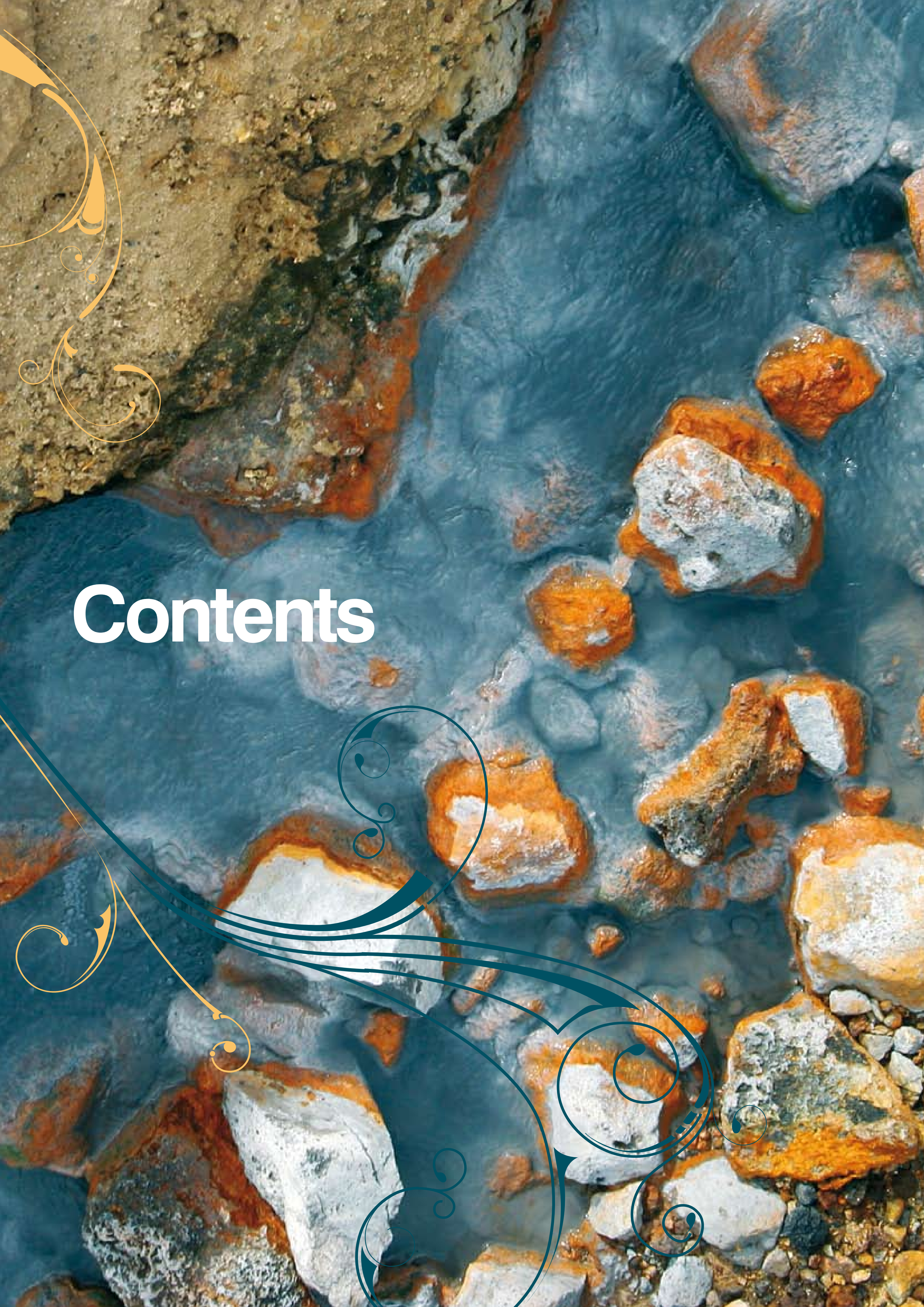
norvikbanka

Financial statements 2007

Consolidated and Separate Financial statements prepared in accordance with International Financial Reporting Standards as adopted by the EU and the requirements of the Latvian Financial and Capital Market Commission for the year ended 31 December 2007 and independent auditors' report

Financial statements 2007

Contents



Mission. Vision. Values	5
Report of the Chairman of the Supervisory Council and the Chairman of the Management Board	7
Supervisory Council and Management Board	9
Statement of Management's Responsibilities	11
Independent Auditors' Report	13
Consolidated and Separate Financial Statements:	
Consolidated and Separate Income Statement	15
Consolidated and Separate Balance Sheet and Off-balance Sheet Items	16
Consolidated Statement of Changes in Equity	17
Separate Statement of Changes in Equity	18
Consolidated and Separate Cash Flow Statement	19
Notes to the Consolidated and Separate Financial Statements	21 - 72

Mission
Vision
Values

Vision

Being among the leading banks in Latvia and retaining the position of a significant player in the Baltic market, to ensure the full range of banking services and seek for new growth opportunities for providing the service that meets customers' needs and is convenient.

Mission

To be an innovative and customer focused North European bank by providing high quality banking services and performing its functions as a reliable and socially responsible cooperation partner.

Our values:

- satisfied and loyal customers
- high quality products and services
- well organised internal processes
- qualified personnel
- continuous development

We perform our work according to cooperation principles to be an open and accessible bank to our customers. We develop new products focusing on the service quality, while keeping in mind friendly banking charges and customer convenience.

Report of the Chairman of the Supervisory Council and the Chairman of the Management Board

We are pleased to present for your evaluation financial statements for JSC NORVIK BANKA for year 2007.

"I am very satisfied with the work that has been performed. The year has been especially rich in events and started with a new challenge – the new brand and name. Having analyzed the achieved results, I must note that the Bank is getting closer to our goal – to be one of the leaders in financial service market of Latvia, which is evidenced both by the growth of assets and of the number of clients and the constantly growing recognition of the Bank in the international financial community", says Andrejs Svircenkovs, Chairman of the Board of NORVIK BANKA.

