7,756
OECD	84,767	21,024	105,791	77,989	50,570	128,559
Non-OECD	58,919	18,580	77,499	66,258	34,691	100,949
Total credit institution bonds	**151,197**	**39,604**	**190,801**	**152,003**	**85,261**	**237,264**
Corporate bonds (OECD and non-OECD)	50,850	10,627	61,477	67,518	24,185	91,703
Other financial institution bonds (OECD and non-OECD)	21,400	1,826	23,226	20,656	4,278	24,934
Managed funds	-	1,511	1,511	-	1,489	1,489
Total gross fixed income securities	**874,106**	**55,769**	**929,875**	**405,255**	**116,208**	**521,463**
Impairment allowance	(17,988)	(4,840)	(22,828)	-	(622)	(622)
Total net fixed income securities	**856,118**	**50,929**	**907,047**	**405,255**	**115,586**	**520,841**

	Bank, LVL 000's					
	31/12/2008			31/12/2007		
	Listed	Unlisted	Total	Listed	Unlisted	Total
Government bonds:						
Latvia	611,268	-	611,268	137,493	-	137,493
OECD	2,180	2,201	4,381	588	-	588
Non-OECD	1,042	-	1,042	2,499	264	2,763
Total government bonds	**614,490**	**2,201**	**616,691**	**140,580**	**264**	**140,844**
Municipality bonds:						
OECD	-	-	-	-	-	-
Non-OECD	31,463	-	31,463	3,599	731	4,330
Total municipality bonds	**31,463**	**-**	**31,463**	**3,599**	**731**	**4,330**
Credit institution bonds:						
Latvia	7,358	-	7,358	7,631	-	7,631
OECD	76,422	21,024	97,446	75,466	50,570	126,036
Non-OECD	57,888	18,578	76,466	63,685	34,691	98,376
Total credit institution bonds	**141,668**	**39,602**	**181,270**	**146,782**	**85,261**	**232,043**
Corporate bonds (OECD and non-OECD)	46,379	10,627	57,006	57,189	24,185	81,374
Other financial institution bonds (OECD and non-OECD)	12,169	64,011	76,180	14,515	42,423	56,938
Managed funds	-	1,511	1,511	-	1,489	1,489
Total gross fixed income securities	**846,169**	**117,952**	**964,121**	**362,665**	**154,353**	**517,018**
Impairment allowance	(17,988)	(4,840)	(22,828)	-	(622)	(622)
Total net fixed income securities	**828,181**	**113,112**	**941,293**	**362,665**	**153,731**	**516,396**

NOTE 16. SHARES AND OTHER NON-FIXED INCOME SECURITIES

The following table provides the classification of the Group's shares and other non-fixed income securities between available for sale and fair value through profit and loss (where all securities are held for trading) portfolio:

	LVL 000's					
	31/12/2008			31/12/2007		
	Available for sale	Held for trading	Total	Available for sale	Held for trading	Total
Equity shares:						
in Latvian financial institutions	-	1	1	-	7	7
in Latvian corporate entities	1	763	764	-	1,876	1,876
in OECD financial entities	57	-	57	61	194	255
in OECD corporate entities	14	1,208	1,222	14	3,799	3,813
in non-OECD credit institutions	-	54	54	-	454	454
in non-OECD corporate entities	1	2,041	2,042	49	6,712	6,761
Total equity shares	73	4,067	4,140	124	13,042	13,166
Managed funds	12,431	334	12,765	424	26,767	27,191
Total shares and other non-fixed income securities	**12,504**	**4,401**	**16,905**	**548**	**39,809**	**40,357**

The Group possess limited information on the structure of investments in managed funds, which are managed on the behalf of investors by other financial institutions. As such, these investments are not analysed by their ultimate issuer. Investments in funds, where the Group does not possess sufficient information on portfolios' composition between fixed income securities and shares are classified as investments in shares and other non-fixed income securities.

	LVL 000's			
	31/12/2008 Group	31/12/2007 Group	31/12/2008 Bank	31/12/2007 Bank
Latvian entities' equity shares:				
listed	764	1,791	764	1,791
unlisted	1	92	-	92
Total Latvian entities' equity shares	765	1,883	764	1,883
Foreign entities' equity shares:				
listed	3,359	11,145	3,360	11,145
unlisted	16	138	-	7
Total foreign entities' equity shares	3,375	11,283	3,360	11,152
Mutual investment funds	12,765	27,191	12,695	25,488
Total shares and other non-fixed income securities	**16,905**	**40,357**	**16,819**	**38,523**

There are no off-balance sheet commitments bearing credit risk that are related to the issuers of the above securities. Further, no payments on the above instruments are past due.

NOTE 17. INVESTMENTS IN SUBSIDIARIES AND BUSINESS COMBINATIONS

Changes in the Bank's investments in subsidiaries may be specified as follows:

	LVL 000's	
	2008	2007
Balance as at 1 January	**56,477**	**32,660**
Establishment of new subsidiaries	-	25
Equity investments in the existing subsidiaries	-	24,074
Impairment	(4,984)	-
Disposals	(51)	(282)
Balance as at 31 December	**51,442**	**56,477**

In 2008, the the Bank decided to sell its Swiss subsidiary AP Anlage&Privatbank. The Bank has concluded an agreement with potential buyer regarding the sale of the subsidiary's shares. The original agreement term expired on 24 January 2009, but it was prolonged until 24 July 2009. The execution of the agreement is conditional to the approval from Swiss banking regulator, which has not been received yet. For the purposes of these financial statements, the Bank's management resolved that the aforementioned subsidiary should not be presented in balance sheet as assets held for sale in accordance with IFRS 5 and the respective financial results are consolidated into Group's financial statements on line-by-line basis.

In 2008, Parex Group representation Ltd. was liquidated and the respective investment written-off. The Group's representation duties in United Kingdom were taken over by Parex's representative office in London.

In 2006, the Bank acquired 100% shares of SIA Parex private banking. The purchase price in excess of the net assets acquired was fully allocated to the long-term lease agreement the subsidiary possesses. In 2008, as a result of impairment assessment, the Bank concluded that the investment is impaired and the respective value is zero. The main reason for impairment was decrease in lease market rates, as well as certain investments made in respect to the repairs and improvements of the facilities. Impairment allowance in the amount of LVL 447 thousand was established in Bank's statements, attributable to the investment in subsidiary, and for the same amount in Group's financial statements, attributable to the long-term lease rights.

In 2008, the management of the Bank concluded that there is evidence of impairment of the Bank's office building constructed and financed through subsidiary SIA Rīgas Pirmā Garāža. Due to significant decline in real estate values in Latvia and related decrease in rental rates, the management resolved that impairment has to be recognized on exposure to the subsidiary and assets related to the building in construction. As a result, value of investment amounting to LVL 4,537 was written down to zero and additional impairment recognized on the loan issued to the subsidiary in total amount LVL 13.5 million. Please also refer to Note 19 on related fixed assets impairment.

As at 31 December 2008 and 2007, the Bank held the following investments in subsidiaries:

			As at 31/12/2008				
Company	Country of registration	Business profile	Share capital in LVL 000's	The Bank's share (%)	% of total voting rights	Investment carrying value in LVL 000's 31/12/2008	Investment carrying value in LVL 000's 31/12/2007
AB Parex Bankas	Lithuania	Banking	36,540	100.0	100.0	35,378	35,378
AP Anlage & Privatbank AG	Switzerland	Banking	4,680	100.0	100.0	9,702	9,702
AS Parex atklātais pensiju fonds	Latvia	Pension fund	450	99.6	99.6	451	451
IPAS Parex Asset Management	Latvia	Finance	4,150	100.0	100.0	4,151	4,151
ZAO Parex Asset Management	Russia	Finance	445	100.0	100.0	-	-
OOO Parex Asset Management Ukraina	Ukraine	Finance	606	100.0	100.0	-	-
UAB Parex investiciju valdymas	Lithuania	Finance	447	100.0	100.0	-	-
OU Parex Leasing & Factoring	Estonia	Finance	351	100.0	100.0	313	313
UAB Parex Faktoringas ir Lizingas	Lithuania	Finance	305	100.0	100.0	-	-
SIA Rīgas Pirmā Garāža	Latvia	Real estate management	352	100.0	100.0	-	4,537
SIA Parex private banking	Latvia	Real estate management	180	100.0	100.0	10	457
SIA Parex Express Kredīts	Latvia	Leasing	31	100.0	100.0	613	613
SIA E&P Baltic Properties	Latvia	Finance	20	50.0	50.0	-	-
SIA Parex Līzings un Faktorings	Latvia	Leasing	200	100.0	100.0	200	200
AAS Parex Dzīvība	Latvia	Life insurance	2,800	100.0	100.0	-	-
OOO Laska Lizing	Ukraine	Leasing	70	100.0	100.0	122	122
OOO Ekspress Lizing	Russia	Leasing	59	100.0	100.0	76	76
OOO Parex Leasing & Factoring	Azerbaijan	Leasing	30	100.0	100.0	26	26
OOO Parex Leasing	Russia	Leasing	118	100.0	100.0	141	141
IOOO Pareks Lizing	Belarus	Leasing	10	100.0	100.0	12	12
OOO Extroleasing	Russia	Leasing	171	100.0	100.0	222	222
OOO Extrocredit	Russia	Finance	-	99.0	99.0	-	-
OOO Parex Leasing & Factoring	Georgia	Leasing	24	100.0	100.0	25	25
Regalite Holdings Limited	Cyprus	Finance	4	100.0	100.0	-	-
Calenia Investments Limited	Cyprus	Finance	-	100.0	100.0	-	-
OOO Parex Investments Ukraine	Ukraine	Finance	43	100.0	100.0	-	-
SIA RPG Interjers	Latvia	Real estate management	2	100.0	100.0	-	-
OAO Parex Ukrainian Equity Fund	Ukraine	Finance	46	100.0	100.0	-	-
SIA PR Speciālie projekti	Latvia	Commercial pledges' administrator	2	100.0	100.0	-	-
Parex Group representation Ltd.	United Kingdom	Representative office	-	-	-	-	51
Total investments in subsidiaries						**51,442**	**56,477**

NOTE 18. INTANGIBLE ASSETS

	LVL 000's			
	31/12/2008 Group	31/12/2007 Group	31/12/2008 Bank	31/12/2007 Bank
Goodwill from acquisition of subsidiaries:				
AP Anlage & Privatbank AG	1,246	1,246	-	-
AB Parex Bankas	35	35	-	-
SIA Parex Express Kredīts	123	123	-	-
	1,404	1,404	-	-
Software	1,308	1,449	772	986
Other intangible assets	1,323	2,147	10	4
Total intangible assets excluding advances	4,035	5,000	782	990
Advances for intangible assets	13	14	-	-
Total net book value of intangible assets	**4,048**	**5,014**	**782**	**990**

For the purposes of goodwill impairment assessment the Bank compared the total carrying amount of the cash-generating units to their recoverable amount. For this purpose the recoverable amount was determined based on fair value less costs to sell, which was derived from an analysis of recent actual merger & acquisition transactions that are comparable to the cash-generating units under review. The impairment test did not result in the recognition of any impairment loss.

Movements in the Group's intangible assets excluding advances for the year ended 31 December 2008 can be specified as follows:

	LVL 000's			
	Goodwill from acquisition of subsidiaries	Software	Other intangible assets	Total intangible assets excluding advances
Historical cost				
As at 31 December 2006	**2,552**	**7,052**	**2,442**	**12,046**
Additions	-	1,049	141	1,190
Disposals	-	(45)	(34)	(79)
As at 31 December 2007	**2,552**	**8,056**	**2,549**	**13,157**
Additions	-	778	55	833
Disposals	-	(145)	(16)	(161)
Impairment	-	-	(447)	(447)
As at 31 December 2008	**2,552**	**8,689**	**2,141**	**13,382**
Accumulated amortisation				
As at 31 December 2006	**1,148**	**5,716**	**76**	**6,940**
Charge for the year	-	893	357	1,250
Reversal due to disposals	-	(2)	(31)	(33)
As at 31 December 2007	**1,148**	**6,607**	**402**	**8,157**
Charge for the year	-	895	424	1,319
Reversal due to disposals	-	(121)	(8)	(129)
As at 31 December 2008	**1,148**	**7,381**	**818**	**9,347**
Net book value				
As at 31 December 2006	**1,404**	**1,336**	**2,366**	**5,106**
As at 31 December 2007	**1,404**	**1,449**	**2,147**	**5,000**
As at 31 December 2008	**1,404**	**1,308**	**1,323**	**4,035**
Impairment allowance				
As at 31 December 2006	-	-	-	-
As at 31 December 2007	-	-	-	-
As at 31 December 2008	**-**	**-**	**(447)**	**(447)**

In 2008, lease rights obtained in 2006 through subsidiary SIA Parex private banking, were impaired. For more information, please refer to Note 17.

NOTE 19. FIXED ASSETS

	LVL 000's			
	31/12/2008 Group	31/12/2007 Group	31/12/2008 Bank	31/12/2007 Bank
Leasehold improvements	6,130	4,661	6,055	4,635
Land and buildings	11,272	15,461	4,215	4,212
Transport vehicles	4,506	6,421	2,482	3,187
Other fixed assets	7,950	7,816	6,434	6,173
Construction in progress	23,667	11,041	-	-
Total fixed assets excluding advances	53,525	45,400	19,186	18,207
Advances for fixed assets	6,967	5,114	1,052	403
Total net book value of fixed assets	**60,492**	**50,514**	**20,238**	**18,610**

The following changes in the Group's fixed assets excluding advances for fixed assets took place during the years ended 31 December 2008 and 31 December 2007:

	LVL 000's					
	Leasehold improve-ments	Land and buildings	Transport vehicles	Other fixed assets	Construction in progress	Total fixed assets excluding advances
Historical cost						
As at 31 December 2006	**3,915**	**13,754**	**9,134**	**29,919**	**5,278**	**62,000**
Additions	3,240	2,426	2,962	4,535	5,763	18,926
Disposals	(116)	(41)	(1,196)	(943)	-	(2,296)
As at 31 December 2007	**7,039**	**16,139**	**10,900**	**33,511**	**11,041**	**78,630**
Additions	4,039	81	1,656	4,082	27,359	37,217
Disposals	(281)	(23)	(3,934)	(3,825)	-	(8,063)
Reclassification*	-	(761)	-	-	-	(761)
Transfer	-	1,012	-	-	(1,012)	-
Impairment charge**	-	(4,279)	-	-	(13,721)	(18,000)
As at 31 December 2008	**10,797**	**12,169**	**8,622**	**33,768**	**23,667**	**89,023**
Accumulated depreciation						
As at 31 December 2006	**1,644**	**546**	**3,588**	**22,862**	**-**	**28,640**
Charge for the year	850	173	1,717	3,639	-	6,379
Reversal due to disposals	(116)	(41)	(826)	(806)	-	(1,789)
As at 31 December 2007	**2,378**	**678**	**4,479**	**25,695**	**-**	**33,230**
Charge for the year	2,546	222	1,583	3,644	-	7,995
Reversal due to disposals	(257)	(3)	(1,946)	(3,521)	-	(5,727)
As at 31 December 2008	**4,667**	**897**	**4,116**	**25,818**	**-**	**35,498**
Net book value						
As at 31 December 2006	**2,271**	**13,208**	**5,546**	**7,057**	**5,278**	**33,360**
As at 31 December 2007	**4,661**	**15,461**	**6,421**	**7,816**	**11,041**	**45,400**
As at 31 December 2008	**6,130**	**11,272**	**4,506**	**7,950**	**23,667**	**53,525**

* In 2008, Group reclassified certain assets from fixed assets to non-current assets held for sale category.
** In 2008, the management concluded that impairment has to be recognized on Bank's office building and related land plot. Please refer to Note 17 for additional details.

