

AS “PRIVATBANK”

**Non audited consolidated Annual Report
for the year ended 31 December 2008**

**AS “PrivatBank”
NON AUDITED CONSOLIDATED ANNUAL REPORT FOR THE YEAR ENDED 31 DECEMBER
2008**

CONTENTS

	Page
REPORT OF THE COUNCIL AND THE MANAGEMENT BOARD	2
THE SUPERVISORY COUNCIL AND BOARD OF THE BANK	3
STATEMENT OF THE MANAGEMENT’S RESPONSIBILITIES	4
FINANCIAL STATEMENTS:	
INCOME STATEMENT	5
BALANCE SHEET	6-7
STATEMENT OF CASH FLOWS	8-9
STATEMENT OF CHANGES IN EQUITY	10
NOTES TO THE FINANCIAL STATEMENTS	11-24

REPORT OF THE COUNCIL AND THE MANAGEMENT BOARD

Dear shareholders, customers and partners!

The passed year 2008 turned out to be a true challenge for the world banking system. However, it has not affected the positions of AS "PrivatBank" because the bank had foreseen such market trend and had taken action well in advance.

In the previous year, the volume of loans issued by the bank reached LVL 115 mln., which is by LVL 22 mln. more than in 2007. The deposit portfolio of AS "PrivatBank" amounted to LVL 138 mln. as of the results of 2008. At the end of the reporting period, the assets of the bank exceeded LVL 182 mln., which is by almost 35% more than in the year before.

In 2008, AS "PrivatBank" continued its active work on development and optimisation of its branch network in Latvia. During the reporting period, branches „Agenskalns” and „Imanta” and a mini-bank in Rumbula were launched.

During the passed year, experts of AS "PrivatBank" developed and introduced in the market new products and services for both individuals and legal entities. To individual customers the bank offered credit cards VISA Gold and the card “Universal”. The list of deposit programmes was enriched thanks to adding the programme “Eurodeposit”. In 2008, the bank launched asset trust management for its customers. On the other hand, corporate customers of AS "PrivatBank" were offered an expanded Microcrediting programme that allows quickly receiving a loan against collateral for business development, and the “Lucrative” account that allows maximising efficiency of a company’s incoming cash flows.

The branch of AS "PrivatBank" in Portugal introduced new services, too. One of them – microcrediting for small and medium enterprises. The mortgage crediting was further extended to cover real estate both in Ukraine and in Portugal.

To facilitate business relations between the bank and its customers the First International Conference for Customers and Partners of „PrivatBank” Banking Holding took place in 2008. Major businessmen from the entire CIS and Western Europe economic area participated in the event.

In 2009, AS "PrivatBank" estimates to put a major emphasis on developing a branch network in Europe and on improving the bank’s positions in the conquered markets. Priority trends in activities of AS "PrivatBank" this year – crediting for small and medium businesses, development of deposit programmes for individuals and legal entities.

Management of AS "PrivatBank" express their gratitude to shareholders, customers and partners for their cooperation and loyalty and trust in the Bank.

Chairman of the Board
Oleksandr Trubakov

27 February 2009

MEMBERS OF THE COUNCIL AND BOARD

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

Council

<i>Name</i>	<i>Position</i>	<i>Date of appointment</i>
Jurijs Pikušs	Chairman of the Council	02.04.2008
Viktor Samarin	Deputy Chairman of the Council	02.04.2008
Oleksandrs Vitjajs	Council member	02.04.2008
Yuriy Kandaurov	Council member	02.04.2008

Board

<i>Name</i>	<i>Position</i>	<i>Date of appointment</i>
Oleksandr Trubakov	Chairman of the Board	27.07.2007
Oleksandr Mekekechko	Board member	27.07.2007
Vladislavs Beļskis	Board member	27.07.2007
Rolands Pētersons	Board member	27.07.2007
Mykolay Koev	Board member	27.07.2007

On behalf of the Bank's management,

Chairman of the Board
Oleksandr Trubakov

27 February 2009

STATEMENT OF INCOME

STATEMENT OF THE MANAGEMENT'S RESPONSIBILITIES

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

The consolidated financial statements on pages 5 to 10 are prepared in accordance with the source documents and present fairly the financial position of the Group as at 31 December 2008 and the results of its operations and cash flows for the year ended 31 December 2008.