At the beginning of this year, JSC NORVIK BANKA has undertaken significant measures to strengthen its positions in global capital markets by attracting international funds and enhancing its activity in international financial markets.

In January 2007, the Bank received a loan in the amount of 50 million euros. Funds were provided by the Icelandic bank KAUPTHING BANK HF, which currently is one of the fastest developing banks in Iceland. The received funds were actively used mainly for lending to entities and private persons.

During the year 2007 the Bank's credit portfolio has increased by 73%. The Bank's assets have increased by 103% and now the volume of Bank's assets is more than 618 million lats.

The Bank has expanded its offering of banking products and services, developing several new initiatives: the modernised telephone banking system T-Banka and the banking product "Regular Payment" that offers automatic transfer of funds from the client's account to another account on a specified day. The Bank has also improved some of already existing banking products and services, by offering its customers a wider range of operations available in the internet-banking system e-NORVIK. As a result, the company "Metasite Business Solutions" ranked e-NORVIK the 5th on the list of the best Latvian Internet banks (in the last year it was ranked the 9th best Internet bank in Latvia). In December 2007, there has been successfully launched the program of the investment deposit "Potential", within which the investment deposit has been offered for the first time.

At the end of March 2007, JSC NORVIK BANKA successfully issued and placed Icelandic kronas (ISK) denominated corporate bills for the total amount of ISK 3 440 million (1 EUR=87.5 ISK) in ICEX (Icelandic Stock Exchange). Additional subscriptions have been arranged for the amount of ISK 1 000 million in June 2007. Since June 2007 JSC NORVIK BANKA had listed its corporate bills issues in ICEX . Later in September 2007 the Bank had issued and placed more corporate bills in Icelandic kronas with the tenor of up to 15 months. Those corporate bills have not been listed in Icelandic Stock Exchange.

In April 2007, JSC NORVIK BANKA became a member of the Baltic Stock Exchange, which includes the Riga, Tallinn and Vilnius stock exchanges. Currently the membership of the Baltic Stock Exchange consists of 39 organisations. Among the range of the Bank's services there have always been operations in the Baltic Stock Exchange, therefore, direct membership in the Baltic Stock Exchange is a logical step towards strengthening NORVIK BANKA's position as one of the leaders in the financial services market of the region, and towards further expanding opportunities for our customers.

At the end of June 2007, Moody's Investors Service assigned new ratings to the Bank: a D-bank financial strength rating (BFSR), which translates into a baseline credit assessment of Ba3; a long-term deposit rating of Ba3 and short-term deposit rating of Not-Prime. The outlook on all ratings is stable. The good asset quality and capital adequacy as well as commitment of the Bank's new strategic shareholders to increase the capital base in step with the growth of the business were specified as the main strengths of the Bank.

The Bank has received 2 syndicated loans to the total amount of 50.5 million euros. The borrowed funds have been used for further strengthening of the Bank's positions as well as for increasing capacities for further customer service development.

During the year 2007 JSC NORVIK BANKA has been increasing its share capital two times. It has been enhanced by 80% as compared with the registered amount as at the end of 2006. Now the paid-in share capital of the Bank is 40.5 million lats. The capital had been increased with the purpose of finding funds for development of the investment and deposit programmes offered by NORVIK BANKA.

The Bank's profit for the year 2007 has grown by 58% as compared with the previous financial year. Such a growth is connected with return of the investments previously made in the Bank's overall development. The Bank has expanded its offering of products and services; enlarged the branch network as well as continued strengthening its franchise.

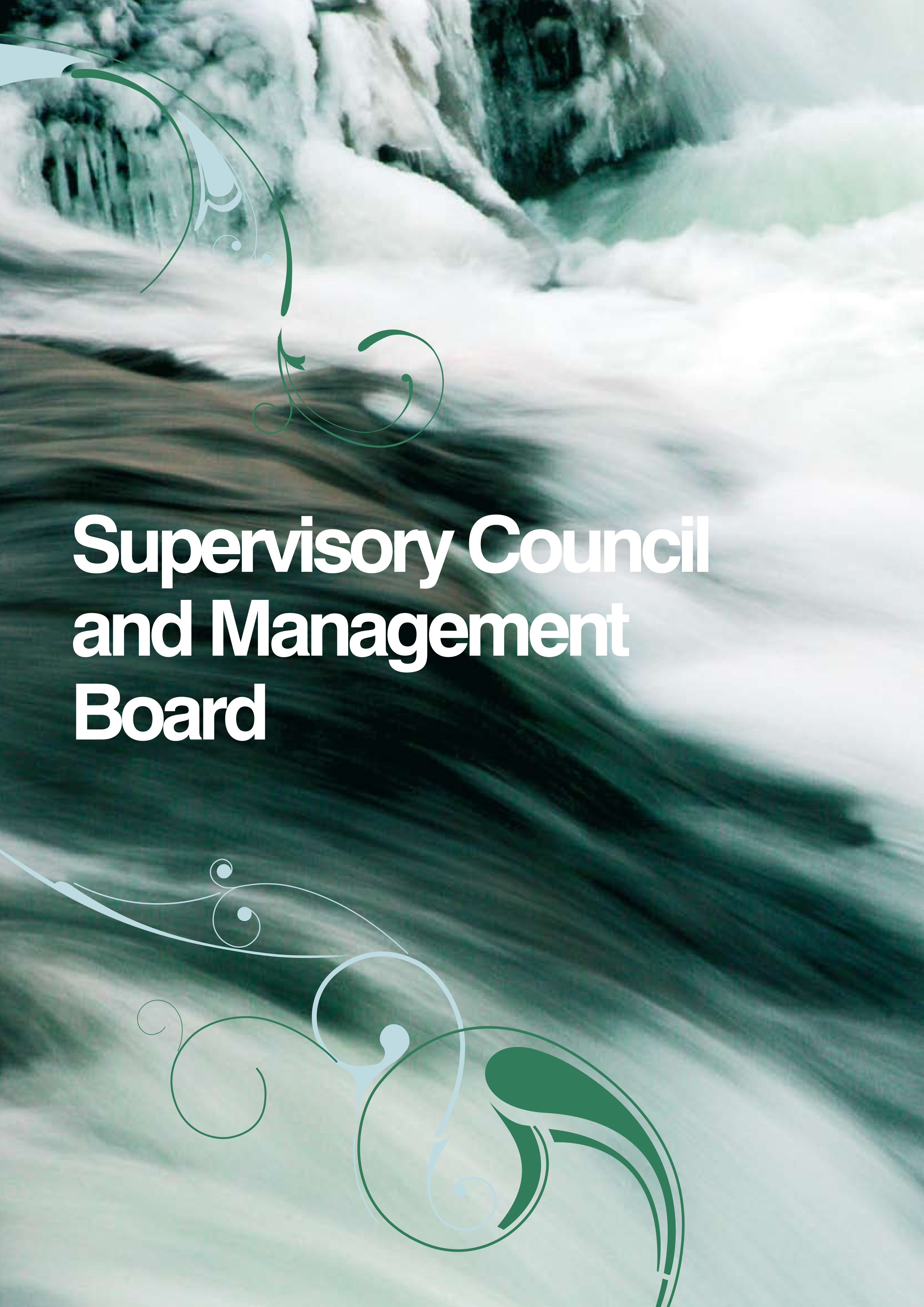
In the next year, the work on the development of banking products and services will proceed. We will make innovations that will be useful for our clients. In order to fight the inflation, the deposit and investment programmes will be further expanded – our goal is to prevent a loss of the value of our clients' funds.