The following changes in the Bank's fixed assets excluding advances for fixed assets took place during the years ended 31 December 2008 and 31 December 2007:

	LVL 000's				
	Leasehold Improvements	Land and buildings	Transport vehicles	Other fixed assets	Total fixed assets excluding prepayments
Historical cost					
As at 31 December 2006	**3,889**	**3,929**	**5,759**	**26,935**	**40,512**
Additions	3,228	598	1,658	3,453	8,937
Disposals	(116)	(40)	(647)	(489)	(1,292)
As at 31 December 2007	**7,001**	**4,487**	**6,770**	**29,899**	**48,157**
Additions	3,945	92	955	3,397	8,389
Disposals	(243)	(4)	(2,264)	(3,470)	(5,981)
As at 31 December 2008	**10,703**	**4,575**	**5,461**	**29,826**	**50,565**
Accumulated depreciation					
As at 31 December 2006	**1,639**	**204**	**3,182**	**21,158**	**26,183**
Charge for the year	843	77	960	3,055	4,935
Reversal due to disposals	(116)	(6)	(559)	(487)	(1,168)
As at 31 December 2007	**2,366**	**275**	**3,583**	**23,726**	**29,950**
Charge for the year	2,521	87	1,031	3,013	6,652
Reversal due to disposals	(239)	(2)	(1,635)	(3,347)	(5,223)
As at 31 December 2008	**4,648**	**360**	**2,979**	**23,392**	**31,379**
Net book value					
As at 31 December 2006	**2,250**	**3,725**	**2,577**	**5,777**	**14,329**
As at 31 December 2007	**4,635**	**4,212**	**3,187**	**6,173**	**18,207**
As at 31 December 2008	**6,055**	**4,215**	**2,482**	**6,434**	**19,186**

NOTE 20. NON-CURRENT ASSETS HELD FOR SALE

	LVL 000's			
	31/12/2008 Group	31/12/2007 Group	31/12/2008 Bank	31/12/2007 Bank
Real estate	3,516	2,341	2,735	2,341
Transport vehicles	3,485	34	1	1
Manufacturing, industrial equipment	30	-	-	-
Other	78	3	78	3
Total net non-current assets held for sale	**7,109**	**2,378**	**2,814**	**2,345**

	LVL 000's			
	31/12/2008 Group	31/12/2007 Group	31/12/2008 Bank	31/12/2007 Bank
Initial carrying amount as at the beginning of the year	2,378	100	2,345	67
Impairment allowance at the beginning of the year	-	-	-	-
Net carrying amount at the beginning of the year	*2,378*	*100*	*2,345*	*67*
Impairment charges	(2,702)	-	(1,399)	-
Impairment reversals	-	-	-	-
Net impairment charge to income statements	*(2,702)*	-	*(1,399)*	-
Increase of initial carrying amount due to additions	11,719	2,278	1,820	2,278
Decrease of initial carrying amount due to disposals	(4,337)	-	(3)	-
Net change in initial carrying amount	*7,382*	*2,278*	*1,817*	*2,278*
Effect of changes in currency exchange rates	51	-	51	-
Initial carrying amount as at the end of the year	**9,811**	**2,378**	**4,213**	**2,345**
Impairment allowance at the end of the year	**(2,702)**	**-**	**(1,399)**	**-**
Net carrying amount at the end of the year	**7,109**	**2,378**	**2,814**	**2,345**

NOTE 21. OTHER ASSETS

	LVL 000's			
	31/12/2008 Group	31/12/2007 Group	31/12/2008 Bank	31/12/2007 Bank
VAT receivables	4,677	6,663	554	1,218
Money in transit	3,809	4,702	3,728	4,460
Prepayments	2,673	3,487	2,213	2,345
Accrued income	857	616	522	232
Other assets	8,556	7,140	3,006	2,022
Total gross other assets	**20,572**	**22,608**	**10,023**	**10,277**
Less impairment allowance	(623)	(168)	(604)	(167)
Total net other assets	**19,949**	**22,440**	**9,419**	**10,110**

NOTE 22. ISSUED DEBT SECURITIES

As at 31 December 2008 and 2007, the Bank had the following outstanding debt issues:

					Debt outstanding (LVL 000's)	
Issue date	Issue amount	Coupon	Payment, frequency	Maturity	31/12/2008	31/12/2007
March, 2005	LVL 5 million	4.250%	Annual	March, 2008	-	4,170
June, 2005	EUR 100 million	4.375%	Annual	June, 2008	-	65,943
May, 2006	EUR 200 million	5.625%	Annual	May, 2011	88,712	117,794
Total					**88,712**	**187,907**

As a result of the difficult liquidity situation in October 2008 and the resulting takeover of majority shareholding by the State, several covenants of the outstanding debt securities were breached.

The Bank was engaged in interest rate swap transactions, whereby swapped certain part of the fixed coupon payments to EURIBOR. The interest rate swap agreements were used to maintain certain level of the Bank's debt, corresponding to the debt issues of EUR 100 million and EUR 200 million, at floating rates, thus effectively working as fair value hedges. In 2008, EUR 100 million hedge expired along with the maturity of the respective bond issue.

In 2008, the retrospective effectiveness test of EUR 200 million hedge revealed that the hedge is no more effective due to decrease in estimated cash flows from the hedged item. As a result, further revaluation of interest rate swap was recognised in the income statement. The recognized effectiveness at last date, when the hedge was effective, is being amortised over the remaining life of the interest rate swap. The amortisation is included to income statement's line "(Loss)/ gain on transactions with financial instruments, net".

	Amortisation charge of hedge effectiveness	Gains/ (losses) on the hedged item attributable to the hedged risk		Gains/ (losses) on the hedging instrument	
Hedged item	LVL 000's	LVL 000's		LVL 000's	
	2008	2008	2007	2008	2007
EUR 100 million notes	-	-	923	-	998
EUR 200 million notes	939	-	(1,438)	-	(1,461)
Total	**939**	**-**	**(515)**	**-**	**(463)**

NOTE 23. BALANCES DUE TO CREDIT INSTITUTIONS AND CENTRAL BANKS

	LVL 000's			
	31/12/2008 Group	31/12/2007 Group	31/12/2008 Bank	31/12/2007 Bank
Due to credit institutions registered in OECD countries	590,078	695,735	591,003	695,905
Due to credit institutions registered in Latvia	598,703	65,579	598,703	66,014
Due to credit institutions registered in other non-OECD countries	840	15,797	71,734	13,426
Total balances due to credit institutions and central banks	**1,189,621**	**777,111**	**1,261,440**	**775,345**

The following table presents the Group's and Bank's balances due to credit institutions according to maturity profile:

	LVL 000's			
	31/12/2008 Group	31/12/2007 Group	31/12/2008 Bank	31/12/2007 Bank
Balances on demand	5,801	13,600	6,305	12,911
Overnight deposits	4	36,000	70,351	36,666
Total balances repayable on demand	**5,805**	**49,600**	**76,656**	**49,577**
Loans from credit institutions:				
due within 1 month	555,229	34,132	556,078	32,948
due within 1-3 months	267,818	281,435	267,818	282,003
due within 3-6 months	360,540	4,921	360,541	3,076
due within 6-12 months	-	1,196	347	1,452
due within 1-5 years	229	405,827	-	406,289
Total loans from credit institutions	**1,183,816**	**727,511**	**1,184,784**	**725,768**
Total due to credit institutions	**1,189,621**	**777,111**	**1,261,440**	**775,345**

As at 31 December 2008, the Bank did not held any restricted balances due to credit institutions (2007: LVL 26,700 thousand) that are dependent upon the repayment of outstanding balances due from credit institutions and loans and receivables to customers.

Syndicated loans restructuring
As at 31 December 2008, the Bank had 2 syndicated loans outstanding, amounting to EUR 275 million and EUR 500 million (2007: EUR 385 million and EUR 500 million). The original maturities of the facilities were 19 February 2009 and 26 June 2009, respectively. As a result of the difficult liquidity situation in October 2008 and the resulting takeover of majority shareholding by the State, several covenants of the above agreements were breached.

In March 2009, the aforementioned syndicated loans have been restructured. Please refer to Note 36 for more details on restructuring.

NOTE 24. DEPOSITS FROM CUSTOMERS

The following table presents deposits from customers according to customer profile:

	LVL 000's			
	31/12/2008 Group	31/12/2007 Group	31/12/2008 Bank	31/12/2007 Bank
Government	684,071	9,014	683,265	5,179
Privately held companies	616,907	1,232,511	569,409	1,143,838
Private individuals	592,740	648,335	534,760	576,200
State owned enterprises	62,889	77,107	62,446	75,716
Financial institutions	47,417	65,505	34,308	59,668
Municipalities	14,680	44,883	14,464	44,722
Public and religious institutions	4,290	4,610	3,234	3,805
Total deposits from customers	**2,022,994**	**2,081,965**	**1,901,886**	**1,909,128**

On 1 December 2008, Financial and Capital Markets Commission and Cabinet of Ministers decided to impose restrictions on deposit withdrawals in AS Parex bank (Latvia), applicable to all customer deposits with the Bank as at the respective date. The restrictions do not apply to any funds received on the customers' accounts after the restrictions date, given they are business-purpose, as well as state and municipalities' payments made by companies with number of employees exceeding 250. All corporate clients are only allowed to make business-purpose payments. The details of restrictions are as follows:

- Private individuals – maximum outflow of LVL 35 thousand per month;
- Companies with number of employees not exceeding 10 - maximum outflow of LVL 35 thousand per month;
- Companies with number of employees from 11-250 - maximum outflow of LVL 350 thousand per month;

As at the date of signing these financials, the restrictions were still in place. The management of the Bank has approached FCMC with detailed plan as to the removal of the restrictions, however a specific date for removal of restrictions has not been approved yet.

As a result of significant decrease in deposit base in October-November 2008, the Bank was forced to apply for the State support. State Treasury of Latvia has made a number of deposits on a secured basis, receiving part of Bank's loan portfolio as collateral (please refer to Note 30 for details on assets pledged). As at 31 December 2008, the following financing support received from the State Treasury was outstanding:

Agreement currency	Interest rate (%)	Agreement date	Maturity date	Amortised cost LVL 000's
EUR	4.436	29/12/2008	06/01/2009	45,470
EUR	5.433	08/12/2008	08/01/2009	6,348
LVL	12.078	08/12/2008	08/01/2009	100,805
LVL	12.078	08/12/2008	08/01/2009	50,403
EUR	5.16	12/12/2008	12/01/2009	14,096
EUR	5.118	15/12/2008	15/01/2009	21,135
EUR	5.482	17/12/2008	16/01/2009	30,562
EUR	5.405	23/12/2008	23/01/2009	202,030
EUR	5.867	08/12/2008	06/11/2009	205,549
Total Treasury deposits				**676,398**

Even though most of the financing facilities' maturity term is January 2009, the State is continuing to provide the support to the Bank by rolling-over the existing facilities. Please refer to Note 36 for updated information on financial support received from State Treasury.

	LVL 000's			
	31/12/2008 Group	31/12/2007 Group	31/12/2008 Bank	31/12/2007 Bank
Demand deposits	675,904	1,164,373	627,130	1,086,578
Term deposits:				
due within 1 month	642,807	494,925	619,537	454,651
due within 1-3 months	177,915	149,078	152,280	125,657
due within 3-6 months	141,102	126,602	130,599	111,719
due within 6-12 months	303,846	118,730	291,988	104,697
due within 1-5 years	75,685	22,951	74,626	20,333
due in more than 5 years	5,735	5,306	5,726	5,493
Total term deposits	1,347,090	917,592	1,274,756	822,550
Total deposits from customers	**2,022,994**	**2,081,965**	**1,901,886**	**1,909,128**

As at 31 December 2008, the Bank held restricted deposits amounting to LVL 39,801 thousand (2007: LVL 15,814 thousand) that are dependent upon repayment of outstanding balances due from customers.

NOTE 25. OTHER LIABILITIES

	LVL 000's			
	31/12/2008 Group	31/12/2007 Group	31/12/2008 Bank	31/12/2007 Bank
Money in transit	12,035	16,633	12,014	16,772
Amounts due to suppliers	4,592	1,895	318	524
VAT payables	3,972	1,757	11	2
Accrued expense	2,968	5,091	2,456	3,819
Suspense liabilities	1,767	1,712	1,767	1,702
Provisions for undrawn loan commitments	1,010	-	1,010	-
Deferred income	111	271	-	-
Provisions for other liabilities	325	-	-	-
Other liabilities	10,447	7,079	8,307	2,553
Total other liabilities	**37,227**	**34,438**	**25,883**	**25,372**

Suspense liabilities comprise funds received by the Group and the Bank as at year end, but not transferred to ultimate beneficiaries due to unclear or incomplete details of the supporting documentation.

NOTE 26. SUBORDINATED DEBT

The following table represents the details of subordinated capital attracted during 2008:

Counterparty	Currency	Issue size, 000's	Interest rate	Original agreement date	Original maturity date	Amortised cost (LVL 000's) 31/12/2008	Amortised cost (LVL 000's) 31/12/2007
Notes-private placement	EUR	20,000	3M Euribor + 4.55%	28/12/2007	28/12/2017	13,132	13,103
Viktors Krasovickis	LVL	7,500	6M Rigibid + 3%	28/09/2007	26/09/2017	7,503	7,505
Valērijs Kargins	LVL	7,500	6M Rigibid + 3%	28/09/2007	26/09/2017	7,503	7,505
Notes – public issue	EUR	5,050	11%	08/05/2008	08/05/2018	3,817	-
Rems Kargins	EUR	15,000	12%	20/06/2008	14/05/2015	10,598	-
Valērijs Kargins	LVL	1,500	6M Rigibid + 3%	30/10/2008	30/10/2018	1,501	-
Viktors Krasovickis	LVL	1,500	6M Rigibid + 3%	30/10/2008	30/10/2018	1,501	-
Valērijs Kargins	LVL	2,284	6M Rigibid + 3%	04/12/2008	18/09/2015	2,285	-
Ņina Kondratjeva	LVL	2,284	6M Rigibid + 3%	04/12/2008	18/09/2015	2,285	-
Valērijs Kargins	LVL	1,416	6M Rigibid + 3%	04/12/2008	29/09/2015	1,416	-
Ņina Kondratjeva	LVL	1,416	6M Rigibid + 3%	04/12/2008	29/09/2015	1,416	-
Total						**52,957**	**28,113**

The EUR 20,000 thousand subordinated debt was attracted through private placement of subordinated notes. The notes were issued at discount and net proceeds amounted to EUR 18,672 thousand. The notes are to be redeemed at 100%. The Bank has the right to extend the term of the notes until 28 December 2022, in which case the Bank also has the right to redeem the notes after the original maturity date giving a notice within 30-60 days.