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

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

On behalf of the Bank's management,

Chairman of the Board
Oleksandr Trubakov

27 February 2009

AS "PrivatBank"
NON AUDITED CONSOLIDATED ANNUAL REPORT FOR THE YEAR ENDED 31 DECEMBER
2008

INCOME STATEMENT

(all amounts are disclosed in thousands of lats)

	Note	2008		2007	
		LVL	EUR	LVL	EUR
Interest income	3	11 325	16 114	7 602	10 817
Interest expense	4	(6 072)	(8 640)	(3 170)	(4 511)
NET INTEREST INCOME		5 253	7 474	4 432	6 306
Commission and fee income	5	2 979	4 239	2 625	3 735
Commission and fee expense	6	(627)	(892)	(683)	(972)
NET COMMISSION AND FEE INCOME		2 352	3 347	1 942	2 763
Net income from financial instruments carried at fair value	7	2	3	(23)	(33)
Net foreign exchange gains	8	2 311	3 288	1 270	1 807
Other operating income	9	592	842	752	1 070
TOTAL OPERATING INCOME		10 510	14 954	8 373	11 913
Administrative expenses	10	(7 331)	(10 431)	(5 661)	(8 055)
Amortization and depreciation		(692)	(985)	(607)	(864)
Other expenses		(262)	(373)	(367)	(522)
Impairment:	11	(1 820)	(2 589)	(383)	(545)
<i>Allowance for impairment losses</i>		<i>(2358)</i>	<i>(3 355)</i>	<i>(877)</i>	<i>(1 248)</i>
<i>Reversal of prior impairment loss allowance</i>		<i>538</i>	<i>766</i>	<i>494</i>	<i>703</i>
PROFIT BEFORE INCOME TAX		405	576	1 355	1 927
Income tax expense		(61)	(87)	(203)	(289)
PROFIT FOR THE PERIOD		344	489	1 152	1 638

The accompanying notes on pages 11 to 24 form an integral part of these financial statements.

The Board of the Bank approve for issue these financial statements as presented from page 5 to 24 on 27 February 2008, and the financial statements are signed on behalf of the Board of the Bank by:

Chairman of the Board
Oleksandr Trubakov

AS "PrivatBank"
NON AUDITED CONSOLIDATED ANNUAL REPORT FOR THE YEAR ENDED 31 DECEMBER
2008

BALANCE SHEET

(all amounts are disclosed in thousands of lats)

	Note	2008		2007	
		LVL	EUR	LVL	EUR
ASSETS					
Cash and balances with the Bank of Latvia	12	9 537	13 570	12 957	18 436
Demand deposits with credit institutions	13	51 064	72 658	23 593	33 570
Financial assets held for trading					
<i>Derivative financial instruments</i>	15	466	663	472	672
Loans and receivables					
<i>Loans</i>	14	115 457	164 281	93 314	132 744
Available for sale financial assets					
<i>Investments in non-fixed income securities</i>	16	50	71	50	71
Investment in subsidiaries	17	-	-	-	-
Intangible assets		126	179	109	155
Property, plant and equipment		1 616	2 299	1 930	2 746
Deferred expense and accrued income	18	1 389	1 976	1 666	2 370
Other assets	19	2 278	3 241	1 115	1 587
Deferred tax asset		33	47	-	-
Total assets		182 016	258 985	135 206	192 381

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Chairman of the Board
Oleksandr Trubakov

AS "PrivatBank"
 NON AUDITED CONSOLIDATED ANNUAL REPORT FOR THE YEAR ENDED 31 DECEMBER
 2008

BALANCE SHEET

(all amounts are disclosed in thousands of lats)

	Note	2008		2007	
		LVL	EUR	LVL	EUR
LIABILITIES					
Due on demand to credit institutions	20	11 417	16 245	13 048	18 566
Financial liabilities held for trading					
<i>Derivative financial instruments</i>	15	940	1 337	-	-
Financial liabilities carried at amortized cost					
		138 148	196 567	89 166	126
<i>Customers' deposits</i>	21				872
<i>Mortgage bonds</i>	22	14 752	20 990	14 757	20 997
Deferred income and accrued expenses	23	354	504	814	1 158
Provisions	24	375	534	321	457
Deferred tax liabilities		58	83	78	111
Other liabilities	25	585	832	1 963	2 793
Total liabilities		166 629	237 092	120 147	170 954
EQUITY					
Paid-up share capital	26	10 650	15 154	10 650	15 154
Reserve capital and other reserves		3 749	5 334	3 719	5 292
Retained earnings / accumulated loss		988	1 406	690	981
Total equity		15 387	21 894	15 059	21 427
Total liabilities and equity		182 016	258 985	135 206	192 381
OFF-BALANCE-SHEET ITEMS					
Contingent liabilities		772	1 098	553	787
<i>Guarantees</i>					
Commitments to customers:		2 515	3 579	1 438	2 046
<i>Other commitments</i>					

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Chairman of the Board
 Oleksandr Trubakov

STATEMENT OF CASH FLOWS

(all amounts are disclosed in thousands of lats)