In conclusion, we would like to express our gratitude to employees and shareholders of the bank for their contribution to the bank's development and prosperity. We also thank our clients and partners for their successful cooperation and trust.

Riga, 27 March 2008

J. H. Gudmundsson,
Chairman of the Supervisory Council

A. Svirčenkovs,
Chairman of the Management Board



Supervisory Council and Management Board

Supervisory Council as at 31 December 2007

Name	Position	Date of appointment
J.H. Gudmundsson	Chairman of the Supervisory Council	17/01/2006
B. Halldorsdottir	Deputy Chairwoman of the Supervisory Council	01/11/2006
H. Baldursson	Member of the Supervisory Council	17/01/2006
V. Keiša	Member of the Supervisory Council	01/04/2006
J.Svirčenkova	Member of the Supervisory Council	01/04/2006
B. Strupiša	Member of the Supervisory Council	29/03/2007

During the current period the following persons resigned their position: Member of the Supervisory Council S.Āboliņš-Ābols. During the current period the following persons were appointed: Member of the Supervisory Council B.Strupiša.

Management Board as at 31 December 2007

Name	Position	Date of appointment
A. Svirčenkovs	Chairman of the Management Board	01/04/2006
J. Šapurovs	Deputy Chairman of the Management Board	01/04/2006
S. Gusarovs	Member of the Management Board	01/04/2005
A.Upenieks	Member of the Management Board	01/12/2006
L. Saltuma	Member of the Management Board	10/12/2007

During the current period the following persons resigned their position: Member of the Management Board V.Kamalyan. During the current period the following persons were appointed: Member of the Management Board L. Saltuma

Riga, 27 March 2008
On behalf of the Supervisory Council
and Management Board:

J. H. Gudmundsson,
Chairman of the Supervisory Council

A. Svirčenkovs,
Chairman of the Management Board

Statement of Management's Responsibilities

The Management of JSC NORVIK BANKA (the Bank) is responsible for preparing the Consolidated and Separate Financial Statements of the Bank and its subsidiaries (the Group).

The Consolidated and Separate Financial Statements are prepared in accordance with the source documents and present fairly the financial position of the Group as of 31 December 2007 and the results of its operations and cash flows for the financial year ended 31 December 2007, as well as the financial position of the Bank as of 31 December 2007 and the results of its operations and cash flows for the financial year ended 31 December 2007.

The management confirms that suitable accounting policies have been used and applied consistently and reasonable and prudent judgments and estimates have been made in the preparation of the Consolidated and Separate Financial Statements for the year ended 31 December 2007 set out on pages 15 to 72. The management also confirms that applicable International Financial Reporting Standards as adopted by the EU have been followed and that the Consolidated and the Separate Financial Statements have been prepared on a going concern basis and complies with the Regulations on the Preparation of Financial Statements of Banks issued by the Latvian Financial and Capital Market Commission in all material respects.

The Bank's management is also responsible for keeping proper accounting records, for taking reasonable steps to safeguard the assets of the Group and of the Bank and to prevent and detect fraud and other irregularities. They are also responsible for operating the Bank in compliance with the Law on Credit Institutions, Regulations on the Preparation of the Annual Reports of Credit Institutions issued by the Latvian Financial and Capital Market Commission (FCMC) and other legislation of the Republic of Latvia in all material respects.

Riga, 27 March 2008
On the behalf of the Supervisory
Council and Management Board:

J. H. Gudmundsson,
Chairman of the Supervisory Council

A. Svirčenkovs,
Chairman of the Management Board

Independent Auditors' Report

To the shareholders of JSC NORVIK BANKA

Report on the Financial Statements

We have audited 2007 consolidated financial statements of JSC NORVIK BANKA and its subsidiaries (hereinafter – the Group) and the accompanying financial statements of JSC NORVIK BANKA (hereinafter - the Bank), which are set out on pages 8 through 66 of the accompanying 2007 Consolidated Annual Report and which comprise the balance sheets as at 31 December 2007, 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.