Initial agreements concluded with Valery Kargin and Viktor Krasovitsky are equal in terms and do not provide the Bank nor with the right to extend the term of the debt, neither with the early redemption option. During November and December 2008, the initial terms of subordinated loans from the former shareholders and their relatives were revised and the agreements were amended. Main changes related to the reduction in loan interest rates.

NOTE 27. ISSUED SHARE CAPITAL

As at 31 December 2008, the Bank's registered and paid-in share capital was LVL 65,027 thousand. In accordance with the Bank's statutes, the share capital consists of 60,633 thousand ordinary shares with voting rights and 4,394 thousand ordinary shares without voting rights. All shares have a par value of LVL 1 each and, as at 31 December 2008, they all were issued and fully paid. As at 31 December 2008, the Bank did not possess any of its own shares.

As at 31 December 2008, the Bank had 61 (2007: 61) shareholders. The respective shareholdings as at 31 December 2008 and 2007 may be specified as follows:

	31/12/2008			31/12/2007		
	Paid-in share capital (LVL 000's)	% of total paid-in capital	% of total voting rights	Paid-in share capital (LVL 000's)	% of total paid-in capital	% of total voting rights
Latvijas Hipotēku un zemes banka	55,165	84.83	90.98	-	-	-
Valērijs Kargins	-	-	-	27,887	42.89	45.99
Viktors Krasovickis	-	-	-	27,887	42.89	45.99
Other	9,862	15.17	9.02	9,253	14.22	8.02
Total	**65,027**	**100.00**	**100.00**	**65,027**	**100.00**	**100.00**

On 10 November 2008, Investment Agreement was concluded on sale of 51% of the Bank's shares owned by two previous major shareholders Valērijs Kargins and Viktors Krasovickis to State JSC "Latvijas Hipotēku un zemes banka" (LHZB). On 3 December 2008, amendments the Invesment Agreement were made providing that Valērijs Kargins and Viktors Krasovickis are selling to LHZB all of their shares in *Parex banka*, which in total constitute 84.83% of the total *Parex banka's* share capital amount. Please refer to management report and Note 36 for more details on changes in shareholders structure.

No dividends were proposed and paid during 2008 and 2007.

NOTE 28. MEMORANDUM ITEMS

Memorandum items comprise contingent liabilities, financial commitments, foreign exchange contracts and derivative financial instruments. The following table provides a specification of contingent liabilities (showing maximum amount payable) and financial commitments outstanding as at 31 December 2008 and 2007.

	LVL 000's			
	31/12/2008 Group	31/12/2007 Group	31/12/2008 Bank	31/12/2007 Bank
Contingent liabilities:				
Outstanding guarantees	19,947	23,463	14,843	17,859
Outstanding letters of credit	37,896	8,257	37,896	8,176
Total contingent liabilities	**57,843**	**31,720**	**52,739**	**26,035**
Financial commitments:				
Loans granted, not fully drawn down	6,740	88,864	7,319	71,888
Unutilised credit lines and overdraft facilities	61,456	121,611	169,068	156,639
Credit card commitments	106,006	134,900	93,131	127,194
Other financial commitments	5,430	41,081	-	-
Financial commitments	**179,632**	**386,456**	**269,518**	**355,721**

The following table presents the notional amounts and fair values of foreign exchange contracts and derivative financial instruments. The notional amounts of foreign exchange contracts represent the amounts receivable under these contracts. The notional amounts of other financial instruments represent the value of the underlying assets.

	Notional amount LVL 000's				Fair value LVL 000's			
	31/12/2008 Group	31/12/2007 Group	31/12/2008 Bank	31/12/2007 Bank	31/12/2008 Group	31/12/2007 Group	31/12/2008 Bank	31/12/2007 Bank
Foreign exchange contracts:								
Spot exchange	55,008	89,141	86,160	86,134	1,494	(917)	1,378	(918)
Forwards	80,608	190,952	89,433	207,561	311	317	197	326
Swaps	1,074,086	930,835	1,092,790	974,122	2,815	1,420	2,833	1,344
Total foreign exchange contracts	**1,209,702**	**1,210,928**	**1,268,383**	**1,267,817**	**4,620**	**820**	**4,408**	**752**
Other financial instruments:								
Interest rate swaps	157,489	232,389	157,489	232,389	6,745	423	6,745	423
incl. designated hedging instruments	-	*210,841*	-	*210,841*	-	*222*	-	*222*
Other derivatives	11,978	22,545	11,978	22,545	(1,671)	(2,678)	(1,671)	(2,678)
Total other financial instruments	**169,467**	**254,934**	**169,467**	**254,934**	**5,074**	**(2,255)**	**5,074**	**(2,255)**

The Group's banks use derivative foreign exchange instruments to manage their currency positions, which among others arise also due to derivative foreign exchange contracts concluded with the banks' clients. Before entering into derivative foreign currency agreement with private individual or company, the Group's entities assess the counterparty's ability to meet the contractual provisions. As at 31 December 2008, more than 84% (2007: 90%) of the fair value (assets) on foreign exchange contracts is attributable to credit and finance institutions. As at 31 December 2008 and 2007, none of the payments receivable arising out of derivative transactions was past due.

NOTE 29. FUNDS UNDER TRUST MANAGEMENT

The table below provides analysis of the funds managed on behalf of customers by investment type:

	LVL 000's			
	31/12/2008 Group	31/12/2007 Group	31/12/2008 Bank	31/12/2007 Bank
Fixed income securities:				
Government bonds	56,596	19,069	-	-
Foreign municipality bonds	1,412	1,740	-	-
Credit institution bonds	42,640	80,863	-	-
Corporate bonds	34,863	60,097	-	-
Mutual investment funds	62,192	185,455	-	5
Total investments in fixed income securities	**197,703**	**347,224**	**-**	**5**
Other investments:				
Deposits with credit institutions	64,675	101,231	1,497	2,176
Loans to corporate entities	1,150	967	402	725
Loans to financial institutions	212	14	-	-
Real estate	31,958	35,689	-	-
Shares	36,974	81,256	-	-
Other	21,249	29,735	70	5
Total other investments	**156,218**	**248,892**	**1,969**	**2,906**
Total assets under trust management agreements	**353,921**	**596,116**	**1,969**	**2,911**

The table below provides an analysis of the customer profile on whose behalf the funds are managed:

	LVL 000's			
	31/12/2008 Group	31/12/2007 Group	31/12/2008 Bank	31/12/2007 Bank
Privately held companies	63,552	184,392	472	730
Private individuals	64,556	135,027	-	5
Investors of investment funds	210,774	212,473	-	-
Financial institutions	15,039	64,224	1,497	2,176
Total liabilities under trust management agreements	**353,921**	**596,116**	**1,969**	**2,911**

NOTE 30. ASSETS PLEDGED

	LVL 000's			
	31/12/2008 Group	31/12/2007 Group	31/12/2008 Bank	31/12/2007 Bank
Due from credit institutions*	32,830	7,985	32,830	7,985
Held for trading securities	*3*	-	*3*	-
Available-for-sale securities	*77,705*	*85,084*	*77,705*	*85,084*
Held-to-maturity securities	*654,154*	-	*654,154*	-
Total securities pledged	731,862	85,084	731,862	85,084
Loans to customers	829,489	-	829,489	-
Total assets pledged	**1,594,181**	**93,069**	**1,594,181**	**93,069**
Due to credit institutions and central banks	635,239	68,602	635,239	68,602
Deposits from State Treasury	676,398	-	676,398	-
Total liabilities secured by pledged assets	**1,311,637**	**68,602**	**1,311,637**	**68,602**

* The amount consists of several placements to secure various Bank's transactions in the ordinary course of business.

As at 31 December 2008, the Bank has entered into several repo agreements with Bank of Latvia and European Central Bank, whereby it pledged part of its securities portfolio against the financing facilities received.

Further, the Bank has concluded several agreements with State Treasury of Latvia, whereby it pledged part of the loan portfolio as a security to the financing received. The respective pledges are registered with Commercial Register. Please refer to Note 15 and Note 24 for more detailed information on deposits received from the State Treasury.

NOTE 31. CASH AND CASH EQUIVALENTS

The table below provides a breakdown of cash and cash equivalents as at 31 December 2008 and 2007:

	LVL 000's			
	31/12/2008 Group	31/12/2007 Group	31/12/2008 Bank	31/12/2007 Bank
Cash and demand deposits with central banks	116,350	257,280	95,179	236,062
Deposits with other credit institutions*	250,943	392,383	537,407	386,859
Demand deposits due to other credit institutions	(5,805)	(49,600)	(76,656)	(43,221)
Total cash and cash equivalents	**361,488**	**600,063**	**555,930**	**579,700**

* Deposits include term facilities with initial agreement term of 3 months or less.

NOTE 32. LITIGATION AND CLAIMS

In the ordinary course of business, the Bank has been involved in a number of legal proceedings to recover collateral or outstanding credit balances, as well as related interest and expenses from defaulted credit customers and interbank counterparties. The Group is also involved in the number of legal proceedings related to its customers in Latvia and abroad.

The management of the Bank believes that any legal proceedings pending as at 31 December 2008 will not result in material losses for the Group.

NOTE 33. RELATED PARTIES

Related parties are defined as shareholders who have significant influence over the Group, members of the Council and Management Board, key Management personnel, their close relatives and companies in which they have a controlling interest as well as associated companies of the Group. For the purpose of this disclosure, the shareholders and their companies, as well as the key management of the Group's companies/ Bank (excluding the shareholders) and their related companies are stated in one line, accordingly.

The following table presents the outstanding balances and terms of the Group's transactions with related parties, based on the following principles:

- Transactions with shareholders and their related parties contain only those transactions concluded on 5 December 2008 or later and cover period 5/12/2008-31/12/2008, respectively.
- Consolidation group companies' transactions are included for the whole year 2008.
- In the category "Shareholders" as at 31/12/2008 are included only Mortgage and Land Bank of Latvia and State Treasury.

	Amount in LVL 000's 31/12/2008	Average rate in 2008	Amount in LVL 000's 31/12/2007	Average rate in 2007
Credit exposure to related parties				
Due from related parties - banks:	3,034		-	
Shareholders	*3,034*	*8.0%*	-	-
Securities:	616,268		-	
Latvian treasury bills and government bonds	*616,268*	*5.0%*	-	-
Loans and receivables:	21,129		23,549	
Shareholders	*35*	-	*21,483*	*2.0%*
Management	*953*	*7.5%*	*2,066*	*5.8%*
State institutions and companies	*20,141*	*6.8%*	-	-
Derivatives – assets:	6		-	
Shareholders	*6*	-	-	-
Financial commitments and outstanding guarantees:	10,356		7,070	
Shareholders	*3,480*	-	*6,916*	-
Management	*1,272*	-	*154*	-
State institutions and companies	*5,604*	-	-	-
Total credit exposure to related parties	**650,793**		**30,619**	
Due to related parties:	781,444		59,340	
Deposits from State Treasury	*676,648*	*7.0%*	-	-
Shareholders	-	-	*42,339*	*17.6%*
Subordinated loans from shareholders	-	-	*15,000*	*12.6%*
Management	*201*	*4.4%*	*2,001*	*3.6%*
State institutions and companies	*104,595*	*8.5%*	-	-
Derivatives – liabilities:	84		-	
Shareholders	*84*	-	-	-
Total amounts due to related parties	**781,528**		**59,340**	

The following table presents the outstanding balances and terms of the Bank's transactions with related parties, based on the following principles:

- Transactions with shareholders and their related parties contain only those transactions concluded on 5 December 2008 or later and cover period 5/12/2008-31/12/2008, respectively.
- Consolidation group companies' transactions are included for the whole year 2008.
- In the category "Shareholders" as at 31/12/2008 are included only Mortgage and Land Bank of Latvia and State Treasury.

	Amount in LVL 000's 31/12/2008	Average rate in 2008	Amount in LVL 000's 31/12/2007	Average rate in 2007
Credit exposure to related parties				
Due from related parties - banks:	288,312		131,107	
Shareholders	*3,034*	*8.0%*	-	-
Subsidiaries	*285,278*	*4.2%*	*131,107*	*5.8%*
Securities:	678,453		38,145	
Latvian treasury bills and government bonds	*616,268*	*5.0%*	-	-
Subsidiaries	*62,185*	*8.9%*	*38,145*	*8.3%*
Loans and receivables:	256,818		248,027	
Shareholders	*35*	-	*21,483*	*2.0%*
Management	*251*	*7.9%*	*798*	*4.2%*
State institutions and companies	*20,141*	*6.8%*	-	-
Subsidiaries	*236,391*	*13.3%*	*225,746*	*6.8%*
Derivatives – assets:	123		87	
Shareholders	*6*	-	-	-
Subsidiaries	*117*	-	*87*	-
Financial commitments and outstanding guarantees:	129,377		59,342	
Shareholders	*3,480*	-	*6,916*	-
Management	*1,272*	-	*154*	-
State institutions and companies	*5,604*	-	-	-
Subsidiaries	*119,021*	-	*52,272*	-
Total credit exposure to related parties	**1,353,083**		**476,708**	
Due to related parties:	860,073		67,541	
Deposits from State Treasury	*676,648*	*7.0%*	-	-
Shareholders	-	-	*42,339*	*17.6%*
Subordinated loans from shareholders	-	-	*15,000*	*12.6%*
Management	*37*	-	*1,626*	*3.8%*
State institutions and companies	*104,595*	*8.5%*	-	-
Subsidiaries	*78,793*	*1.5%*	*8,576*	*6.9%*
Derivatives – liabilities:	259		157	
Shareholders	*84*	-	-	-
Subsidiaries	*175*	-	*157*	-
Total amounts due to related parties	**860,332**		**67,698**	

Interest income and expense on the balances due from/ to related parties:

	LVL 000's			
	2008 Group	2007 Group	2008 Bank	2007 Bank
Interest income	2,560	551	33,262	14,416
Interest expense	(3,446)	(8,070)	(4,094)	(8,414)

The following table presents the outstanding balances and terms of the Bank's transactions with related parties as at 4 December 2008, excluding Bank's subsidiaries, prior to changes in the shareholding structure (please refer to Note 27).

	Amount in LVL 000's 04/12/2008	Average rate in 1/1/2008-4/12/2008
Credit exposure to related parties:		
Loans and receivables	36,725	
Shareholders	*36,078*	*3.2%*
Management	*647*	*8.4%*
Financial commitments and outstanding guarantees	619	-
Shareholders	*619*	-
Management	-	-
Total credit exposure to related parties	**37,344**	
Due to related parties		
Shareholders	*32,844*	*17.5%*
Subordinated loans from shareholders	*36,008*	*9.3%*
Management	*313*	*3.7%*
Total funding from related parties	**69,165**	

Related interest income and expense on the balances due from/ to related parties as defined above is presented in the table below:

	1/1/2008-4/12/2008 LVL'000
Interest income	823
Interest expense	(7,004)

NOTE 34. SEGMENT REPORTING

For the purposes of segment analysis, the Group's activities are divided into two main geographical segments, based on the location of the entity: Latvia (the Bank and its subsidiaries in Latvia) and other countries (other subsidiaries). The type of products and services included in each reported segment are essentially the same. Transactions between the business segments are generally made on commercial terms and conditions. General corporate overheads have not been reallocated to geographical segments.