	Note	2008		2007	
		LVL	EUR	LVL	EUR
Cash inflow from operating activities					
Profit before income tax		405	576	1 355	1 928
Depreciation and amortization		692	985	607	864
Increase in the allowance for impairment		1 820	2 590	383	545
Foreign exchange gain/loss		130	185	55	78
Revaluation of financial instruments		(2)	(3)	-	-
Profit from sale of property		(2)	(3)	-	-
Increase in cash and cash equivalents from operating activities before changes in assets and liabilities		3 043	4 330	2 400	3 415
Increase in loans and receivables		(22 282)	(31 704)	(35 369)	(50 326)
Decrease in balances due from banks		(24 155)	(34 369)	10 634	15 131
Increase in available for sale financial assets		-	-	(6)	(9)
(Increase)/ decrease in financial assets held for trading		884	1 258	(411)	(585)
Decrease in financial instruments designated at fair value through profit or loss		-	-	101	144
Increase in deferred expenses and accrued income		277	394	(1 005)	(1 430)
(Increase)/ decrease in other assets		(1 345)	(1 914)	256	364
Increase/ (decrease) in balances due to banks		3 615	5 144	3 504	4 986
Increase in customer deposits		47 823	68 047	15 711	22 355
Increase/ (decrease) in other liabilities and provisions		(1 498)	(2 133)	(315)	(448)
Increase/ (decrease) in deferred income and accrued expenses		(381)	(542)	550	783
Decrease in cash and cash equivalents from operating activities before tax		5 981	8 511	(3 950)	(5 620)
Corporate income tax paid		(182)	(259)	(204)	(290)
Decrease in cash and cash equivalents from operating activities		5 799	8 252	(4 154)	(5 910)
Cash flow from investing activities					
Acquisition of property, plant and equipment and intangible assets		(655)	(932)	(567)	(807)
Sale of equity investments in subsidiaries		4	6		
Proceeds from sale of property, plant and equipment		124	176	64	91
Decrease in cash and cash equivalents from investing activities		(527)	(750)	(503)	(716)
Proceeds from issue of debt securities		-	-	6 382	9 081
Share issue		-	-	7 100	10 102
Increase in cash and cash equivalents from financing activities		-	-	13 482	19 183

AS "PrivatBank"
NON AUDITED CONSOLIDATED ANNUAL REPORT FOR THE YEAR ENDED 31 DECEMBER
2008

NOTES TO THE FINANCIAL STATEMENTS

	Note	2008		2007	
Increase/ (decrease) in cash and cash equivalents		5 272	7 502	8 825	12 557
Cash and cash equivalents at the beginning of the year		23 834	33 912	15 064	21 434
Loss from revaluation of foreign exchange		<u>(130)</u>	<u>(185)</u>	<u>(55)</u>	<u>(79)</u>
Cash and cash equivalents at the end of the year	27	<u>28 976</u>	<u>41 229</u>	<u>23 834</u>	<u>33 912</u>

The accompanying notes on pages 11 to 24 form an integral part of these financial statements.

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Chairman of the Board
Oleksandr Trubakov

AS "PrivatBank"
NON AUDITED CONSOLIDATED ANNUAL REPORT FOR THE YEAR ENDED 31 DECEMBER
2008

STATEMENT OF CHANGES IN EQUITY

(all amounts are disclosed in thousands of lats)

LVL

	Paid-up share capital	Reserve capital	Retained earnings/ accumulated loss	Total
Balance at 31.12.2006	3 550	3 694	(437)	6 807
Increase in share capital	7 100	-	-	7 100
Reserves	-	25	(25)	-
Profit of 2007	-	-	1 152	1 152
Balance at 31.12.2007	10 650	3 719	690	15 059
Reserves	-	30	(30)	-
Sale of equity investments in subsidiaries	-	-	(16)	-
Profit for the year	-	-	344	344
Balance at 31.12.2008	10 650	3 749	988	15 387

EUR

	Paid-up share capital	Reserve capital	Retained earnings/ accumulated loss	Total
Balance at 31.12.2006	5 051	5 256	(622)	9 685
Increase in share capital	10 102	-	-	10 102
Reserves	-	36	(36)	-
Profit of 2007	-	-	1 639	1 639
Balance at 31.12.2007	15 154	5 292	982	21 427
Reserves	-	42	(42)	-
Sale of equity investments in subsidiaries	-	-	(23)	(23)
Profit for the year	-	-	489	489
Balance at 31.12.2008	15 154	5 334	1 406	21 894

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Oleksandr Trubakov

NOTES TO THE FINANCIAL STATEMENTS

1 GENERAL INFORMATION

AS PrivatBank ("the Bank") was established on 13 August 1992, when it was incorporated in the Republic of Latvia as a joint stock company. Subject to the banking licence issued by the Bank of Latvia on 31 July 1992 (reissued on 17 September 1998), the Bank engages in all types of banking activities foreseen by the Credit Institutions Law.

As at the date of the financial statements, the Bank's network of branches consists of 12 branches and 15 cash offices. The Bank provides a wide range of services to its customers via subsidiaries.