Basis for Qualified Opinion

As of 31 December 2007, the Bank was the holder of non-voting shares in two investment funds under development. We believe that based on the fact that the Bank is the majority holder of non-voting investor shares in this funds and the way the legal structure of the funds' management is organized, as of 31 December 2007 the Bank had control over these investment funds and therefore had to include them in the consolidated accounts. If the investment funds were to be consolidated into these Group financial statements, the available for sale financial assets would decrease by LVL 6,635 thousand (1.07% of total assets of the Group), the investment property would increase by LVL 4,788 thousand (0.77% of total assets of the Group), and cash would increase by LVL 1,847 thousand (0.30% of total assets of the Group) accompanied with applicable modifications in explanatory notes. There would be no impact on consolidated income statement, including net profit for the year, and shareholders' equity.

Opinion

In our opinion, except for the effect on the financial statements of the matter referred to in section "Basis for Qualified Opinion", the financial statements give a true and fair view of the financial position of the Group and the Bank as of 31 December 2007 and of their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

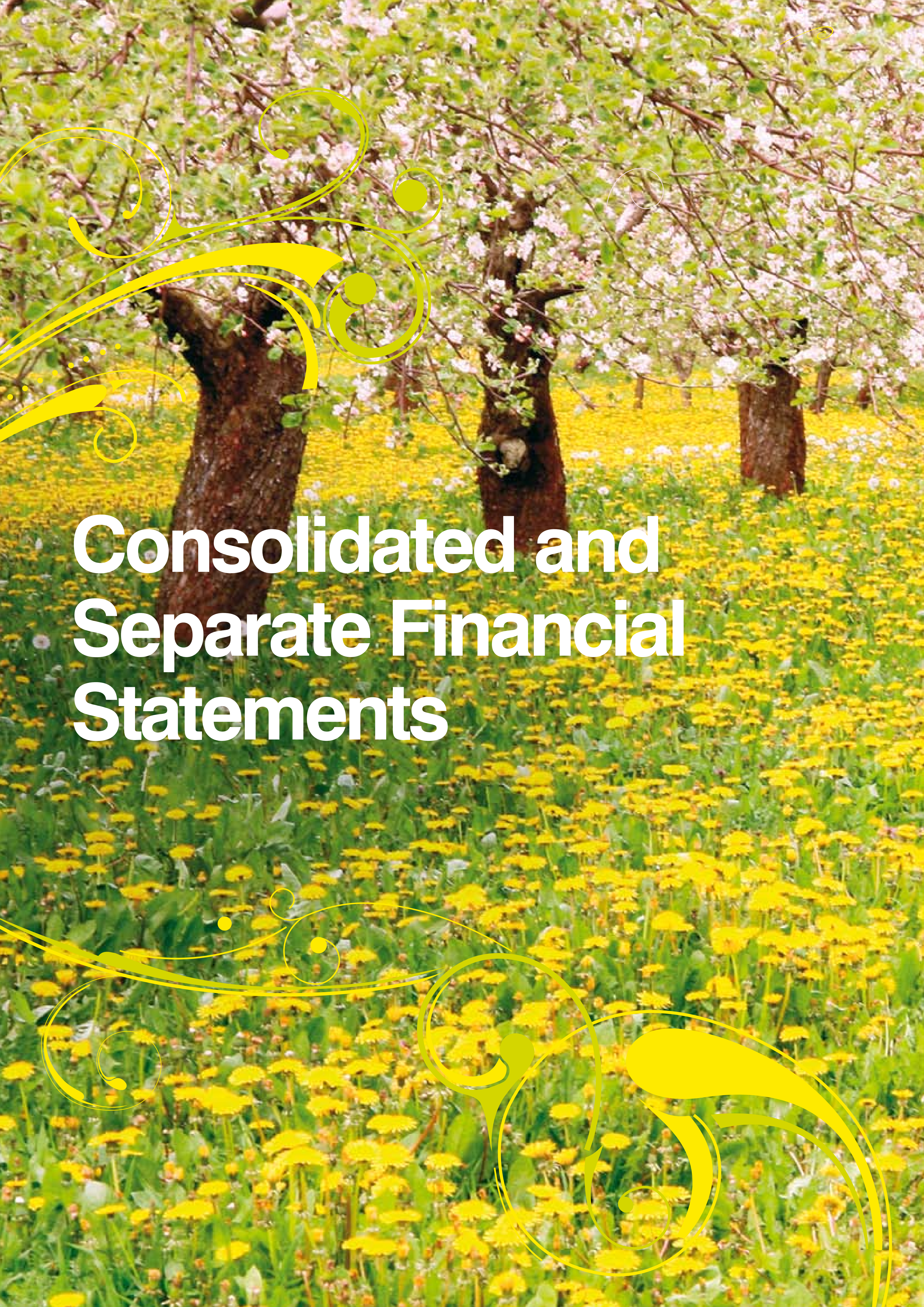
Report on Compliance of the Management Report

Furthermore, we have read the Management Report for the year ended 31 December 2007 (on pages 7 of the accompanying 2007 Consolidated Annual Report) and have not noted any material inconsistencies between the financial information included in it and the consolidated financial statements for the year ended 31 December 2007.

SIA „Ernst & Young Baltic"
Licence No. 17

Diāna Krišjāne
Personal ID code: 250873-12964
Latvian Sworn Auditor
Certificate No. 124