	LVL 000's							
	Latvia		***Other***		***Eliminations***		***Consolidated***	
	2008	***2007***	***2008***	***2007***	***2008***	***2007***	***2008***	***2007***
Total income* from external customers	219,537	195,603	56,306	37,252	-	-	275,843	232,855
Total income* from internal customers	32,541	22,411	474	539	(33,015)	(22,950)	-	-
Total segment revenue	*252,078*	*218,014*	*56,780*	*37,791*				
Segment result	**(133,823)**	**47,610**	**(3,840)**	**3,966**	**(736)**	**(2,257)**	**(138,399)**	**49,319**
Segment assets**	3,567,768	3,285,360	655,793	534,809	(739,758)	(467,545)	3,483,803	3,352,624
Segment liabilities**	3,484,773	3,059,376	602,339	477,614	(682,380)	(410,312)	3,404,732	3,126,678
Capital expenditure (including intangible assets)	38,228	21,425	1,675	2,462	-	-	39,903	23,887
Depreciation and amortisation	7,828	6,302	1,486	1,327	-	-	9,314	7,629
Impairment charge – direct charge in the income statement	142,984	5,713	11,590	1,994	(568)	73	154,006	7,780
Impairment charge – transfer from equity reserves	7,384	-	-	-	-	-	7,384	-
No of employees at the end of the period	2,614	2,752	979	855	-	-	3,593	3,607

** Income is defined as total of gross interest and commission and fee income*
*** Segment assets and liabilities are presented according to the companies' geographical location.*

Secondary segment report

LVL 000's

	Banking		*Asset management ****		*Leasing*		*Other*		*Eliminations*		*Group*	
	2008	***2007***	***2008***	***2007***	***2008***	***2007***	***2008***	***2007***	***2008***	***2007***	***2008***	***2007***
Total income* from external customers	235,557	204,429	5,815	5,440	34,453	22,968	18	18	-	-	275,843	232,855
Total income* from internal customers	32,785	22,659	33	21	197	270	-	-	(33,015)	(22,950)	-	-
Total segment revenue	*268,342*	*227,088*	*5,848*	*5,461*	*34,650*	*23,238*	*18*	*18*				
Segment result	**(135,050)**	**48,428**	**1,063**	**1,041**	**(3,003)**	**2,279**	**(673)**	**(172)**	**(736)**	**(2,257)**	**(138,399)**	**49,319**
Segment assets**	3,881,074	3,523,442	16,089	15,878	273,463	259,458	52,935	21,391	(739,758)	(467,545)	3,483,803	3,352,624
Segment liabilities**	3,759,355	3,258,124	3,820	3,938	269,849	252,977	54,088	21,951	(682,380)	(410,312)	3,404,732	3,126,678
Capital expenditure (including intangible assets)	10,110	10,711	64	204	1,167	1,892	28,562	11,080	-	-	39,903	23,887
Depreciation and amortisation	8,324	6,610	96	65	798	897	96	57	-	-	9,314	7,629
Impairment charge – direct charge in the income statement	144,502	6,205	181	-	9,891	1,502	-	-	(568)	73	154,006	7,780
Impairment charge – transfer from equity reserves	7,384	-	-	-	-	-	-	-	-	-	7,384	-
No of employees at the end of the period	2,952	3,088	157	147	462	372	22	-	-	-	3,593	3,607

** Income is defined as total of gross interest and commission and fee income*
*** Segment assets and liabilities are presented according to the companies' business profile.*
**** Included in the asset management segment are companies engaged in asset management, insurance, provision of custody and securities brokerage services.*

NOTE 35 RISK MANAGEMENT

Risk management polices

Risk management principles are set out in Group's Risk and Capital Management Policy. The Group adheres to the following key risk management principles:

- The Group aims to ensure an acceptable risk level in all operations. Risks are always assessed in relation to the expected return. Risk exposures that are not acceptable for the Group are avoided, limited or hedged;
- The Group does not assume high or uncontrollable risks irrespective of the return they provide. Risks should be diversified and those risks that are quantifiable should be limited or hedged;
- The Group pursues prudent risk management policy, that is aligned with the Group' business and ensures effective total risk mitigation;
- Risk management is based on awareness of each and every Group's employee about the nature of transactions he/she carries out and related risks;
- Risk limit system and strict controls are essential risk management elements. Control of risk level and compliance with limits is ensured by structured risk limit systems for all material risks;
- The Group aims to ensure low risk exposure, diversified asset portfolio, limited risks in financial markets and low level of operational risk.

Risk management is an essential element of the Group's management process. Risk management within the Group is controlled by independent units - Risk Management Sector and Compliance Sector.

The Group is exposed to the following main risks: credit risk, market risk, interest rate risk, liquidity risk and operational risk. The Group has approved risk management policies for each of these risks, which are briefly summarised below.

a) Credit risk

Credit risk is the risk that the Group will incur a loss from debtor's non-performance or default. The group is exposed to credit risk in to its lending, investing and trading activities, as well as in respect to the guarantees issued to third parties and other off-balance sheet commitments to third parties.

Credit risk management is based on adequate risk assessment and decision-making. For material risks, risk analysis is conducted by independent units of Risk Management Sector. The analysis of credit risk comprises evaluation of customer's creditworthiness and collateral and its liquidity. The analysis of creditworthiness of a legal entity includes analysis of the industry, the company, and its current and forecasted financial position. The analysis of creditworthiness of an individual includes the analysis of the customer's credit history, income and debt-to-income ratio analysis, as well as the analysis of social and demographic factors. In the event of material risks, lending decision is made by the Credit Committee, and further reviewed by the Bank's Management Board.

After the loan is issued, customer's financial position is monitored on a regular basis in order to timely identify potential credit losses.

To limit its credit risk, the Group has set the following concentration limits: individual counterparty limit, limit for group of mutually related customers, limit for large risk exposures, limit for the Group's related parties, an industry limit, limit by customer type and loan product. A number of limits were breached in 2008 due to insufficient capital level and restricted Bank financing for leasing companies. Limits breached included individual counterparty limit, limit for group of mutually related customers, limit for large risk exposures (for the Bank) and industry limit, limit by customer type and type of collateral (for leasing subsidiaries). Concentration limits for leasing companies are currently under review. After the Bank's capital increase, the concentration limits will be complied with. Please see Note 36 for more information on capital increase.

The Group reviews its loan portfolio on a regular basis to assess its quality and concentrations, as well as to evaluate the portfolio trends.

Credit risk identification, monitoring and reporting is the responsibility of Risk Management Sector.

The table below provides Group's loan portfolio ageing analysis:

	Group, LVL 000's								
	31/12/2008								
	Regular loans	Utilised credit lines	Finance leases	Debit balances on settlement cards	Loans under reverse repurchase agreement	Overdraft facilities	Factoring	Due from investment and brokerage firms	Total
Not delayed - not impaired	1,067,754	186,982	159,210	86,805	1,248	22,242	20,931	4,078	1,549,250
Not delayed - impaired	166,952	8,659	7	-	-	410	5	-	176,033
Total not delayed loans	**1,234,706**	**195,641**	**159,217**	**86,805**	**1,248**	**22,652**	**20,936**	**4,078**	**1,725,283**
Past due loans - not impaired									
Delayed days:									
=< 29	72,307	3,595	32,105	3,445	-	104	160	-	111,716
30-59	37,339	1,979	20,208	1,757	-	2,400	13	-	63,696
60-89	17,083	257	5,173	296	-	12	655	-	23,476
90 and more	34,975	1,492	5,763	1,183	-	107	666	-	44,186
Total past due loans - not impaired	**161,704**	**7,323**	**63,249**	**6,681**	**-**	**2,623**	**1,494**	**-**	**243,074**
Total past due loans - impaired	**134,823**	**8,387**	**22,602**	**11,997**	**-**	**4,725**	**563**	**-**	**183,097**
Total gross loans and receivables to customers	**1,531,233**	**211,351**	**245,068**	**105,483**	**1,248**	**30,000**	**22,993**	**4,078**	**2,151,454**
Impairment allowance	(85,330)	(4,636)	(8,744)	(13,040)	-	(3,073)	(630)	-	(115,453)
Total net loans and receivables to customers	**1,445,903**	**206,715**	**236,324**	**92,443**	**1,248**	**26,927**	**22,363**	**4,078**	**2,036,001**

Mostly, not-delayed loans falling into categories "regular loans" and "utilised credit lines" are secured by collateral. More than 69% are secured by real estate collateral. In general, settlement card loans are granted to clients on a basis of their cash flows' assessment and no collateral is required in most cases. Finance leases are secured by the respective property leased out (for more details on leasing portfolio please refer to Note 14). Loans under reverse repurchase agreements are secured with securities that can be sold in case of client's default.

	Group, LVL 000's								
	31/12/2007								
	Regular loans	Utilised credit lines	Finance leases	Debit balances on settlement cards	Loans under reverse repurchase agreement	Overdraft facilities	Factoring	Due from investment and brokerage firms	Total
Not delayed - not impaired	1,313,274	184,481	177,222	46,731	32,949	23,976	25,711	11,153	1,815,497
Not delayed - impaired	4,235	320	10	-	-	62	-	-	4,627
Total not delayed loans	**1,317,509**	**184,801**	**177,232**	**46,731**	**32,949**	**24,038**	**25,711**	**11,153**	**1,820,124**
Past due loans - not impaired									
Delayed days:									
=< 29	55,937	4,235	28,985	13,550	-	44	406	-	103,157
30-59	26,341	630	5,895	5,245	-	-	-	-	38,111
60-89	10,331	465	1,994	2,523	-	-	-	-	15,313
90 and more	15,788	1,534	3,381	3,263	-	-	-	-	23,966
Total past due loans - not impaired	**108,397**	**6,864**	**40,255**	**24,581**	**-**	**44**	**406**	**-**	**180,547**
Total past due loans - impaired	**8,587**	**194**	**7,760**	**3,248**	**-**	**7**	**309**	**-**	**20,105**
Total gross loans and receivables to customers	**1,434,493**	**191,859**	**225,247**	**74,560**	**32,949**	**24,089**	**26,426**	**11,153**	**2,020,776**
Impairment allowance	(8,417)	(104)	(1,499)	(3,428)	-	(291)	(395)	-	(14,134)
Total net loans and receivables to customers	**1,426,076**	**191,755**	**223,748**	**71,132**	**32,949**	**23,798**	**26,031**	**11,153**	**2,006,642**

The table below provides Bank's loan portfolio ageing analysis:

	Bank, LVL 000's 31/12/2008								
	Regular loans	Utilised credit lines	Finance leases	Debit balances on settlement cards	Loans under reverse repurchase agreement	Overdraft facilities	Factoring	Due from investment and brokerage firms	Total
Not delayed - not impaired	868,524	344,452	1,362	79,773	586	23,460	18,932	6,770	1,343,859
Not delayed - impaired	202,027	8,169	7	-	-	410	-	-	210,613
Total not delayed loans	**1,070,551**	**352,621**	**1,369**	**79,773**	**586**	**23,870**	**18,932**	**6,770**	**1,554,472**
Past due loans - not impaired									
Delayed days:									
=< 29	62,193	2,621	43	2,732	-	33	-	-	67,622
30-59	34,426	1,255	11	1,553	-	2,400	-	-	39,645
60-89	15,508	167	-	163	-	12	-	-	15,850
90 and more	33,239	1,386	88	490	-	107	-	-	35,310
Total past due loans - not impaired	**145,366**	**5,429**	**142**	**4,938**	**-**	**2,552**	**-**	**-**	**158,427**
Total past due loans - impaired	**122,334**	**7,028**	**93**	**11,997**	**-**	**4,677**	**32**	**-**	**146,161**
Total gross loans and receivables to customers	**1,338,251**	**365,078**	**1,604**	**96,708**	**586**	**31,099**	**18,964**	**6,770**	**1,859,060**
Impairment allowance	(94,445)	(4,038)	(80)	(12,476)	-	(3,024)	(126)	-	(114,189)
Total net loans and receivables to customers	**1,243,806**	**361,040**	**1,524**	**84,232**	**586**	**28,075**	**18,838**	**6,770**	**1,744,871**

	Bank, LVL 000's								
	31/12/2007								
	Regular loans	Utilised credit lines	Finance leases	Debit balances on settlement cards	Loans under reverse repurchase agreement	Overdraft facilities	Factoring	Due from investment and brokerage firms	Total
Not delayed - not impaired	1,130,305	342,259	2,359	44,836	29,847	30,063	23,491	13,547	1,616,707
Not delayed - impaired	61	-	10	-	-	-	-	-	71
Total not delayed loans	**1,130,366**	**342,259**	**2,369**	**44,836**	**29,847**	**30,063**	**23,491**	**13,547**	**1,616,778**
Past due loans - not impaired									
Delayed days:									
=< 29	44,521	3,552	149	13,278	-	-	-	-	61,500
30-59	26,074	569	41	5,136	-	-	-	-	31,820
60-89	10,249	465	4	2,441	-	-	-	-	13,159
90 and more	15,524	1,535	101	3,102	-	-	-	-	20,262
Total past due loans - not impaired	**96,368**	**6,121**	**295**	**23,957**	**-**	**-**	**-**	**-**	**126,741**
Total past due loans - impaired	**1,813**	**47**	**75**	**3,248**	**-**	**-**	**186**	**-**	**5,369**
Total gross loans and receivables to customers	**1,228,547**	**348,427**	**2,739**	**72,041**	**29,847**	**30,063**	**23,677**	**13,547**	**1,748,888**
Impairment allowance	(6,687)	-	(83)	(3,248)	-	(264)	(276)	-	(10,558)
Total net loans and receivables to customers	**1,221,860**	**348,427**	**2,656**	**68,793**	**29,847**	**29,799**	**23,401**	**13,547**	**1,738,330**

	Group, LVL 000's							
	31/12/2008				31/12/2007			
	Held to maturity	Available for sale	Held for trading	Total	Held to maturity	Available for sale	Held for trading	Total
Investment grade:								
AAA	2,110	5,976	-	8,086	5,550	18,451	108	24,109
AA	15,353	32,881	-	48,234	990	67,980	86	69,056
A	470,014	58,477	-	528,491	-	122,110	-	122,110
BBB/Baa	190,291	24,226	47	214,564	498	131,665	1,061	133,224
Other lower ratings	56,631	6,564	270	63,465	3,925	82,614	1,632	88,171
Not rated	46,975	18,063	1,997	67,035	29,460	52,645	2,688	84,793
Total gross fixed income securities	**781,374**	**146,187**	**2,314**	**929,875**	**40,423**	**475,465**	**5,575**	**521,463**
Impairment allowance	(22,828)	-	-	(22,828)	(199)	(423)	-	(622)
Total net fixed income securities	**758,546**	**146,187**	**2,314**	**907,047**	**40,224**	**475,042**	**5,575**	**520,841**

	Bank, LVL 000's							
	31/12/2008				31/12/2007			
	Held to maturity	Available for sale	Held for trading	Total	Held to maturity	Available for sale	Held for trading	Total
Investment grade:								
AAA	1,608	4,250	-	5,858	5,550	16,164	-	21,714
AA	4,544	32,802	-	37,346	990	58,905	-	59,895
A	464,956	56,091	-	521,047	-	101,078	-	101,078
BBB/Baa	186,231	23,670	-	209,901	-	127,439	302	127,741
Other lower ratings	54,739	6,524	3	61,266	-	82,509	1,333	83,842
Not rated	108,739	17,967	1,997	128,703	67,557	52,503	2,688	122,748
Total gross fixed income securities	**820,817**	**141,304**	**2,000**	**964,121**	**74,097**	**438,598**	**4,323**	**517,018**
Impairment allowance	(22,828)	-	-	(22,828)	(199)	(423)	-	(622)
Total net fixed income securities	**797,989**	**141,304**	**2,000**	**941,293**	**73,898**	**438,175**	**4,323**	**516,396**

GEOGRAPHICAL PROFILE

The following tables provides an analysis of the Group's and Bank's assets and liabilities, as well as memorandum items outstanding as at 31 December 2008 and 2007 by geographical profile. The grouping by is done based on information about the residence of the respective counterparties.