In June 2004 the Bank established SIA "PrivatLizings" which is primarily engaged in finance and operating lease activities.

In March 2005 the Bank acquired 100% shares of SIA "PrivatConsulting".

On 4 December 2008 Bank sold 100% shares of SIA "DigiPro".

The Bank and subsidiaries (together "the Group") are presented together in these consolidated financial statements.

Legislation regulating Bank's operations

Bank's operations are governed by the laws of the Republic of Latvia "On Credit Institutions", "Commercial Law", and regulations issued by the Financial and Capital Market Commission. These regulations refer to capital adequacy, minimum equity, liquidity, foreign exchange positions, credit concentration and other applicable requirements.

2 ACCOUNTING AND ASSESSMENT PRINCIPLES

(1) Statement of compliance

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

(2) Basis of preparation

The accounting system of the Bank is organized in accordance with the legislation of the Republic of Latvia, including requirements applicable to credit institutions operating in Latvia. The financial year of the Bank coincides with the calendar year.

The financial statements have been prepared under the historical cost convention or based on a fair value in accordance with International Financial Reporting Standards, as adopted by the European Union. Assets and liabilities at fair value include derivative financial instruments, financial assets and liabilities designated at fair value through profit and loss, as well as available for sale assets except for those whose fair value cannot be reliably estimated. Other financial assets and liabilities and non-financial assets and liabilities are carried at amortized cost or initial cost.

NOTES TO THE FINANCIAL STATEMENTS

The accounting principles used in the preparation of the 2008 financial statements are consistent with those used in 2007.

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

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

Judgments made by management in the application of IFRSs that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year relate to loan loss impairment allowances.

(3) Consolidation

A subsidiary is a company being under the control of the Bank. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Subsidiaries' financial statements are included in consolidation as at the date when a significant influence is obtained until the date it ceases.

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

(4) Foreign currency revaluation

The monetary unit used in the financial statements and Bank's accounting system is the lat (LVL), the monetary unit of the Republic of Latvia and the Group and Bank's functional currency. Foreign exchange transactions are translated into lats (LVL) at the exchange rate set by the Bank of Latvia on the date of the respective transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated into Latvian lats according to the official Bank of Latvia exchange rates prevailing at the end of the period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value or cost are translated at the exchange rate at the date that the fair value or cost was determined. Profit or loss relating to fluctuations in the exchange rate on monetary assets and liabilities denominated in a foreign currency are recognized in the income statement in the period in which the fluctuation occurs.

The exchange rates for the most significant currencies used at the year end are as follows:

31 December 2008		31 December 2007	
1 USD	=	LVL 0.4950	1 USD = LVL 0.4840
1 EUR	=	LVL 0.7028	1 EUR = LVL 0.7028
1 GBP	=	LVL 0.7280	1 GBP = LVL 0.9630
1 SEK	=	LVL 0.0635	1 SEK = LVL 0.0744
1 DKK	=	LVL 0.0943	1 DKK = LVL 0.0942

NOTES TO THE FINANCIAL STATEMENTS

3 INTEREST INCOME

	2008		2007	
	LVL '000	EUR '000	LVL '000	EUR '000
Interest income from loans and receivables:				
<i>Balances due from credit institutions</i>	1 152	1 639	1 074	1 528
<i>Loans</i>	9 745	13 866	6 170	8 779
<i>Other interest income</i>	428	609	356	507
Interest income from financial instruments at fair value through profit or loss				
<i>Investments in securities</i>	-	-	2	3
	<u>11 325</u>	<u>16 114</u>	<u>7 602</u>	<u>10 817</u>

4 INTEREST EXPENSE

	2008		2007	
	LVL '000	EUR '000	LVL '000	EUR '000
Interest expenses on financial liabilities at amortized cost				
<i>Customers' deposits</i>	4 427	6 299	1 773	2 523
<i>Due to credit institutions and the Bank of Latvia</i>	496	706	524	746
<i>Issued debt securities</i>	936	1 332	698	993
<i>Other interest expenses</i>	213	303	175	249
	<u>6 072</u>	<u>8 640</u>	<u>3 170</u>	<u>4 511</u>

5 COMMISSION AND FEE INCOME

	2008		2007	
	LVL '000	EUR '000	LVL '000	EUR '000
Current account servicing	2 265	3 223	2 249	3 200
Asset management fees	22	31	9	13
Other commission income	692	985	367	522
	<u>2 979</u>	<u>4 239</u>	<u>2 625</u>	<u>3 735</u>

6 COMMISSION AND FEE EXPENSE

	2008		2007	
	LVL '000	EUR '000	LVL '000	EUR '000
Current account servicing	2 265	3 223	2 249	3 200
Commission fee for credit card servicing	22	31	9	13
Other commission expenses	692	985	367	522
	<u>2 979</u>	<u>4 239</u>	<u>2 625</u>	<u>3 735</u>