Riga, 27 March 2008



Consolidated and Separate Financial Statements

Consolidated and separate income statement
for the year ended 31 december 2007

	Notes	2007 Group LVL'000	2007 Bank LVL'000	2006 Group LVL'000	2006 Bank LVL'000
Interest and similar revenue		34 855	33 335	16 953	16 906
Interest and similar expense		(17 545)	(17 564)	(6 338)	(6 339)
Net interest income	5	17 310	15 771	10 615	10 567
Fee and commission revenue		7 035	6 751	5 596	5 577
Fee and commission expense		(1 585)	(1 542)	(1 288)	(1 275)
Net fee and commission income	6	5 450	5 209	4 308	4 302
Dividend revenue		3	3	4	4
Net trading income	7	863	840	2 786	2 800
Net gain or loss on financial assets and liabilities designated at fair value through profit or loss	8	55	55	-	-
Net gain or loss from sales of available-for-sale financial assets	9	-	-	(303)	(303)
Other operating income	10	2 283	2 357	452	475
Other operating expense		(491)	(464)	(293)	(283)
Net operating income		25 473	23 771	17 569	17 562
Administrative expenses	11	(15 373)	(14 829)	(12 627)	(12 452)
Personnel expenses		*(8 002)*	*(7 620)*	*(5 858)*	*(5 737)*
Other expenses		*(7 371)*	*(7 209)*	*(6 769)*	*(6 715)*
Depreciation and amortisation		(988)	(970)	(852)	(841)
Impairments losses on financial investments	19	(1 183)	(1 096)	(282)	(277)
Operating expenses		(17 544)	(16 895)	(13 761)	(13 570)
Net operating profit before tax		7 929	6 876	3 808	3 992
Income tax	12	(1 714)	(1 491)	(572)	(584)
Profit for the year		6 215	5 385	3 236	3 408
Attributable to:					
Equity holders of the parent		**6 217**		**3 241**	
Minority interest		(2)		(5)	
Basic and Diluted Earnings per share (LVL)	33	**0.23**		**0.19**	

The accompanying notes on pages 21 to 72 form an integral part of these consolidated and Bank financial statements.
The consolidated and Separate financial statements on pages 15 to 72 were approved by the Supervisory Council and the Management Board on 27 March 2008, and signed on their behalf by:

J. H. Gudmundsson,
Chairman of the
Supervisory Council

A. Svirčenkovs,
Chairman of the
Management Board

Consolidated and separate balance sheet and off-balance sheet
as of 31 december 2007

	Note	31.12.2007 Group LVL'000	31.12.2007 Bank LVL'000	31.12.2006 Group LVL'000	31.12.2006 Bank LVL'000
Assets					
Cash and balances with the central bank	13	42 157	42 157	28 094	28 094
Loans and receivables to banks	14	189 087	188 919	30 930	30 695
Trading financial assets	15	37 900	37 900	41 248	41 248
Financial assets designated at fair value through profit or loss	16	1 454	1 454	-	-
Derivatives financial instruments	17	5 339	5 339	1 065	1 065
Loans to customer and receivables	18	324 462	321 434	189 820	189 087
Available-for-sale financial assets	20	9 238	9 238	5 681	5 681
Current tax assets		-	-	427	427
Investment property	23	4 224	4 224	-	-
Investment in subsidiaries	21	-	3 115	-	1 544
Tangible assets	24	2 775	2 665	5 362	5 304
Goodwill and other intangible assets	22	919	600	709	436
Deferred tax assets		-	-	12	-
Other assets	25	1 193	1 085	1 202	1 206
Total assets		618 748	618 130	304 550	304 787
Liabilities					
Due to the central bank and other banks	27	92 306	92 306	65 465	65 465
Derivatives financial instruments	17	4 974	4 974	1 288	1 288
Customer deposits	28	447 376	447 842	202 156	202 308
Subordinated debt	29	8 502	8 502	1 777	1 777
Debt securities in issue	30	5 870	5 870	-	-
Current tax liabilities		579	415	-	-
Deferred tax liabilities	12	478	446	107	107
Other liabilities	31	3 148	2 954	2 071	1 996
Total liabilities		563 233	563 309	272 864	272 941
Equity attributable to equity holders of the Bank					
Share capital	32	40 500	40 500	22 500	22 500
Reserves		7	7	7	7
Revaluation reserve of available-for-sale financial assets		(458)	(458)	(48)	(48)
Revaluation reserve of foreign currency translation		6	-	(8)	-
Retained earnings		9 220	9 387	5 979	5 979
Profit for the year		6 217	5 385	3 241	3 408
Total equity attributable to equity holders of the Bank		55 492	54 821	31 671	31 846
Minority interest		23	-	15	-
Total equity		55 515	54 821	31 686	31 846
Total liabilities and equity		618 748	618 130	304 550	304 787
Commitments and contingencies					
Contingent liabilities		4 087	4 680	2 958	2 958
Commitments		41 498	41 905	33 620	35 302
Total commitments and contingencies	35	45 585	46 585	36 578	38 260

The accompanying notes on pages 21 to 72 form an integral part of these consolidated and Bank financial statements.
The consolidated and Separate financial statements on pages 15 to 72 were approved by the Supervisory Council and the Management Board on 27 March 2008, and signed on their behalf by:

J. H. Gudmundsson,
Chairman of the
Supervisory Council

A. Svirčenkovs,
Chairman of the
Management Board

Consolidated statement of changes in equity

for the year ended 31 december 2007

Group	Share capital LVL'000	Reserve LVL'000	Revaluation reserve of available-for-sale financial assets LVL'000	Revaluation reserve of foreign currency translation LVL'000	Retained earnings LVL'000	Total LVL'000	Minority interest LVL'000	Total Groups' equity LVL'000
	Attributable to shareholders of the Bank							
As at 31 December 2005	15 500	7	(261)	-	5 979	21 225	-	21 225
Revaluation of available-for-sale financial assets	-	-	213	-	-	213	-	213
Revaluation reserve of foreign currency translation*	-	-	-	(8)	-	(8)	-	(8)
Total income and expenses for the year recognised directly in equity	-	-	213	(8)	-	205	-	205
Profit for the year	-	-	-	-	3 241	3 241	(5)	3 236
Total income and expense for the year	-	-	213	(8)	3 241	3 446	(5)	3 441
Increase of share capital	7 000	-	-	-	-	7 000	10	7 010
Minority interest at acquisition	-	-	-	-	-	-	10	10
As at 31 December 2006	22 500	7	(48)	(8)	9 220	31 671	15	31 686
Revaluation of available-for-sale financial assets	-	-	(410)	-	-	(410)	-	(410)
Revaluation reserve of foreign currency translation*	-	-	-	14	-	14	-	14
Total income and expenses for the year recognised directly in equity	-	-	(410)	14	-	(396)	-	(396)
Profit for the year	-	-	-	-	6 217	6 217	(2)	6 215
Total income and expense for the year	-	-	(410)	14	6 217	5 821	(2)	5 819
Increase of share capital	18 000	-	-	-	-	18 000	10	18 010
As at 31 December 2007	40 500	7	(458)	6	15 437	55 492	23	55 515