	Group as at 31/12/2008, LVL 000's					
	Latvia	Lithuania	Other EU countries	CIS countries	Other countries	Total
Assets						
Cash and deposits with central banks	77,707	19,654	17,472	1	1,516	116,350
Balances due from credit institutions	7,654	274	19,562	144,289	102,945	274,724
Securities held for trading	2,277	28	451	2,751	1,208	6,715
Financial assets designated at fair value through profit or loss	1,160	-	469	-	-	1,629
Available-for-sale securities	17,576	1,898	87,641	21,999	29,577	158,691
Loans and receivables to customers	1,043,144	349,395	170,945	352,897	119,620	2,036,001
Held-to-maturity securities	631,994	-	27,810	68,905	29,837	758,546
Derivatives financial instruments	2,503	84	14,646	154	1,816	19,203
Other assets	91,892	8,886	1,026	10,019	121	111,944
Total assets	**1,875,907**	**380,219**	**340,022**	**601,015**	**286,640**	**3,483,803**
Liabilities						
Financial liabilities designated at fair value through profit or loss	314	-	-	-	-	314
Financial liabilities measured at amortised cost	1,860,861	78,174	912,767	93,814	411,279	3,356,895
Derivative financial instruments	687	-	3,272	3,661	1,889	9,509
Other liabilities	29,197	1,420	979	6,240	178	38,014
Total liabilities	**1,891,059**	**79,594**	**917,018**	**103,715**	**413,346**	**3,404,732**
Equity	79,071	-	-	-	-	79,071
Total liabilities and equity	**1,970,130**	**79,594**	**917,018**	**103,715**	**413,346**	**3,483,803**
Memorandum items						
Contingent liabilities	4,179	4,981	4,225	27,224	17,234	57,843
Financial commitments	117,736	22,621	2,446	25,920	10,909	179,632

	Group as at 31/12/2007, LVL 000's					
	Latvia	Lithuania	Other EU countries	CIS countries	Other countries	Total
Assets						
Cash and deposits with central banks	233,237	21,174	2,825	2	42	257,280
Balances due from credit institutions	68,768	587	192,260	51,400	117,853	430,868
Securities held for trading	10,973	65	15,494	14,797	4,055	45,384
Financial assets designated at fair value through profit or loss	277	-	-	-	-	277
Available-for-sale securities	144,476	17,767	107,541	129,731	76,075	475,590
Loans and receivables to customers	1,139,580	331,272	215,812	222,704	97,274	2,006,642
Held-to-maturity securities	-	-	1,290	32,394	6,540	40,224
Derivatives financial instruments	2,999	43	6,376	1,444	654	11,516
Other assets	67,113	8,108	779	8,780	63	84,843
Total assets	**1,667,423**	**379,016**	**542,377**	**461,252**	**302,556**	**3,352,624**
Liabilities						
Financial liabilities designated at fair value through profit or loss	277	-	-	-	-	277
Financial liabilities measured at amortised cost	1,004,839	132,764	1,177,764	140,669	622,030	3,078,066
Derivative financial instruments	1,779	294	9,397	849	632	12,951
Other liabilities	9,391	1,963	531	4,599	18,900	35,384
Total liabilities	**1,016,286**	**135,021**	**1,187,692**	**146,117**	**641,562**	**3,126,678**
Equity	225,946	-	-	-	-	225,946
Total liabilities and equity	**1,242,232**	**135,021**	**1,187,692**	**146,117**	**641,562**	**3,352,624**
Memorandum items						
Contingent liabilities	10,753	3,478	5,665	2,820	9,004	31,720
Financial commitments	279,166	39,855	35,872	11,426	20,137	386,456

	Bank as at 31/12/2008, LVL 000's					
	Latvia	Lithuania	Other EU countries	CIS countries	Other countries	Total
Assets						
Cash and deposits with central banks	77,707	-	17,472	-	-	95,179
Balances due from credit institutions	6,273	285,287	2,442	132,510	72,173	498,685
Securities held for trading	2,277	28	451	2,437	1,208	6,401
Financial assets designated at fair value through profit or loss	-	-	-	-	-	-
Available-for-sale securities	17,374	-	85,340	21,981	29,027	153,722
Loans and receivables to customers	1,090,943	75,856	167,476	291,528	119,068	1,744,871
Held-to-maturity securities	631,994	-	25,340	125,613	15,042	797,989
Derivatives financial instruments	2,336	200	14,646	154	1,816	19,152
Other assets	101,460	-	580	-	-	102,040
Total assets	**1,930,364**	**361,371**	**313,747**	**574,223**	**238,334**	**3,418,039**
Liabilities						
Financial liabilities measured at amortised cost	1,865,152	72,474	908,288	88,504	370,580	3,304,998
Derivative financial instruments	680	169	3,272	3,661	1,888	9,670
Other liabilities	25,147	-	736	-	-	25,883
Total liabilities	**1,890,979**	**72,643**	**912,296**	**92,165**	**372,468**	**3,340,551**
Equity	77,488	-	-	-	-	77,488
Total liabilities and equity	**1,968,467**	**72,643**	**912,296**	**92,165**	**372,468**	**3,418,039**
Memorandum items						
Contingent liabilities	4,145	2,161	3,778	26,846	15,809	52,739
Financial commitments	130,150	78,353	3,939	46,167	10,909	269,518

	Bank as at 31/12/2007, LVL 000's					
	Latvia	Lithuania	Other EU countries	CIS countries	Other countries	Total
Assets						
Cash and deposits with central banks	233,237	-	2,825	-	-	236,062
Balances due from credit institutions	68,331	131,193	187,876	42,610	92,623	522,633
Securities held for trading	10,042	-	15,217	14,178	3,352	42,789
Financial assets designated at fair value through profit or loss	-	-	-	-	-	-
Available-for-sale securities	144,079	-	105,682	126,670	61,801	438,232
Loans and receivables to customers	1,167,742	75,172	209,617	188,924	96,875	1,738,330
Held-to-maturity securities	-	-	1,290	66,068	6,540	73,898
Derivatives financial instruments	3,181	46	6,376	1,444	738	11,785
Other assets	91,995	179	379	8	10	92,571
Total assets	**1,718,607**	**206,590**	**529,262**	**439,902**	**261,939**	**3,156,300**
Liabilities						
Financial liabilities measured at amortised cost	1,004,543	7,277	1,173,774	137,883	577,016	2,900,493
Derivative financial instruments	1,961	449	9,397	849	632	13,288
Other liabilities	6,492	-	405	-	18,475	25,372
Total liabilities	**1,012,996**	**7,726**	**1,183,576**	**138,732**	**596,123**	**2,939,153**
Equity	217,147	-	-	-	-	217,147
Total liabilities and equity	**1,230,143**	**7,726**	**1,183,576**	**138,732**	**596,123**	**3,156,300**
Memorandum items						
Contingent liabilities	10,710	994	5,236	2,565	6,530	26,035
Financial commitments	250,184	1,292	42,294	41,813	20,138	355,721

b) Market risk

Market risk is the risk that the Group will incur a loss as a result of the mark-to-market revaluation of balance sheet and off-balance sheet items caused by changes in market values of financial instruments, commodities and commodity derivatives due to changes in foreign exchange rates, interest rates and other factors.

Position risk of financial instruments is assessed and limits are set by the Financial Market and Counterparty Committee (FMCC). The decisions of FMCC are approved by the Bank's Management Board. Market risk is managed by the Group's business units and subsidiaries which can accept market risk in line with the set limits and investment restrictions of the respective portfolio. Market risk is measured, monitored and risk levels are reported by Risk Management Sector.

To assess the position risk, scenario analysis is applied. Scenario analysis is based on historic data and price changes of various financial instruments in different low probability high impact scenarios. For example, a flight-to-quality scenario assumes that investors move their capital from riskier investments towards safer investments (for instance, U.S. or other AAA-rated sovereign bonds). To manage market risk, the Group sets individual limits to issuers and financial instruments, as well as products exposed to market risk.

c) Equity price risk

Equity price risk is the risk that the Group will incur a loss due to changes in equity prices. Equity price risk is assessed and decisions on limits set are made by the Financial Market and Counterparty Committee. Further the decisions so made are approved by the Bank's Management Board.

To assess equity price risk, the Group applies the scenario analysis "flight-to-quality" which refers to a fear of investors of global systemic failure when investors start selling assets they consider to be overly risky and substituting them with more dependable ones. According to the Group's equity price risk assessment as at 31 December 2008 and 2007, in the event that all equity prices drop by 10% for equities in OECD countries, 20% - Baltic countries and CIS countries and 15% - other equities, pre-tax profit and equity in total would decrease by approximately LVL 0.63 million (2007: LVL 3.06 million) and LVL 2.43 million (2007: LVL 5.95 million), accordingly.

d) Interest rate risk

Interest rate risk is related to the negative impact of interest rate changes on the Group's income and economic value.

Interest rate risk management in the Group is carried out in accordance with the Group's Interest rate Risk Management Policy. Interest rate risk is assessed and decisions are made by Assets and Liabilities Management Committee (ALCO). The decisions of ALCO are approved by the Bank's Management Board. ALCO sets the acceptable interest rate risk level and the Group's internal limit system, monitors the compliance with the approved limits and use of the instruments for the management of interest rate risk. In 2008, all interest rate risk limits were complied with. Interest rate risk measurement and management is the responsibility of Treasury Sector, while risk reporting is the responsibility of Risk Management Sector.

The Group manages interest rate risk by using the gap analysis of the risk sensitive assets and liabilities, duration analysis and sensitivity analysis of assets and liabilities as well as stress testing of interest rate risk. Based on the market analysis and the Group's financing structure, ALCO sets customer deposit interest rates. During the period when restrictions are on the Bank's activities, these functions are carried out by the Bank's Management Board. Partially, the Group mitigates interest rate risk using derivatives.

The following table represents impact of parallel change in all interest rates by 1.0% on Group's and Bank's pre-tax profit (in 12-months time) and available-for-sale securities' fair value revaluation reserve in equity:

Scenario: +1%	LVL 000's			
	2008 Group	2007 Group	2008 Bank	2007 Bank
Pre-tax profit	(5,114)	(1,349)	(3,694)	(878)
Securities fair value revaluation reserve	(2,034)	(13,302)	(1,987)	(12,388)
Total pre-tax effect on equity	(7,148)	(14,651)	(5,681)	(13,266)
Total net effect on equity	(6,076)	(12,453)	(4,829)	(11,276)
Scenario: -1%				
Pre-tax profit	5,117	1,349	3,676	853
Securities fair value revaluation reserve	2,160	13,302	2,113	12,388
Total pre-tax effect on equity	7,277	14,651	5,789	13,241
Total net effect on equity	6,185	12,453	4,921	11,255

FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

The concept of fair value assumes realisation of financial instruments by way of a sale. However, in many cases, particularly in respect of loans and receivables to customers, the Group intends to realise assets through collection over time. Users of these financial statements are therefore advised to use caution when using this data to evaluate the Group's financial position.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable and willing parties in an arm's length transaction. The fair value of liquid financial assets has been determined using bid prices, while offer prices have been used to determine the fair value of financial liabilities.

For illiquid financial assets and liabilities, including loans and advances to customers, there are, by definition, no active markets. Accordingly, fair value has been estimated using appropriate valuation techniques. The methods used to determine the fair value of balance sheet items not carried at fair value are as follows:

Cash and demand deposits with central banks
The fair value of cash and balances with central banks is their carrying amount as these balances may be withdrawn without notice.

Balances due from and credit institutions/ Balances due to credit institutions and central banks
The fair value of on-demand balances with credit institutions is their carrying amount as these balances may be withdrawn without notice. The fair value of overnight placements is their carrying amount. The fair value of other amounts due from banks is calculated by discounting expected cash flows using current market rates. In many cases, the carrying value is a close representation of fair value due to short-term maturity profiles.

Loans and receivables to customers
The fair value of loans and advances to customers is calculated by discounting expected future cash flows. The discount rates consist of money market rates as at the end of year and credit margins, which are adjusted for current market conditions.

Held to maturity securities
Held to maturity securities are valued using unadjusted quoted prices in active markets, where available. In other instances, either quotes of market participants or are used or value of securities is determined using valuation models employing observable or non-observable market inputs.

Customer deposits
The fair value of customer deposits repayable on demand is their carrying amount. The fair value of other deposits is calculated by discounting expected cash flows using average market interest rates or rates offered at year-end.

Issued debt and subordinated liabilities
Due to illiquidity of all the subordinated liabilities as at the end of year, it was assumed that the best estimate of fair value are the quotes of market participants provided for the listed debt instruments.

<u>Fair value hierarchy</u>

Quoted market prices
Financial instruments are valued using unadjusted quoted prices in active markets.

Valuation technique - observable market inputs
Financial instruments are valued using techniques based on observable market data. In some instances, valuations received from independent third party are used.

Valuation technique - non-market observable inputs
Financial instruments are valued using techniques for which significant inputs are not based on observable market data.

The following table presents fair values of Group's financial assets and liabilities as at 31 December 2008.