NOTES TO THE FINANCIAL STATEMENTS

7 NET INCOME FROM FINANCIAL INSTRUMENTS CARRIED AT FAIR VALUE

	2008		2007	
	LVL '000	EUR '000	LVL '000	EUR '000
Gain/ (loss) from securities carried at fair value through profit and loss	2	3	(23)	(33)
	<u>2</u>	<u>3</u>	<u>(23)</u>	<u>(33)</u>

8 NET FOREIGN EXCHANGE GAINS

	2008		2007	
	LVL '000	EUR '000	LVL '000	EUR '000
Profit from foreign exchange transactions	2 441	3 473	1 325	1 885
Loss from revaluation of foreign currency	(130)	(185)	(55)	(78)
	<u>2 311</u>	<u>3 288</u>	<u>1 270</u>	<u>1 807</u>

9 OTHER OPERATING INCOME

	2008		2007	
	LVL '000	EUR '000	LVL '000	EUR '000
Income from electronic services (SIA Digipro)	-	-	270	384
Income from seminars and conferences (SIA PrivatConsulting)	40	57	7	10
Lease of fixed assets (SIA PrivatLizings)	480	683	361	514
Other operating income	72	102	114	162
	<u>592</u>	<u>842</u>	<u>752</u>	<u>1 070</u>

10 ADMINISTRATIVE EXPENSES

	2008		2007	
	LVL '000	EUR '000	LVL '000	EUR '000
Salary of members of the Council and the Board	164	233	176	250
Remuneration to staff	3 622	5 154	2 600	3 699
Social taxes	889	1 265	650	925
Advertisement and marketing	477	679	465	662
Office maintenance and redecoration	900	1 280	688	979
Communications and post	401	571	330	470
Transportation and business trips	173	246	144	205
Professional services	157	223	97	138
Legal services	38	54	31	44
Staff training	30	43	41	58
Other operating expenses	480	683	439	625
	<u>7 331</u>	<u>10 431</u>	<u>5 661</u>	<u>8 055</u>

In 2008, the average number of Group staff was 403 (2007: 370).

NOTES TO THE FINANCIAL STATEMENTS

11 ALLOWANCE FOR IMPAIRMENT LOSSES

Loans

LVL '000	<u>LVL</u>	<u>EUR</u>
Allowance for impairment losses, as of 31 December 2006	541	770
Increase in the allowance for doubtful debts	877	1 248
Recovery of prior period allowances for doubtful debts	(494)	(703)
Write-off of the allowance for doubtful debts	<u>(34)</u>	<u>(48)</u>
Allowance for impairment losses, as of 31 December 2007	890	1 267
Increase in the allowance for doubtful debts	2 358	3 355
Recovery of prior period allowances for doubtful debts	(538)	(766)
Write-off of the allowance for doubtful debts	<u>(221)</u>	<u>(314)</u>
Allowance for impairment losses, as of 31 December 2008	2 489	3 542

12 CASH AND BALANCES ON DEMAND WITH THE BANK OF LATVIA

	2008		2007	
	LVL '000	EUR '000	LVL '000	EUR '000
Cash	1 304	1 855	1 283	1 825
Balances on demand with the Bank of Latvia	8 233	11 715	11 674	16 611
	<u>9 537</u>	<u>13 570</u>	<u>12 957</u>	<u>18 436</u>

Balances with the Bank of Latvia represent cash on the correspondent account used for clearing purposes and to comply with the requirement for obligatory reserves.

In accordance with regulations set by the Financial and Capital Market Commission, the Bank's cash and current account balance with the Central Bank of Latvia should not be less than the required reserves calculated on basis of the average monthly customer deposits. The Bank was in compliance with this requirement in 2008.

13 DEMAND DEPOSITS WITH CREDIT INSTITUTIONS

	2008		2007	
	LVL '000	EUR '000	LVL '000	EUR '000
Due to Latvian credit institutions	1 464	2 083	2 509	3 570
Due from credit institutions registered in OECD countries	49 045	69 785	19 619	27 915
Due to credit institutions registered in other countries	555	790	1 465	2 085
	<u>51 064</u>	<u>72 658</u>	<u>23 593</u>	<u>33 570</u>

Correspondent accounts include amounts due from Deutsche Bank (Bankers Trust) amounting to USD 170 thousand or LVL 84 thousand which are not included in the calculation of cash and cash equivalents due to such amounts being frozen at 31 December 2008 since 23 May 2003. The Bank's management does not consider the frozen accounts at risk since the frozen customer accounts in deposits exceed the blocked amount in the correspondent account with Deutsche Bank (Bankers Trust) of USD 189 thousand (or LVL 94 thousand).