** Revaluation reserve on consolidation of the subsidiary JSC NORVIK Universal Credit Organization (Armenia)*

Separate statement of changes in equity

for the year ended 31 december 2007

Bank	Share capital LVL'000	Reserve LVL'000	Revaluation reserve of available-for-sale financial assets LVL'000	Retained earnings LVL'000	Total LVL'000
As at 31 December 2005	15 500	7	(261)	5 979	21 225
Revaluation of available-for-sale financial assets	-	-	213	-	213
Total income and expenses for the year recognised directly in equity	-	-	213	-	213
Profit for the year	-	-	-	3 408	3 408
Total income and expense for the year	-	-	213	3 408	3 621
Increase of share capital	7 000	-	-	-	7 000
As at 31 December 2006	22 500	7	(48)	9 387	31 846
Revaluation of available-for-sale financial assets	-	-	(410)	-	(410)
Total income and expenses for the year recognised directly in equity	-	-	(410)	-	(410)
Profit for the year	-	-	-	5 385	5 385
Total income and expense for the year	-	-	(410)	5 385	4 975
Increase of share capital	18 000	-	-	-	18 000
As at 31 December 2007	40 500	7	(458)	14 772	54 821

Consolidated and separate cash flow statement

for the year ended 31 december 2007

		2007		2006	
	Note	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Cash flow from operations					
Profit before corporate income tax		7 929	6 876	3 808	3 992
Depreciation of intangible and tangible fixed assets and write off		2 025	2 007	1 833	1 822
Increase in provisions for impairments losses on financial investments		1 370	1 284	406	401
Loss/(profit) from foreign exchange revaluation		1 602	1 622	545	526
Other changes		14	-	(8)	-
Non-realised (profit)/loss from investment property		(1 589)	(1 589)	-	-
Operating cash flow before changes in operating assets and liabilities		11 351	10 200	6 584	6 741
Decrease/(increase) in loans and receivables to banks		(6 805)	(6 845)	4 711	4 701
Decrease/(increase) in trading financial assets		3 348	3 348	(17 111)	(17 175)
(Increase) in financial assets at fair value through profit or loss		(1 454)	(1 454)	-	-
Decrease/(increase) in derivatives financial assets		(4 274)	(4 274)	(759)	(759)

Consolidated and separate cash flow statement
for the year ended 31 december 2007

Decrease/(increase) in loans and receivables to customers		(136 012)	(133 631)	(79 501)	(78 763)
Decrease/(increase) in other assets		448	548	249	302
Increase/(decrease) in due to banks		26 841	26 841	5 951	5 951
Increase/(decrease) in customer deposits		245 220	245 534	21 867	22 020
Increase/(decrease) in derivatives financial liabilities		3 686	3 686	1 074	1 074
Increase/(decrease) in other liabilities		1 078	960	484	412
Cash used in operating activities		**143 427**	**144 913**	**(56 451)**	**(55 496)**
Corporate income tax (paid)		(765)	(739)	(639)	(639)
Net cash used in operating activities		**142 662**	**144 174**	**(57 090)**	**(56 135)**
Cash flow from investing activities					
Acquisition of intangible and tangible fixed assets		(2 263)	(2 147)	(1 998)	(1 926)
Acquisition of subsidiary		-	(1 571)	(438)	(1 544)
Decrease/(increase) in available-for-sale financial assets		(3 967)	(3 967)	2 315	2 315
Other cash received/(paid) as a result of investment activity		(20)	(20)	-	-
Net cash used in investing activities		**(6 250)**	**(7 705)**	**(121)**	**(1 155)**
Cash flow from financing activities					
Increase in share capital		18 010	18 000	7 010	7 000
Increase in subordinated debt		6 725	6 725	-	-
Repayment of subordinated debt		-	-	(253)	(253)
Issue of debt securities		42 885	42 885	-	-
Mature of debt securities		(37 015)	(37 015)	-	-
Net cash provided by/(used in) financing activities		**30 605**	**30 595**	**6 757**	**6 747**
Net increase/(decrease) in cash and cash equivalents		**167 017**	**167 064**	**(50 454)**	**(50 543)**
Cash and cash equivalents at the beginning of the period		54 375	54 180	105 374	105 249
Effect of exchange changes on cash and cash equivalents		(1 602)	(1 622)	(545)	(526)
Cash and cash equivalents at the end of the period	34	**219 790**	**219 622**	**54 375**	**54 180**

The accompanying notes on pages 21 to 72 form an integral part of these consolidated and Bank financial statements.
The consolidated and Separate financial statements on pages 15 to 72 were approved by the Supervisory Council and the Management Board on 27 March 2008.