	Carrying value	**Adjustment to (arrive at) fair value**	**Fair value**		
			Quoted market prices	Valuation technique - observable market inputs	Valuation technique - non-market observable inputs
Cash and demand deposits with central banks	116,350	-	-	116,350	-
Balances due from credit institution	274,724	2	-	274,726	-
Held-for-trading securities	6,715	-	4,319	2,396	-
Financial assets designated at fair value through profit or loss	1,629	-	1,629	-	-
Derivatives	19,203	-	-	19,203	-
Available-for-sale securities	158,691	-	112,819	45,872	-
Loans and receivables to customers	2,036,001	148,958	-	-	2,184,959
Held to maturity securities	758,546	(54,346)	111,431	592,769	-
Total financial assets	**3,371,859**	**94,614**	**230,198**	**1,051,316**	**2,184,959**
Derivatives	9,509	-	-	9,509	-
Financial liabilities designated at fair value through profit or loss	314	-	314	-	-
Financial liabilities measured at amortised cost:					
Balances due to credit institutions and central banks	1,189,621	1,212	-	1,190,600	233
Customer deposits	2,022,994	(1,696)	-	120,275	1,901,023
Issued debt	88,982	(70,970)	-	-	18,012
Subordinated liabilities	52,957	(45,013)	-	-	7,944
Other financial liabilities	2,341	277	-	2,618	-
Total financial liabilities	**3,366,718**	**(116,190)**	**314**	**1,323,002**	**1,927,212**

The following table presents fair values of Group's financial assets and liabilities as at 31 December 2007.

	Carrying value	**Adjustment to (arrive at) fair value**	**Fair value**		
			Quoted market prices	Valuation technique - observable market inputs	Valuation technique - non-market observable inputs
Cash and demand deposits with central banks	257,280	-	-	257,280	-
Balances due from credit institution	430,868	-	-	430,868	-
Held-for-trading securities	45,384	-	45,384	-	-
Financial assets designated at fair value through profit or loss	277	-	277	-	-
Derivatives	11,516	-	-	11,516	-
Available-for-sale securities	475,590	-	475,272	318	-
Loans and receivables to customers	2,006,642	(1,628)	-	1,849,025	155,989
Held to maturity securities	40,224	(8,661)	4,247	27,316	-
Total financial assets	**3,267,781**	**(10,289)**	**525,180**	**2,576,323**	**155,989**
Derivatives	12,951	-	-	12,868	83
Financial liabilities designated at fair value through profit or loss	277	-	277	-	-
Financial liabilities measured at amortised cost:					
Balances due to credit institutions and central banks	777,111	-	-	739,561	37,550
Customer deposits	2,081,965	17,907	-	170,857	1,929,015
Issued debt	187,907	(14,672)	173,235	-	-
Subordinated liabilities	28,113	-	-	28,113	-
Other financial liabilities	2,970	-	-	2,970	-
Total financial liabilities	**3,091,294**	**3,235**	**173,512**	**954,369**	**1,966,648**

The following table presents fair values of Bank's financial assets and liabilities as at 31 December 2008.

			Fair value		
	Carrying value	**Adjustment to (arrive at) fair value**	Quoted market prices	Valuation technique - observable market inputs	Valuation technique - non-market observable inputs
Cash and demand deposits with central banks	95,179	-	-	95,179	-
Balances due from credit institution	498,685	-	-	498,685	-
Held-for-trading securities	6,401	-	4,005	2,396	-
Derivatives	19,152	-	-	19,152	-
Available-for-sale securities	153,722	-	108,072	45,650	-
Loans and receivables to customers	1,744,871	140,567	-	-	1,885,438
Held to maturity securities	797,989	(52,860)	170,790	574,339	-
Total financial assets	**3,315,999**	**87,707**	**282,867**	**1,235,401**	**1,885,438**
Derivatives	9,670	-	-	9,670	-
Financial liabilities measured at amortised cost:					
Balances due to credit institutions and central banks	1,261,440	-	-	1,261,440	-
Customer deposits	1,901,886	(863)	-	-	1,901,023
Issued debt	88,712	(70,970)	-	-	17,742
Subordinated liabilities	52,960	(45,016)	-	-	7,944
Total financial liabilities	**3,314,668**	**(116,849)**	**-**	**1,271,110**	**1,926,709**

The following table presents fair values of Bank's financial assets and liabilities as at 31 December 2007.

			Fair value		
	Carrying value	**Adjustment to (arrive at) fair value**	Quoted market prices	Valuation technique - observable market inputs	Valuation technique - non-market observable inputs
Cash and demand deposits with central banks	236,062	-	-	236,062	-
Balances due from credit institution	522,633	-	-	522,633	-
Held-for-trading securities	42,789	-	42,789	-	-
Derivatives	11,785	-	-	11,785	-
Available-for-sale securities	438,232	-	438,232	-	-
Loans and receivables to customers	1,738,330	(1,628)	-	1,652,273	84,429
Held to maturity securities	73,898	(8,437)	-	65,461	-
Total financial assets	**3,063,729**	**(10,065)**	**481,021**	**2,488,214**	**84,429**
Derivatives	13,288	-	-	13,288	-
Financial liabilities measured at amortised cost:					
Balances due to credit institutions and central banks	775,345	-	-	775,345	-
Customer deposits	1,909,128	17,907	-	-	1,927,035
Issued debt	187,907	(14,672)	173,235	-	-
Subordinated liabilities	28,113	-	-	28,113	-
Total financial liabilities	**2,913,781**	**3,235**	**173,235**	**816,746**	**1,927,035**

e) Currency risk

Currency risk is a risk of loss arising from fluctuations in currency exchange rates.

Currency risk management in the Group is carried out in accordance with the Group's Currency Risk Management Policy. Currency risk is assessed and decisions on limits set are made by the Financial Market and Counterparty Committee (FMCC). The decisions of FMCC are approved by the Bank's Management Board. FMCC defines the acceptable currency risk level and the Group's internal limit system, as well as monitors compliance with these limits.

Day-to-day currency risk management is the responsibility of Treasury Sector, while risk monitoring and reporting is the responsibility of Risk Management Sector. The Group has set a limit for open currency positions in each currency at 10% of its equity, and the limit for the total open currency position at 20% of its equity. The limits are equal to the requirements by Latvian legislation. To assess currency risk, the Group also uses scenario analysis. In the event of exchange rates for all currencies in which the Group and the Bank has open positions adversely change by 1%, the potential total decrease in the Group's and Bank's pre-tax profit and equity would be approximately LVL 3.3 million and LVL 1.0 million as at 31 December 2008 and LVL 0.6 million and LVL 0.3 million as at 31 December 2007, accordingly.

As at 31 December 2008, due to limited access to currency risk mitigation instruments, the Bank and Group was not able to comply with the limit for the total open currency position, as well as for the single open currency positions in most of the main currencies the Group is dealing with. The full compliance will be restored, once the Bank is able to operate as before in the financial markets and re-opens the limits with currency dealers. Nevertheless, some of the breaches will be remedied through the capital increase. For more details on capital increase, please refer to Note 36.

The following table provides an analysis of the Group's and Bank's assets and liabilities and shareholders' equity as well as memorandum items outstanding as at 31 December 2008 and 2007 by currency profile:

	Group as at 31/12/2008, LVL 000's								
	LVL	USD	EUR	UAH	EEK	LTL	RUB	Other	Total
Assets									
Cash and deposits with central banks	59,506	5,795	16,808	25	11,512	18,243	367	4,094	116,350
Balances due from credit institutions	5,867	72,930	172,958	2,041	6	59	4,790	16,073	274,724
Securities held for trading	764	3,774	1,516	-	114	28	358	161	6,715
Financial assets designated at fair value through profit or loss	713	76	840	-	-	-	-	-	1,629
Available-for-sale securities	11,379	22,358	110,902	3,779	-	1,898	7,157	1,218	158,691
Loans and receivables to customers	144,615	395,581	1,300,506	1,099	24,467	126,778	24,987	17,968	2,036,001
Held-to-maturity securities	374,829	85,439	298,278	-	-	-	-	-	758,546
Derivatives financial instruments	11,871	668	6,495	-	-	167	-	2	19,203
Other assets	84,802	2,972	4,488	1,967	460	8,563	7,681	1,011	111,944
Total assets	**694,346**	**589,593**	**1,912,791**	**8,911**	**36,559**	**155,736**	**45,340**	**40,527**	**3,483,803**
Liabilities									
Financial liabilities designated at fair value through profit or loss	173	55	86	-	-	-	-	-	314
Financial liabilities measured at amortised cost	828,123	445,785	1,949,085	1,152	13,013	54,436	4,843	60,458	3,356,895
Derivative financial instruments	7,280	2,047	53	-	1	7	-	121	9,509
Other liabilities	13,696	6,681	6,804	459	492	1,101	4,923	3,858	38,014
Total liabilities	**849,272**	**454,568**	**1,956,028**	**1,611**	**13,506**	**55,544**	**9,766**	**64,437**	**3,404,732**
Equity	79,071	-	-	-	-	-	-	-	79,071
Total liabilities and equity	**928,343**	**454,568**	**1,956,028**	**1,611**	**13,506**	**55,544**	**9,766**	**64,437**	**3,483,803**
Net long/ (short) position for balance sheet items	(233,997)	135,025	(43,237)	7,300	23,053	100,192	35,574	(23,910)	-
Off-balance sheet claims arising from foreign exchange									
Spot exchange contracts	-	(2,622)	2,952	-	-	(584)	-	356	102
Forward foreign exchange contracts	22,916	2,319	(41,657)	-	-	17,552	-	(26)	1,104
Swap exchange contracts	241,646	(160,104)	(64,850)	-	-	(10,091)	(29,931)	30,302	6,972
Net long/ (short) positions on foreign exchange	*264,562*	*(160,407)*	*(103,555)*	-	-	*6,877*	*(29,931)*	*30,632*	*8,178*
Net long/ (short) position as at 31 December 2008	**30,565**	**(25,382)**	**(146,792)**	**7,300**	**23,053**	**107,069**	**5,643**	**6,722**	**8,178**
Exchange rates applied as at 31 December 2008 (LVL for 1 foreign currency unit)	-	0.495	0.702804	0.0656	0.0449	0.203	0.0171	-	-

	Group as at 31/12/2007, LVL 000's								
	LVL	USD	EUR	UAH	EEK	LTL	RUB	Other	Total
Assets									
Cash and deposits with central banks	209,233	8,686	13,772	34	1,796	19,685	414	3,660	257,280
Balances due from credit institutions	21,883	260,397	70,945	986	28	192	23,518	52,919	430,868
Securities held for trading	3,489	18,112	15,435	5,564	248	145	1,638	753	45,384
Financial assets designated at fair value through profit or loss	3	146	128	-	-	-	-	-	277
Available-for-sale securities	144,133	188,444	108,635	144	2	17,769	11,998	4,465	475,590
Loans and receivables to customers	138,844	294,078	1,350,430	480	31,486	161,632	11,919	17,773	2,006,642
Held-to-maturity securities	-	27,538	12,686	-	-	-	-	-	40,224
Derivatives financial instruments	11,516	-	-	-	-	-	-	-	11,516
Other assets	58,969	4,058	4,231	1,156	721	8,073	6,329	1,306	84,843
Total assets	**588,070**	**801,459**	**1,576,262**	**8,364**	**34,281**	**207,496**	**55,816**	**80,876**	**3,352,624**
Liabilities									
Financial liabilities designated at fair value through profit or loss	226	12	39	-	-	-	-	-	277
Financial liabilities measured at amortised cost	443,952	868,949	1,564,316	459	24,358	85,108	29,484	61,440	3,078,066
Derivative financial instruments	5,286	1,880	5,783	-	2	-	-	-	12,951
Other liabilities	23,393	1,866	2,988	782	190	1,376	2,408	2,381	35,384
Total liabilities	**472,857**	**872,707**	**1,573,126**	**1,241**	**24,550**	**86,484**	**31,892**	**63,821**	**3,126,678**
Equity	225,946	-	-	-	-	-	-	-	225,946
Total liabilities and equity	**698,803**	**872,707**	**1,573,126**	**1,241**	**24,550**	**86,484**	**31,892**	**63,821**	**3,352,624**
Net long/ (short) position for balance sheet items	(110,733)	(71,248)	3,136	7,123	9,731	121,012	23,924	17,055	-
Off-balance sheet claims arising from foreign exchange									
Spot exchange contracts	(196)	(9,809)	10,780	-	(168)	(217)	(3,865)	3,365	(110)
Forward foreign exchange contracts	44,611	45,550	(87,019)	(14)	-	4,628	(6,983)	(258)	515
Swap exchange contracts	1,039	32,349	(46,127)	-	-	23,643	(7,044)	(1,469)	2,391
Net long/ (short) positions on foreign exchange	*45,454*	*68,090*	*(122,366)*	*(14)*	*(168)*	*28,054*	*(17,892)*	*1,638*	*2,796*
Net long/ (short) position as at 31 December 2007	**(65,279)**	**(3,158)**	**(119,230)**	**7,109**	**9,563**	**149,066**	**6,032**	**18,693**	**2,796**
Exchange rates applied as at 31 December 2007 (LVL for 1 foreign currency unit)	-	0.484	0.702804	0.0958	0.0449	0.204	0.0197	-	-

	Bank as at 31/12/2008, LVL 000's								
	LVL	USD	EUR	UAH	EEK	LTL	RUB	Other	Total
Assets									
Cash and deposits with central banks	59,483	5,275	15,852	22	11,507	290	323	2,427	95,179
Balances due from credit institutions	4,685	79,168	409,951	4	2	1,673	1,491	1,711	498,685
Securities held for trading	764	3,774	1,516	-	114	28	44	161	6,401
Financial assets designated at fair value through profit or loss	-	-	-	-	-	-	-	-	-
Available-for-sale securities	11,379	22,332	107,857	3,779	-	-	7,157	1,218	153,722
Loans and receivables to customers	129,267	362,279	1,215,482	967	16,236	677	2,274	17,689	1,744,871
Held-to-maturity securities	374,829	92,719	306,436	-	-	-	24,005	-	797,989
Derivatives financial instruments	11,989	668	6,495	-	-	-	-	-	19,152
Other assets	97,080	2,862	1,721	4	15	84	170	104	102,040
Total assets	**689,476**	**569,077**	**2,065,310**	**4,776**	**27,874**	**2,752**	**35,464**	**23,310**	**3,418,039**
Liabilities									
Financial liabilities designated at fair value through profit or loss	-	-	-	-	-	-	-	-	-
Financial liabilities measured at amortised cost	830,961	431,471	1,968,113	934	13,349	284	4,456	55,430	3,304,998
Derivative financial instruments	7,569	2,047	53	-	1	-	-	-	9,670
Other liabilities	10,125	6,570	5,883	1	428	85	1,579	1,212	25,883
Total liabilities	**848,655**	**440,088**	**1,974,049**	**935**	**13,778**	**369**	**6,035**	**56,642**	**3,340,551**
Equity	77,488	-	-	-	-	-	-	-	77,488
Total liabilities and equity	**926,143**	**440,088**	**1,974,049**	**935**	**13,778**	**369**	**6,035**	**56,642**	**3,418,039**
Net long/ (short) position for balance sheet items	(236,667)	128,989	91,261	3,841	14,096	2,383	29,429	(33,332)	-
Off-balance sheet claims arising from foreign exchange									
Spot exchange contracts	-	(2,645)	(9,635)	-	-	11,916	-	349	(15)
Forward foreign exchange contracts	22,916	1,358	(40,836)	-	-	17,568	-	(26)	980
Swap exchange contracts	241,646	(159,359)	(65,666)	-	-	(10,091)	(29,931)	30,302	6,901
Net long/ (short) positions on foreign exchange	*264,562*	*(160,646)*	*(116,137)*	-	-	*19,393*	*(29,931)*	*30,625*	*7,866*
Net long/ (short) position as at 31 December 2008	**27,895**	**(31,657)**	**(24,876)**	**3,841**	**14,096**	**21,776**	**(502)**	**(2,707)**	**7,866**
Exchange rates applied as at 31 December 2008 (LVL for 1 foreign currency unit)	-	0.495	0.702804	0.0656	0.0449	0.203	0.0171	-	-