Concentration of amounts due from credit institutions

As at 31 December 2008, the Bank had amounts due from two credit institutions (2007: 4) where each separate receivable exceeded 10% of deposits and balances in those banks and other credit institutions in total. The gross value of these balances due from credit institutions as at 31 December 2008 was LVL 40,711 thousand (2007: LVL 19,113 thousand).

NOTES TO THE FINANCIAL STATEMENTS

14 LOANS AND RECEIVABLES

Allocation of loans:

(a) by term of the loan:

	2008		2007	
	LVL '000	EUR '000	LVL '000	EUR '000
Until one year	13 013	18 516	3 161	4 498
More than one year	104 933	149 307	91 043	129 543
	117 946	167 823	94 204	134 041
Specific allowances	(2 489)	(3 542)	(890)	(1 267)
	115 457	164 281	93 314	132 774

(b) by type of borrower

	2008		2007	
	LVL '000	EUR '000	LVL '000	EUR '000
Private enterprises	41 376	58 873	35 386	50 350
Private individuals	76 570	108 950	58 818	83 691
	117 946	167 823	94 204	134 041
Specific allowances	(2 489)	(3 542)	(890)	(1 267)
	115 457	164 281	93 314	132 774

(c) by type

	2008		2007	
	LVL '000	EUR '000	LVL '000	EUR '000
Commercial loans	41 968	59 715	21 031	29 925
Consumer loans	11 010	15 666	6 012	8 554
Loans to staff	1 392	1 981	1 275	1 814
Mortgage loans	63 392	90 199	50 908	72 436
Other	184	262	14 978	21 312
	117 946	167 823	94 204	134 041
Specific allowances	(2 489)	(3 542)	(890)	(1 267)
	115 457	164 281	93 314	132 774

(d) by geographic segmentation of the loans:

	2008		2007	
	LVL '000	EUR '000	LVL '000	EUR '000
Residents of Latvia	115 907	164 921	93 140	132 527
Residents of OECD countries	962	1 369	341	485
Residents of other countries	1 077	1 533	723	1 029
	117 946	167 823	94 204	134 041
Specific allowances	(2 489)	(3 542)	(890)	(1 267)
	115 457	164 281	93 314	132 774

The average loan interest rates in 2008 and 2007 were 12.08% and 8.86% respectively.

NOTES TO THE FINANCIAL STATEMENTS

15 FINANCIAL ASSETS AND LIABILITIES HELD FOR TRADING

Derivative financial instruments

LVL '000	Fair value			
	Assets		Liabilities	
	31.12.2007	31.12.2006	31.12.2007	31.12.2006
Forward currency exchange agreements	466	472	940	-
Total	466	472	940	-

EUR '000	Fair value			
	Assets		Liabilities	
	31.12.2007	31.12.2006	31.12.2007	31.12.2006
Forward currency exchange agreements	663	672	1 337	-
Total	663	672	1 337	-

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

16 AVAILABLE FOR SALE FINANCIAL ASSETS

	2008		2007	
	LVL '000	EUR '000	LVL '000	EUR '000
Investments in non-fixed income securities				
SWIFT shares	41	58	41	58
Eko Bloks SIA	9	13	9	13
Total available-for-sale financial assets	50	71	50	71

17 INVESTMENT IN SUBSIDIARIES

As at 31 December 2008 and 2007, the Bank had investments in:

	2007		2006	
	LVL '000	Holding %	LVL'000	Holding %
SIA "PrivatLizings"	10	100	10	100
SIA "Digipro"	-	100	4	100
SIA "PrivatConsulting"	2	100	2	100
	12		16	

	2007		2006	
	EUR '000	Holding %	EUR'000	Holding %
SIA "PrivatLizings"	14	100	14	100
SIA "Digipro"	-	100	6	100
SIA "PrivatConsulting"	3	100	3	100
	17		23	

NOTES TO THE FINANCIAL STATEMENTS

18 DEFERRED EXPENSES AND ACCRUED INCOME

	2008		2007	
	LVL '000	EUR '000	LVL '000	EUR '000
Accrued income	1 041	1 481	1 310	1 864
Deferred expenses	348	495	356	506
	1 389	1 976	1 666	2 370

19 OTHER ASSETS

	2008		2007	
	LVL '000	EUR '000	LVL '000	EUR '000
Materials	-	-	45	64
Stock	988	1 406	-	-
Trade accounts receivable	-	-	-	-
Security deposits	778	1 107	752	1 070
Gold	3	4	3	4
Prepaid income tax	130	185	20	29
Taxes	8	11	-	-
Other	371	528	295	420
	2 278	3 241	1 115	1 587

20 DUE ON DEMAND TO CREDIT INSTITUTIONS

	2008		2007	
	LVL '000	EUR '000	LVL '000	EUR '000
Credit institutions registered in Latvia	455	648	130	185
Credit institutions registered in OECD countries	7 180	10 216	3 570	5 080
Credit institutions registered in other non-OECD countries	3 782	5 381	9 348	13 301
	11 417	16 245	13 048	18 566