Operating cash flows from interest and dividends

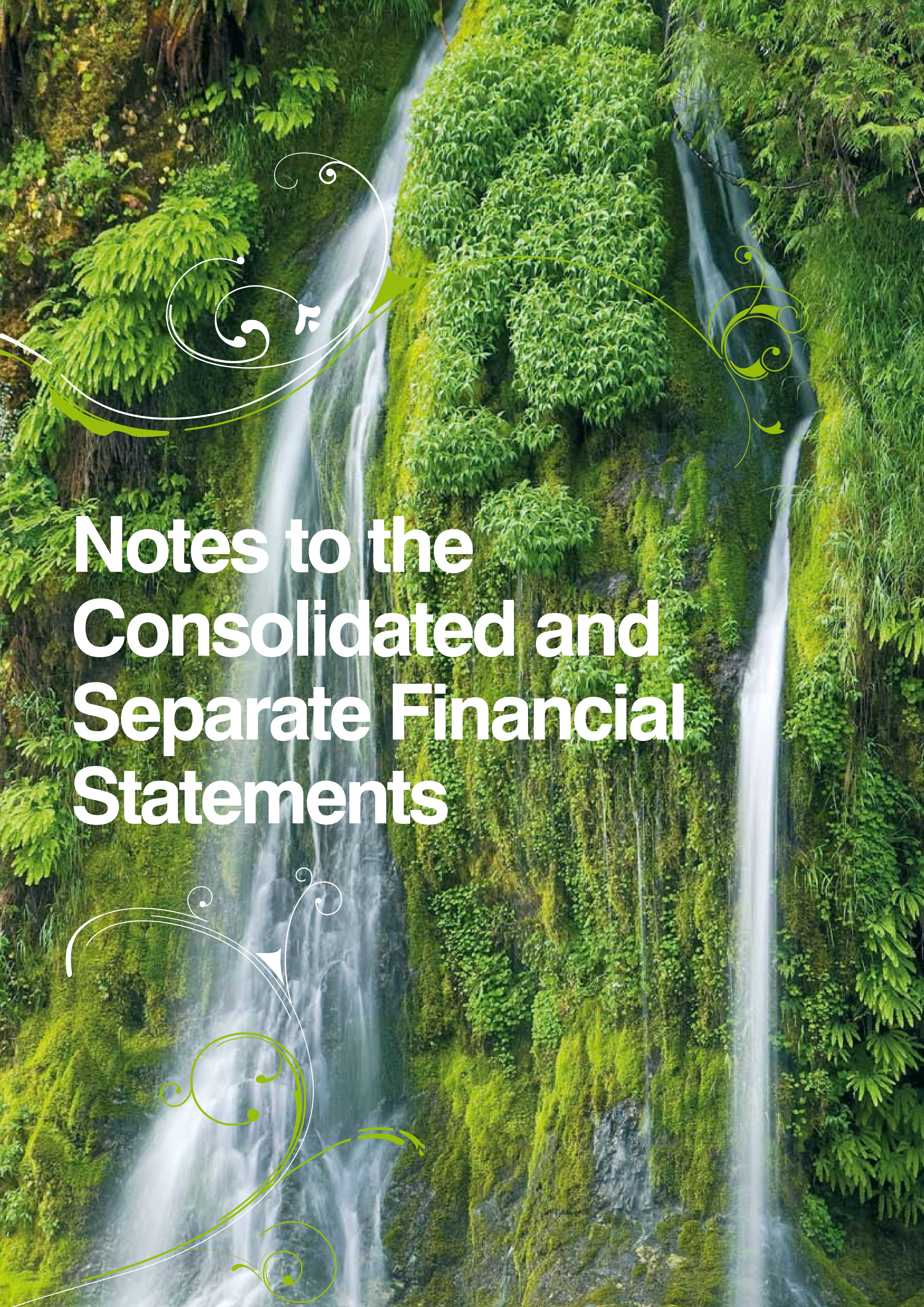
	2007		2006	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Interest paid	16 151	16 190	5 797	5 798
Interest received	32 633	31 271	16 193	16 167
Dividend received	3	3	4	4

The accompanying notes on pages 21 to 72 form an integral part of these consolidated and Bank financial statements.
The consolidated and Separate financial statements on pages 15 to 72 were approved by the Supervisory Council and the Management Board on 27 March 2008, and signed on their behalf by:

J. H. Gudmundsson,
Chairman of the
Supervisory Council

A. Svirčenkovs,
Chairman of the
Management Board

Notes to the Consolidated and Separate Financial Statements



1. GENERAL INFORMATION

JSC NORVIK BANKA (the Bank) is a joint stock company incorporated in the Republic of Latvia, acting in accordance with Latvian legislation and License No. 30 issued by the Bank of Latvia on 27 April 1992.

The legal address of JSC NORVIK BANKA is E. Birznieka-Upīša street 21, Riga LV-1011, Latvia.

The Bank has a central office, 15 branches, 71 accounting groups and one representative office in Moscow (Russia). The main banking operations are local and international money transfers, the issuance of loans, securities operations and foreign currency transactions.

In accordance with the Commercial Law of the Republic of Latvia, the shareholders' meeting has the right to make decisions on approval of the annual financial statement.

2. SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES

(1) Basis of preparation

The accompanying financial statements are presented in the national currency of Latvia in thousands of lats ("LVL'000").

The consolidated and separate financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union (the "EU") and the regulations of the Latvian Financial and Capital Market Commission ("FCMC").

The consolidated and separate financial statements have been prepared under the historical cost convention with measurement of available for sale securities, financial assets and financial liabilities held at fair value through profit or loss and investment property at fair value. Other financial assets and liabilities are carried at amortised cost in accordance with the effective interest rate method.

The accounting policies used in the preparation of the financial statements are consistent with those followed in the preparation of the Group`s and Bank`s annual financial statements for the year ended 31 December 2006. However, in the preparation of the financial statements for the year ended 31 December 2007 the Group and Bank also applied IAS 14 Segment Reporting and adopted the following new and amended IFRS and IFRIC interpretations:

- **IFRS 7** *Financial instruments: Disclosures*
- **IAS 1** *Amendment – Capital Disclosures*
- **IFRIC 9** *Reassessment of Embedded Derivatives*
- **IFRIC 10** *Interim Financial Reporting and Impairment.*

Adoption of these revised standards and interpretations did not have any effect on the financial performance or position of the Group. They did however give rise to additional disclosures, including in some cases, revisions to accounting policies. The accounting policies have been consistently applied by all Group enterprises. The principal accounting policies adopted are set out below.

The Group has chosen not to early adopt the following standard and interpretations that were issued but not yet effective for accounting periods beginning on 1 January 2007:

IAS 23 Borrowing Costs

A revised IAS 23 Borrowing costs was issued in March 2007, and becomes effective for financial years beginning on or after 1 January 2009 (once adopted by the EU). The standard has been revised to require capitalisation of borrowing costs when such costs relate to a qualifying asset. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. In accordance with the transitional requirements in the Standard, the Group will adopt this as a prospective change. Accordingly, borrowing costs will be capitalised on qualifying assets with a commencement date after 1 January 2009. No changes will be made for borrowing costs incurred to this date that have been expensed.