	Bank as at 31/12/2007, LVL 000's								
	LVL	USD	EUR	UAH	EEK	LTL	RUB	Other	Total
Assets									
Cash and deposits with central banks	209,173	8,066	13,011	14	1,778	280	366	3,374	236,062
Balances due from credit institutions	21,515	273,666	168,341	562	24	1,790	20,842	35,893	522,633
Securities held for trading	2,756	17,260	15,107	5,564	248	82	1,019	753	42,789
Financial assets designated at fair value through profit or loss	-	-	-	-	-	-	-	-	-
Available-for-sale securities	144,103	173,945	103,895	-	-	-	11,832	4,457	438,232
Loans and receivables to customers	154,562	269,416	1,264,526	325	24,251	2,074	5,791	17,385	1,738,330
Held-to-maturity securities	-	43,297	21,069	-	-	-	9,532	-	73,898
Derivatives financial instruments	11,785	-	-	-	-	-	-	-	11,785
Other assets	85,139	4,020	2,822	6	323	7	104	150	92,571
Total assets	**629,033**	**789,670**	**1,588,771**	**6,471**	**26,624**	**4,233**	**49,486**	**62,012**	**3,156,300**
Liabilities									
Financial liabilities designated at fair value through profit or loss	-	-	-	-	-	-	-	-	-
Financial liabilities measured at amortised cost	445,473	836,277	1,509,334	462	24,715	1,064	29,828	53,340	2,900,493
Derivative financial instruments	5,623	1,880	5,783	-	2	-	-	-	13,288
Other liabilities	20,835	1,463	2,378	1	89	28	179	399	25,372
Total liabilities	**471,931**	**839,620**	**1,517,495**	**463**	**24,806**	**1,092**	**30,007**	**53,739**	**2,939,153**
Equity	217,147	-	-	-	-	-	-	-	217,147
Total liabilities and equity	**689,078**	**839,620**	**1,517,495**	**463**	**24,806**	**1,092**	**30,007**	**53,739**	**3,156,300**
Net long/ (short) position for balance sheet items	(60,045)	(49,950)	71,276	6,008	1,818	3,141	19,479	8,273	-
Off-balance sheet claims arising from foreign exchange									
Spot exchange contracts	(95)	(9,608)	9,299	-	(6)	141	(3,819)	3,975	(113)
Forward foreign exchange contracts	44,611	44,659	(79,857)	(14)	-	(1,622)	(6,983)	(306)	488
Swap exchange contracts	1,039	8,496	3,674	-	(135)	(1,614)	(7,044)	(2,485)	1,931
Net long/ (short) positions on foreign exchange	*45,555*	*43,547*	*(66,884)*	*(14)*	*(141)*	*(3,095)*	*(17,846)*	*1,184*	*2,306*
Net long/ (short) position as at 31 December 2007	**(14,490)**	**(6,403)**	**4,392**	**5,994**	**1,677**	**46**	**1,633**	**9,457**	**2,306**
Exchange rates applied as at 31 December 2007 (LVL for 1 foreign currency unit)	-	0.484	0.702804	0.0958	0.0449	0.204	0.0197	-	-

f) Liquidity risk

Liquidity risk is the risk that the Group will be unable to meet its legal payment obligations. The purpose of liquidity risk management is to ensure the availability of liquid assets sufficient to meet potential obligations.

The Group manages its liquidity risk in accordance with the Group's Liquidity Risk Management Policy. Liquidity risk is assessed and decisions are made by ALCO. The decisions of ALCO are approved by the Bank's Management Board. ALCO sets the acceptable liquidity risk level, the Group's internal limit system and defines instruments for the management of liquidity risk, as well as monitors the compliance with the set limits. Liquidity risk management is the responsibility of the Treasury Sector, while risk measuring, monitoring and reporting is within the responsibility of the Risk Management Sector.

Currently, when there are restrictions on the Bank's activities, the Bank's ability to attract financing is limited and its liquidity position is not satisfactory. Liquidity risk is assessed and related decisions are made by the Bank's Management Board. Daily liquidity management is ensured by the Treasury Sector in collaboration with Finance department. However the main source of liquidity is the funding provided by the State Treasury. For more information on liquidity support received from the State Treasury, please refer to Note 24. The following table contains Bank's liquidity ratios calculated in accordance with FCMC requirements:

Year	*High*	*Low*	*Average*	*Year-end*
2008	56%	30%	40%	55%
2007	57%	39%	47%	51%

Group's assets, liabilities and memorandum items by contractual maturity structure as at 31 December 2008

In this and further tables showing the maturity structure of the balance sheet and certain memorandum items, the balance sheet amounts are disclosed based on the contractual maturity of the final payment, not each specific cash flow. Memorandum items are included based on the expected date of their realisation.

	Group as at 31/12/2008, LVL 000's						
	Within 1 month	1-3 months	3-6 months	6-12 months	1-5 years	Over 5 years and undated	Total
Assets							
Cash and deposits with central banks	116,350	-	-	-	-	-	116,350
Balances due from credit institutions	235,381	22,349	14,132	2,321	499	42	274,724
Securities held for trading	-	-	67	-	2,244	4,404	6,715
Financial assets designated at fair value through profit or loss	319	-	637	-	99	574	1,629
Available-for-sale securities	747	6,619	7,699	7,506	81,051	55,069	158,691
Loans and receivables to customers	37,511	58,143	129,987	145,975	775,117	889,268	2,036,001
Held-to-maturity securities	-	5,287	37,571	418,167	155,343	142,178	758,546
Derivatives financial instruments	10,695	936	335	420	6,808	9	19,203
Other assets	7,003	2,913	618	2,492	2,710	96,208	111,944
Total assets	**408,006**	**96,247**	**191,046**	**576,881**	**1,023,871**	**1,187,752**	**3,483,803**
Liabilities							
Financial liabilities designated at fair value through profit or loss	-	-	-	-	-	314	314
Financial liabilities measured at amortised cost	1,876,789	433,773	502,768	318,574	77,585	147,406	3,356,895
Derivative financial instruments	6,028	398	301	735	2,047	-	9,509
Other liabilities	19,978	1,385	106	5,862	1,526	9,157	38,014
Total liabilities	**1,902,795**	**435,556**	**503,175**	**325,171**	**81,158**	**156,877**	**3,404,732**
Equity	-	-	-	-	-	79,071	79,071
Total liabilities and equity	**1,902,795**	**435,556**	**503,175**	**325,171**	**81,158**	**235,948**	**3,483,803**
Net balance sheet position – long/ (short)	(1,494,789)	(339,309)	(312,129)	251,710	942,713	951,804	-
Memorandum items							
Contingent liabilities	57,843	-	-	-	-	-	57,483
Financial commitments	179,632	-	-	-	-	-	179,632

Group's contractual cash flows of the financial liabilities as at 31 December 2008

The following table represents the analysis of the estimated contractual cash flows arising from Group's financial liabilities as at 31 December 2008:

	LVL 000's						
	Within 1 month	1-3 months	3-6 months	6-12 months	1-5 years	Over 5 years	Total contractual cash flows
Financial liabilities							
Financial liabilities designated at fair value through profit or loss	-	-	-	-	-	314	314
Financial liabilities measured at amortised cost	1,938,368	454,253	542,712	318,365	179,240	71,487	3,504,425
Derivatives - outgoing cash flows	51	1,686	1,907	3,599	10,081	-	17,324
Total	**1,938,419**	**455,939**	**544,619**	**321,964**	**189,321**	**71,801**	**3,522,063**
Derivative - incoming cash flows	-	-	5,937	231	11,227	-	17,395
Memorandum items							
Contingent liabilities	57,843	-	-	-	-	-	57,843
Financial commitments	179,632	-	-	-	-	-	179,632

As described in Note 24, FCMC has imposed certain drawdown restrictions on customer funds at the Bank. However, for the purposes of this analysis, it is assumed that no such restrictions exist.

Group's assets, liabilities and memorandum items by contractual maturity structure as at 31 December 2007

	Group as at 31/12/2007, LVL 000's						
	Within 1 month	1-3 months	3-6 months	6-12 months	1-5 years	Over 5 years and undated	Total
Assets							
Cash and deposits with central banks	257,280	-	-	-	-	-	257,280
Balances due from credit institutions	402,523	8,597	8,648	6,872	4,228	-	430,868
Securities held for trading	-	-	-	714	3,925	40,745	45,384
Financial assets designated at fair value through profit or loss	-	-	-	-	277	-	277
Available-for-sale securities	9,978	13,590	12,604	22,311	187,602	229,505	475,590
Loans and receivables to customers	36,400	37,446	54,499	172,396	832,832	873,069	2,006,642
Held-to-maturity securities	4,232	1,066	4,914	5,766	16,301	7,945	40,224
Derivatives financial instruments	8,148	1,508	497	866	105	392	11,516
Other assets	7,822	2,008	40	490	3,011	71,472	84,843
Total assets	**726,383**	**64,215**	**81,202**	**209,415**	**1,048,281**	**1,223,128**	**3,352,624**
Liabilities							
Financial liabilities designated at fair value through profit or loss	-	-	-	-	277	-	277
Financial liabilities measured at amortised cost	1,743,086	434,794	197,632	120,238	548,897	33,419	3,078,066
Derivative financial instruments	5,836	530	908	421	4,006	1,250	12,951
Other liabilities	26,422	1,877	727	625	1,617	4,116	35,384
Total liabilities	**1,775,344**	**437,201**	**199,267**	**121,284**	**554,797**	**38,785**	**3,126,678**
Equity	-	-	-	-	-	225,946	225,946
Total liabilities and equity	**1,775,344**	**437,201**	**199,267**	**121,284**	**554,797**	**264,731**	**3,352,624**
Net balance sheet position – long/ (short)	(1,048,961)	(372,986)	(118,065)	88,131	493,484	958,397	-
Memorandum items							
Contingent liabilities	31,720	-	-	-	-	-	31,720
Financial commitments	386,456	-	-	-	-	-	386,456

Group's contractual cash flows of the financial liabilities as at 31 December 2007

The following table represents the analysis of the estimated contractual cash flows arising from Group's financial liabilities as at 31 December 2007:

	LVL 000's						
	Within 1 month	1-3 months	3-6 months	6-12 months	1-5 years	Over 5 years	Total contractual cash flows
Financial liabilities							
Financial liabilities designated at fair value through profit or loss	-	-	-	-	277	-	277
Financial liabilities measured at amortised cost	1,777,195	436,926	207,515	137,423	572,056	214	3,131,329
Derivatives - outgoing cash flows	124	1,676	3,648	3,701	16,982	-	26,131
Total	**1,777,319**	**438,602**	**211,163**	**141,124**	**589,315**	**214**	**3,157,737**
Derivative - incoming cash flows	-	-	7,602	425	17,394	-	25,421
Memorandum items							
Contingent liabilities	31,720	-	-	-	-	-	31,720
Financial commitments	386,456	-	-	-	-	-	386,456

Bank's assets, liabilities and memorandum items by contractual maturity structure as at 31 December 2008

	Bank as at 31/12/2008, LVL 000's						
	Within 1 month	1-3 months	3-6 months	6-12 months	1-5 years	Over 5 years and undated	Total
Assets							
Cash and deposits with central banks	95,179	-	-	-	-	-	95,179
Balances due from credit institutions	449,686	21,468	24,872	1,005	1,654	-	498,685
Securities held for trading	-	-	67	-	1,930	4,404	6,401
Available-for-sale securities	-	5,373	7,214	6,089	80,215	54,831	153,722
Loans and receivables to customers	110,021	49,084	114,630	135,019	600,119	735,998	1,744,871
Held-to-maturity securities	1,846	4,191	42,754	425,730	185,176	138,292	797,989
Derivatives financial instruments	10,644	936	335	420	6,808	9	19,152
Other assets	4,250	-	-	-	-	97,790	102,040
Total assets	**671,626**	**81,052**	**189,872**	**568,263**	**875,902**	**1,031,324**	**3,418,039**
Liabilities							
Financial liabilities measured at amortised cost	1,879,399	420,098	491,140	292,335	74,626	147,400	3,304,998
Derivative financial instruments	6,189	398	301	735	2,047	-	9,670
Other liabilities	16,237	-	-	3,956	-	5,690	25,883
Total liabilities	**1,901,825**	**420,496**	**491,441**	**297,026**	**76,673**	**153,090**	**3,340,551**
Equity	-	-	-	-	-	77,488	77,488
Total liabilities and equity	**1,901,825**	**420,496**	**491,441**	**297,026**	**76,673**	**230,578**	**3,418,039**
Net balance sheet position – long/ (short)	(1,230,199)	(339,444)	(301,569)	271,237	799,229	800,746	-
Memorandum items							
Contingent liabilities	52,739	-	-	-	-	-	52,739
Financial commitments	269,518	-	-	-	-	-	269,518

Banks's contractual cash flows of the financial liabilities as at 31 December 2008

	LVL 000's						
	Within 1 month	1-3 months	3-6 months	6-12 months	1-5 years	Over 5 years	Total contractual cash flows
Financial liabilities							
Financial liabilities measured at amortised cost	1,919,754	428,938	532,304	307,232	176,601	71,487	3,436,316
Derivatives - outgoing cash flows	51	1,686	1,907	3,599	10,081	-	17,324
Total	**1,919,805**	**430,624**	**534,211**	**310,831**	**186,682**	**71,487**	**3,453,640**
Derivative - incoming cash flows	-	-	5,937	231	11,227	-	17,395
Memorandum items							
Contingent liabilities	52,739	-	-	-	-	-	52,739
Financial commitments	269,518	-	-	-	-	-	269,518

As described in Note 24, FCMC has imposed certain drawdown restrictions on customer funds at the Bank. However, for the purposes of this analysis, it is assumed that no such restrictions exist.