Concentration of amounts due to credit institutions

As at 31 December 2008 the Bank has three balances due to credit institutions (2007: 2), which comprised more than 10% of due to credit institutions. The gross amount of such payables as at 31 December 2008 was LVL 10,707 thousand (2006: LVL 12,809 thousand)

NOTES TO THE FINANCIAL STATEMENTS

21 CUSTOMERS' DEPOSITS

	2008		2007	
	LVL '000	EUR '000	LVL '000	EUR '000
Demand deposits				
Corporate	39 036	55 543	42 830	60 942
Retail	8 107	11 535	5 458	7 766
Total demand deposits	47 143	67 078	48 288	68 708
Term deposits				
Corporate	50 885	72 403	24 985	35 550
Retail	40 120	57 086	15 893	22 614
Total term deposits	91 005	129 489	40 878	58 164
Total deposits and balances due on term to credit institutions	138 148	196 567	89 166	126 872

The average deposit interest rates in 2008 and 2007 were 4.21% and 6.21% respectively.

During each reported period 2008 and 2007 the average interest rate on overnight deposits included in current deposit group was 2.98 % and 3.75%, respectively.

22 ISSUED MORTGAGE BONDS

As at 31 December 2008, the Bank and Group had LVL 14,752 (2007: LVL 14,757) thousand of bonds outstanding, including accrued interest of LVL 88 (2006: LVL 93) thousand.

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

23 DEFERRED INCOME AND ACCRUED EXPENSES

	2008		2007	
	LVL '000	EUR '000	LVL '000	EUR '000
Deferred income	1	1	-	-
Other accrued expenses	353	503	814	1 158
	<u>354</u>	<u>504</u>	<u>814</u>	<u>1 158</u>

24 PROVISIONS

	2008		2007	
	LVL '000	EUR '000	LVL '000	EUR '000
Provision for vacations	191	272	151	215
Other liabilities	184	262	170	242
	<u>375</u>	<u>534</u>	<u>321</u>	<u>457</u>

25 OTHER LIABILITIES

	2008		2007	
	LVL '000	EUR '000	LVL '000	EUR '000
Unrealised loss from SPOT transactions	-	-	27	39
Amounts in clearing	402	572	1 218	1 733
Trade accounts payable	3	4	547	778
Other liabilities	166	236	151	215
Corporate income tax payable	14	20	20	28
	<u>585</u>	<u>832</u>	<u>1 963</u>	<u>2 793</u>

NOTES TO THE FINANCIAL STATEMENTS

26 PAID-UP SHARE CAPITAL

Share capital consists of common shares entitling equal rights to dividends, liquidation quota and voting rights at the shareholders meeting. Nominal value per share is LVL 1. All shares are fully paid up. The largest shareholder of the Bank is Commercial Bank "PrivatBank", (Ukraine).

Shareholders as at 31 December 2008 are as follows:

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

Shareholder	Country	Shares EUR	Holding, %	Voting rights
Closed Joint Stock Commercial Bank "PrivatBank"	Ukraine	14 406 073	95.0671	With voting rights
M. Esterovs	USA	746 615	4.9271	With voting rights
J. Skvorcova	Latvia	213	0.0014	With voting rights
A. Laško	Latvia	218	0.0014	With voting rights
V. Bīriņš	Latvia	277	0.0018	With voting rights
O.Trubakov	Ukraine	47	0.0003	With voting rights
O. Mekekechko	Ukraine	47	0.0003	With voting rights
V. Beļskis	Latvia	47	0.0003	With voting rights
R. Pētersons	Latvia	47	0.0003	With voting rights
		15 153 585	100.00	

The statutory reserve represents retained earnings set aside by the Board. The reserves are distributable.

27 CASH AND CASH EQUIVALENTS

	2008		2007	
	LVL '000	EUR '000	LVL '000	EUR '000
Cash and due from the Bank of Latvia	9 537	13 570	12 957	18 436
Deposits in other credit institutions with maturity less than three months	23 727	33 760	20 411	29 042
Due to other credit institutions with maturity less than three months	(4 288)	(6 101)	(9 534)	(13 566)
	28 976	41 229	23 834	33 912

NOTES TO THE FINANCIAL STATEMENTS

28 FUNDS UNDER TRUST MANAGEMENT

	2008		2007	
	LVL '000	EUR '000	LVL '000	EUR '000
Assets under management				
Loans to residents of OECD countries	25 698	36 565	365	519
	<u>25 698</u>	<u>36 565</u>	<u>365</u>	<u>519</u>
Liabilities under management				
Deposits of residents of other countries	25 698	36 565	365	519
	<u>25 698</u>	<u>36 565</u>	<u>365</u>	<u>519</u>

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

29 RELATED PARTY TRANSACTIONS

Related parties are shareholders having a significant influence over the Bank, companies which they control, members of the Council and Board, senior management, their close relatives and companies which they control, as well as associated companies.