Bank's assets, liabilities and memorandum items by contractual maturity structure as at 31 December 2007

	Bank as at 31/12/2007, LVL 000's						
	Within 1 month	1-3 months	3-6 months	6-12 months	1-5 years	Over 5 years and undated	Total
Assets							
Cash and deposits with central banks	236,062	-	-	-	-	-	236,062
Balances due from credit institutions	395,014	46,459	50,570	27,455	3,135	-	522,633
Securities held for trading	-	-	-	714	3,306	38,769	42,789
Available-for-sale securities	2,590	6,956	11,886	13,104	179,040	224,656	438,232
Loans and receivables to customers	30,602	23,953	37,134	130,135	735,783	780,723	1,738,330
Held-to-maturity securities	4,232	2,139	6,590	14,803	38,303	7,831	73,898
Derivatives financial instruments	8,381	1,544	497	866	105	392	11,785
Other assets	4,692	-	-	-	-	87,879	92,571
Total assets	**681,573**	**81,051**	**106,677**	**187,077**	**959,672**	**1,140,250**	**3,156,300**
Liabilities							
Financial liabilities measured at amortised cost	1,623,755	411,837	180,748	106,149	544,398	33,606	2,900,493
Derivative financial instruments	6,048	589	917	478	4,006	1,250	13,288
Other liabilities	23,831	-	-	-	-	1,541	25,372
Total liabilities	**1,653,634**	**412,426**	**181,665**	**106,627**	**548,404**	**36,397**	**2,939,153**
Equity	-	-	-	-	-	217,147	217,147
Total liabilities and equity	**1,653,634**	**412,426**	**181,665**	**106,627**	**548,404**	**253,544**	**3,156,300**
Net balance sheet position – long/ (short)	(972,061)	(331,375)	(74,988)	80,450	411,268	886,706	-
Memorandum items							
Contingent liabilities	26,035	-	-	-	-	-	26,035
Financial commitments	355,721	-	-	-	-	-	355,721

Bank's contractual cash flows of the financial liabilities as at 31 December 2007

	LVL 000's						
	Within 1 month	1-3 months	3-6 months	6-12 months	1-5 years	Over 5 years	Total contractual cash flows
Financial liabilities							
Financial liabilities measured at amortised cost	1,632,815	413,662	190,590	122,880	569,999	195	2,930,141
Derivatives - outgoing cash flows	124	1,676	3,648	3,701	16,982	-	26,131
Total	**1,632,939**	**415,338**	**194,238**	**126,581**	**586,981**	**195**	**2,956,272**
Derivative - incoming cash flows	-	-	7,602	425	17,394	-	25,421
Memorandum items							
Contingent liabilities	26,035	-	-	-	-	-	26,035
Financial commitments	355,721	-	-	-	-	-	355,721

g) Operational risk

The Group defines operational risk as the risk of losses resulting from processes that are deficient or non-compliant with requirements of external and internal regulations, losses resulting from actions of employees and system malfunctioning, as well as losses resulting from actions of third parties or from other external conditions, including legal risk (risk of penalty fees, sanctions applied by external institutions, losses resulting from litigation and other similar events), but excluding strategic risk and reputation risk.

The Group further divides operational risk into the following categories: personnel risk, process risk, IT and systems risk, external risk.

The Group does not accept operational risks with potential impact exceeding 10% of the Group's net annual revenues, as well as unmanageable risks or risks with unquantifiable impact, irrespective of the financial gains this could bring (i.e., the Group does not perform business activities incurring such operational risks).

The Group applies following approaches for operational risk management:

- Self-assessment of operational risk – the business-owners of the products and processes perform identification and evaluation of potential operational risk events, assessment of the existing control systems and the analysis of the required risk mitigation measures using self-assessment questionnaires and brainstorming sessions with the experts of the respective process;
- Defining operational risk indicators – use of statistical, financial and other indicators that reflect the level of various operational risk types and its changes within the Group;
- Defining the limits of the acceptable losses;
- Operational risk measurement by recording and analysing operational risk events, the extent of the respective damage incurred, causes and other related information (data base of operational risk losses and incidents);
- "Four-eye-principle" and segregation of duties;
- Business continuity planning;
- Risk assessment within product development;
- Insurance;
- Investments in appropriate data processing and information protection technologies.

h) Capital management

Capital adequacy refers to the sufficiency of the Group's capital resources to cover the credit risks and market risks arising from the portfolio of assets and the off-balance sheet exposures. The Financial and Capital Markets Commission's (FCMC), the bank regulator, regulations require Latvian banks to maintain a capital adequacy ratio based on financial statements prepared under IFRS as adopted by EU of 8% of risk weighted assets.

Since the Bank has subsidiaries, which are financial institutions, it should comply with the regulatory requirements based on both the Group's financial statements and the Bank's financial statements as a stand-alone entity.

The Capital Requirements Directive (CRD), which implements Basel II capital regulations in the EU, came into full force on 1 January 2008. In Latvia the directive was implemented through FCMC regulations. Among the options provided in the regulations, the Bank and Group has chosen to use standardized approach in credit risk calculations and basic indicators approach in calculating operation risk charge.

The eligible capital for the capital adequacy purposes constitutes the capital that the Bank manages. The eligible capital comprises of Tier 1 and Tier 2 items, reduced by specific capital charges in accordance with the regulatory requirements. Due to significant adverse events in global capital markets after Lehman Brothers filed for bankruptcy and related repercussions in countries the Group is represented in either through loan exposures, or the securities book, the Group and the Bank suffered significant impairment losses. As a result, as at 31 December 2008, Group's capital base has deteriorated to the level, where the minimum capital adequacy ratio requirement is no longer met. The breach will be remedied, when the capital increase in amount of LVL 227 million as approved by the Government of Latvia will take place. For more details on capital increase, please refer to Note 36.

The capital adequacy calculation of Bank and Group as at 31 December 2008 in accordance with the new requirements (Basel II framework) can be disclosed as follows:

	LVL'000	
	Group	Bank
Description		
Tier 1		
- paid-in share capital	65,027	65,027
- share premium	12,694	12,694
- audited retained earnings (not subject to dividend distribution)	166,527	157,045
- audited loss for the year (not subject to dividend distribution)	(130,970)	(124,008)
Less		
- negative fair value revaluation reserve	(34,207)	(33,270)
- intangible assets	(4,048)	(782)
- additional equity charge in accordance with FCMC requirements (50% from total)	(4,983)	(4,983)
- revaluation gain recognized in relation to own credit risk	(766)	(766)
- Investments in subsidiaries – insurance company (50% from total)*	(1,400)	-
Total Tier 1	**67,874**	**70,957**
Tier 2		
- subordinated debt – qualifying amount	52,957	52,960
- subordinated debt – unutilised portion due to restrictions	(15,829)	(14,607)
- additional equity charge in accordance with FCMC requirements (50% from total)	(4,983)	(4,983)
- investments in subsidiaries – insurance company (50% from total)*	(1,400)	-
Total Tier 2	**30,745**	**33,370**
Equity to be utilised in the capital adequacy ratio	**98,619**	**104,327**

	Risk charges	
Credit risk and counterparty risk capital charge by regulatory asset classes:		
Central governments and banks	882	812
Municipalities	2,759	2,785
Government institutions	36	36
Credit institutions	19,649	20,166
Companies	107,075	106,312
Assets falling under "retail" definition	11,513	7,736
Qualifying residential mortgage loans	17,362	13,655
Assets falling under "past due" definition	8,768	6,416
Covered bonds	80	80
Investment funds	914	909
Other assets	33,250	23,428
Other risk capital charges:		
Foreign currency open positions subject to capital charge	14,399	4,930
Fixed income securities position risk capital charge	2,609	2,578
Equity instruments' position risk capital charge	550	550
Operational risk capital charge	19,956	16,068
Total capital charges	**239,802**	**206,461**
Capital Adequacy Ratio (Equity/Total capital charges) x 8% **	**3.3%**	**4.0%**

* AAS "Parex dzīvība" is not included in consolidation group for capital adequacy purposes, instead the investment value directly reduces the equity eligible for the capital adequacy ratio calculation purposes.

** After the reporting period, the capital base will be restored with the new share issue and additional subordinated loan provided by the shareholders. Please refer to Note 36 for more details on capital increase.

The capital adequacy calculation of Bank and Group as at 31 December 2007 in accordance with the FCMC regulations in force until 1 January 2008 can be disclosed as follows:

	LVL'000	
	Group	Bank
Description		
Tier 1		
- paid-in share capital	65,027	65,027
- share premium	12,694	12,694
- audited retained earnings (not subject to dividend distribution)	125,107	116,899
- audited profit for the year (not subject to dividend distribution)	41,420	40,146
Less		
- negative fair value revaluation reserve	(18,302)	(17,619)
- intangible assets (as defined by FCMC)	(5,014)	(990)
Total Tier 1	**220,932**	**216,157**
Tier 2		
- Subordinated debt	28,113	28,113
Total Tier 2	**28,113**	**28,113**
Equity charges		
- Investments in subsidiaries – insurance company	(2,500)	-
Equity to be utilised in the capital adequacy ratio as per FCMC	**246,545**	**244,270**
Assets before risk-weight	2,371,624	2,090,571
Off-balance sheet items before risk-weight	116,228	107,780
Total balances before risk-weight	**2,487,852**	**2,198,351**

		Risk weighted balance LVL 000's	
Capital adequacy under the FCMC's requirements	Risk weighting	31/12/2007 Group	31/12/2007 Bank
Total credit risk capital charge	8%	196,649	175,868
Foreign currency open positions subject to capital charge		2,161	1,864
Fixed income securities position risk capital charge		3,135	1,691
Equity position risk capital charge		1,653	1,610
Derivatives counterparty risk capital charges		1,524	1,531
Total capital charges		**205,122**	**182,564**
Equity to be utilised in the capital adequacy ratio		**246,545**	**244,270**
Capital Adequacy Ratio (Equity/Total capital charges) x 8%		**9.6%**	**10.7%**

NOTE 36. EVENTS AFTER THE BALANCE SHEET DATE

Restructuring and partial repayment of the syndicated loans

On 19 March 2009, the Bank successfully concluded negotiations with syndicated lenders on the restructuring of EUR 275 million and EUR 500 million loan facilities. On the same date, 30% of the total outstanding combined amount or EUR 232.5 million was repaid to the lenders. The financing was provided by the State Treasury. The effect of restructuring as a result of the extinguished debt in accordance with IAS 39 amounts to approximately 0.2% of the syndicated loans amount. The main terms and conditions of the renegotiated loan agreement are as follows:

- 40% of the total facility or EUR 310 million is payable on 15 February 2010. The interest rate margin applicable until this date is 300 basis points over EURIBOR applicable to the interest rate period as selected by the Bank;
- 30% of the total facility or EUR 232.5 million is payable on 5 May 2011. The interest rate margin applicable until this date is 350 basis points over EURIBOR applicable to the interest rate period as selected by the Bank;
- The repayment of the loan is guaranteed by the State guarantee;
- The Bank has to maintain a minimum capital adequacy ratio of 8%; and
- The State is allowed to continue secured financing of the Bank as deemed necessary.

Capital increase

On 24 March 2009, the Cabinet of Ministers resolved to provide financing in the amount of LVL 227 million to renew the capital base of the Bank. The amount will be provided in form of share capital increase by LVL 165 million and subordinated loan amounting to LVL 62 million. As at the date of signing the financial statements, the European Commission has approved the share capital increase of LVL 140,750 thousand and an additional subordinated loan amounting LVL 50,270 thousand. On 22 May 2009, *Privatisation Agency* paid up the respective capital increase and issued subordinated loan. The subordinated loan will mature in 7 years and bears 15.16% interest rate per annum. The rest of the planned increase is planned to be undertaken as part of the Bank's restructuring phase measures, subject to additional approval from European Commission. Once the capital increase will be registered, the Bank will be partially compliant with requirements in respect to currency open position limits and fully compliant with the capital adequacy and large exposure requirements.

Financing from State Treasury

As at 31 December 2008, the contractual maturities of most of the State Treasury's deposits with the Bank were for January 2009. Nevertheless, the State Treasury has continued to support the Bank's liquidity position by rolling over the maturing financing facilities. As at 24 May 2009, the special financing received from the State Treasury is as follows:

Agreement currency	Interest rate (%)	Agreement date	Maturity date	Outstanding amount LVL 000's
EUR	3.601	09.04.2009	09.07.2009	14,056
EUR	3.563	17.04.2009	17.07.2009	21,084
EUR	3.563	17.04.2009	17.07.2009	30,492
EUR	3.532	22.05.2009	30.07.2009	1,508
LVL	11.694	22.05.2009	06.08.2009	9,250
EUR	3.563	17.04.2009	17.07.2009	163,402
EUR	3.553	23.04.2009	23.07.2009	201,757
EUR	5.867	08.12.2008	06.11.2009	204,748
Total Treasury deposits				**646,297**

Change in shareholding structure

On 15 December 2008, the Latvian Govermnent made the decision to increase the state participation in *Parex banka* through obtaining 200,000 shares from *Svenska Handelsbanken AB*. On 22 January 2009, the share purchase agreement was signed between *Svenska Handelsbanken AB* and *Mortgage and Land Bank of Latvia*, increasing the State's shareholding in *Parex banka* to 85.14%.

On 24 February 2009, the Latvian Government decided to transfer 85.14% of *Parex banka's* shares owned by the *Mortgage and Land Bank of Latvia* to the State Joint-Stock Company "Privatizācijas aģentūra" (*Privatisation Agency*).The transfer of shares did not affect the financial position of the Bank or Group and was completed solely to optimise the management of the State's investment. Furthermore, on 3 March 2009, *Nomura International plc* was appointed as the strategic advisor of the State's shareholding in the Bank. Currently, the Bank has commenced collaboration with the advisor's representatives. However no specific decisions have been taken as yet, except as described further.

On 16 April 2009, *European Bank for Reconstruction and Development* (EBRD) concluded a share purchase agreement with *Privatisation Agency*, whereby 57.5 million of the Bank's shares with voting rights were agreed to be sold to EBRD whereby EBRD would acquire 25% of the share capital of *Parex banka* plus one share.

Ernst & Young Baltic SIA
Muitas iela 1
LV-1010 Rīga
Latvija
Tālr.: 6704 3801
Fakss: 6704 3802
Riga@lv.ey.com
www.ey.com/lv
Vienotais reģistrācijas Nr. 40003593454
PVN maksātāja Nr. LV40003593454

Ernst & Young Baltic SIA
Muitas St. 1
LV-1010 Riga
Latvia
Phone: +371 6704 3801
Fax: +371 6704 3802
Riga@lv.ey.com
www.ey.com/lv
Code of legal entity 40003593454
VAT payer code LV40003593454

INDEPENDENT AUDITORS' REPORT

To the shareholders of AS Parex banka

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of AS Parex banka and its subsidiaries (hereinafter – the Group) and the accompanying financial statements of AS Parex banka (hereinafter – the Bank) for the year ended 31 December 2008 (jointly "financial statements"), set out on pages 9 through 79 which comprise the balance sheet as at 31 December 2008, the statements of income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

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

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

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

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

Opinion
In our opinion, the financial statements referred to above give a true and fair view of the financial position of the Group and the Bank as at 31 December 2008, and of the results of their operations and their cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Emphasis of matter
Without qualifying our opinion, we draw attention to Note 1 in the financial statements which discloses the Group's and the Bank's assumptions about their ability to continue as a going concern. The going concern assumption is dependent on the continuity of State support. This condition indicate the existence of a material uncertainty which may cast significant doubt about the Group's and Bank's ability to continue as a going concern without the State support.

Report on Compliance of the Management Report
Furthermore, we have read the Management Report for the year ended 31 December 2008 (included on pages 3 through 6 of the accompanying 2008 annual report) and have not noted any material inconsistencies between the financial information included in it and the financial statements for the year ended 31 December 2008.

SIA Ernst & Young Baltic
Licence No. 17

Diāna Krišjāne
Chairperson of the board
Latvian Sworn Auditor
Certificate No. 124
Riga, 25 May 2009