Group

Assets	2008	Annual	2007	Annual
	LVL '000	interest	LVL '000	interest
Loans to the members of the Board and Council	271	7.33%	197	6.03%
PrivatBank balance on correspondent account	138	-	54	-
PrivatBank term deposits	5	-	5	-
Funds in settlement (Visa, Privatmoney)	95	-	102	-
	<u>358</u>		<u>358</u>	

Liabilities	2008	Annual	2007	Annual
	LVL '000	interest	LVL '000	interest
Due to PrivatBank – loro account	142	-	510	-
PrivatBank term deposits	990	5%	8 785	5%
Funds in settlement (Privatmoney)	4	-	21	-
	<u>1 136</u>		<u>9 316</u>	

Income from related party transactions	2008	2007
	LVL '000	LVL '000
Commission income	95	103
Interest income	1 106	867
	<u>1 201</u>	<u>970</u>

NOTES TO THE FINANCIAL STATEMENTS

29 RELATED PARTY TRANSACTIONS (CONTINUED)

	2008	2007
	LVL '000	LVL '000
Expenses from related party transactions		
Commission expenses	39	74
Interest expenses	79	388
	<u>118</u>	<u>462</u>

Bank

As at 31 December 2008 the Bank had the following transactions with subsidiaries:

	2008	Annual interest rate	2007	Annual interest rate
Assets	LVL '000		LVL '000	
Loan to SIA "PrivatLizings"	15 146	7.63%	13 513	5.59%
Loan to SIA "DigiPro"	-	-	387	7.10%
Loan to SIA "PrivatConsulting"	10	4%	-	-
	<u>15 156</u>		<u>13 900</u>	

	2008	Annual interest rate	2007	Annual interest rate
Liabilities	LVL '000		LVL '000	
Due to SIA "PrivatLizings"	251	-	75	-
Due to SIA "PrivatConsulting"	1	-	7	-
	<u>252</u>		<u>82</u>	

	2008	2007
	LVL '000	LVL '000
Income from related party transactions		
Interest income from SIA "PrivatLizings"	1 094	821
Interest income from SIA "DigiPro"	-	25
	<u>1 094</u>	<u>846</u>

Group

	2008	Annual interest rate	2007	Annual interest rate
Assets	EUR '000		EUR '000	
Loans to the members of the Board and Council	386	7.33%	280	6.03%
PrivatBank balance on correspondent account	196	-	77	-
PrivatBank term deposits	7	-	7	-
Funds in settlement (Visa, Privatmoney)	135	-	145	-
	<u>724</u>		<u>509</u>	

	2008	Annual interest rate	2007	Annual interest rate
Liabilities	EUR '000		EUR '000	
Due to PrivatBank – loro account	202	-	726	-
PrivatBank term deposits	1 409	5%	12 500	5%
Funds in settlement (Privatmoney)	6	-	30	-

AS "PrivatBank"
NON AUDITED CONSOLIDATED ANNUAL REPORT FOR THE YEAR ENDED 31 DECEMBER
2008

NOTES TO THE FINANCIAL STATEMENTS

	<u>1 617</u>		<u>13 256</u>	
29 RELATED PARTY TRANSACTIONS (CONTINUED)				
		2008		2007
Income from related party transactions		EUR '000		EUR '000
Commission income		135		147
Interest income		1 574		1 234
		<u>1 709</u>		<u>1 381</u>
		2008		2007
Expenses from related party transactions		EUR '000		EUR '000
Commission expenses		55		105
Interest expenses		112		552
		<u>118</u>		<u>462</u>
Bank				
As at 31 December 2008 the Bank had the following transactions with subsidiaries:				
	2008	Annual	2007	Annual
Assets	EUR '000	interest	EUR '000	interest rate
Loan to SIA "PrivatLizings"	21 551	7.63	19 227	5.59%
Loan to SIA "Digipro"	-	-	551	7.10%
Loan to SIA "PrivatConsulting"	14	4%	-	-
	<u>21 565</u>		<u>19 778</u>	
	2008	Annual	2007	Annual
Liabilities	EUR '000	interest	EUR '000	interest rate
Due to SIA "PrivatLizings"	357	-	107	-
Due to SIA "PrivatConsulting"	1	-	10	-
	<u>358</u>		<u>117</u>	
			2008	2007
Income from related party transactions			EUR '000	EUR '000
Interest income from SIA "PrivatLizings"			1 557	1 168
Interest income from SIA "DigiPro"			-	36
			<u>1 557</u>	<u>1 204</u>

All transactions with related parties have been carried out at an arm's length basis.