IFRIC 12 Service Concession Arrangements

IFRIC Interpretation 12 was issued in November 2006 and becomes effective for annual periods beginning on or after 1 January 2008 (once adopted by the EU). This Interpretation applies to service concession operators and explains how to account for the obligations undertaken and rights received in service concession arrangements. No member of the Group is an operator and hence this Interpretation will have no impact on the Group.

IFRIC 13 Customer Loyalty Programmes

IFRIC Interpretation 13 was issued in June 2007 and becomes effective for annual periods beginning on or after 1 July 2008 (once adopted by the EU). 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 credits and deferred over the period that the award credits are fulfilled. The Group expects that this interpretation will have no impact on the Group's financial statements as no such schemes currently exist.

IFRIC 14 IAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

IFRIC Interpretation 14 was issued in July 2007 and becomes effective for annual periods beginning on or after 1 January 2008 (once adopted by the EU). This Interpretation provides guidance on how to assess the limit on the amount of surplus in a defined benefit scheme that can be recognised as an asset under IAS 19 Employee Benefits.

IFRS 8 Operating Segments

IFRS 8 was issued in November 2006 and becomes effective for annual periods beginning on or after 1 January 2009. The standard sets out requirements for disclosure of information about an entity's operating segments and also about the entity's products and services, the geographical areas in which it operates, and its major customers. IFRS 8 supersedes IAS 14 Segment Reporting.

IAS 1 Presentation of Financial Statements – Revised

IAS 1 (revised) was issued in September 2007 and becomes effective for annual periods beginning on or after 1 January 2009 (once adopted by the EU). IAS 1 has been revised to enhance the usefulness of the information presented in the financial statements. Revision includes 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 in a case of their retrospective restatement.

IAS 27 Consolidated and Separate Financial Statements – Revised

IAS 27 (revised) was issued in January 2008 and becomes effective for annual periods beginning on or 1 January 2009 (once adopted by the EU). Revised standard requires that changes in ownership interest in a subsidiary are accounted for as equity transactions. Also, accounting for losses incurred by the subsidiary was changed: such losses will be allocated between the controlling and non-controlling interests even if the losses exceed the non-controlling equity investment in the subsidiary. On a loss of control of a subsidiary, any retained interest will be remeasured to fair value and will impact the gain or loss recognized on disposal. In addition, revised standard provides more guidance as to when multiple arrangements should be accounted for as a single transaction. These most significant changes introduced by the revised standard will be applied prospectively, except for the multiple arrangements that have been accounted for as a single transaction – these arrangements require retrospective assessment.

IFRS 3 Business Combinations – Revised

IFRS 3 (revised) was issued in January 2008 and becomes effective for annual periods beginning on or after 1 January 2009 (once adopted by the EU). The scope of IFRS 3 has been revised to include combinations of mutual entities and combinations without consideration (dual listed shares). Also a number of changes are introduced in accounting for business combinations that will impact the amount of goodwill recognized, the results in the period when the acquisition occurs, and future revenues reported. In accordance with the transitional requirements of the Standard, the Group will adopt this as a prospective change. Accordingly, assets and liabilities arising from business combinations prior to the date of application of the revised standard will not be restated.

IFRIC 11 IFRS 2 – Group and Treasury Share Transactions

IFRIC 11 was issued in November 2006 and becomes effective for annual periods beginning on or after 1 March 2007. 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.

Amendment to IFRS 2 Share-based Payment

The amendment to IFRS 2 was issued in January 2008 and becomes effective for annual periods beginning on or after 1 January 2009 (once adopted by the EU). The amendment deals with two matters. It clarifies that vesting conditions are service conditions and performance conditions only. Other features of a share-based payment are not vesting conditions. It also specifies that all cancellations, whether by the entity or by other parties, should receive the same accounting treatment.

Amendments to IAS 32 Financial Instruments: Presentation and IAS 1 Presentation of Financial Statements - Puttable Financial Instruments and Obligations Arising on Liquidation

The amendments to IAS 32 and IAS 1 were issued in February 2008 and become effective for annual periods beginning on or after 1 January 2009 (once adopted by the EU). The amendments to IAS 32 require entities to classify the following types of financial instruments as equity, provided they have particular features and meet specific conditions: puttable financial instruments and instruments, or components of instruments, that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation. Additional disclosures are required about the instruments affected by the amendments.

Basis of Consolidation

The consolidated financial statements include all subsidiaries, which are those companies in which the Group directly or indirectly has an interest of more than half of the voting rights or otherwise has power to exercise control over operations. Control is achieved where the company has the power to govern the financial and operating policies of an investee enterprise so as to obtain benefits from its activities. The subsidiaries are consolidated from the date on which effective control is acquired by the Group and are no longer consolidated from the date of disposal.

The Bank, JSC NORVIK ieguldījumu pārvaldes sabiedrība, JSC NORVIK Universal Credit Organization, NORVIK Līzings Ltd. and NORVIK Apdrošināšanas Brokeris Ltd. make up a group of entities under the control of the Bank as a parent entity ("the Group"). In accordance with IAS 27 "Consolidated and Separate Financial Statements" and the requirements of FCMC, the Bank has prepared consolidated financial statements for the Group and separate financial statements.

In the separate financial statements the Bank has recognized investments in the subsidiaries in accordance with the cost method. The separate financial statements of the Bank and its subsidiaries are consolidated line by line by combining items of assets, liabilities, aggregation of off-balance sheets exposures, income and expenses. Intragroup balances of the Bank and its subsidiary as well as intragroup transactions, including income and expenses, are eliminated.

Goodwill

The excess of the cost of acquisition over the Bank's interest in the fair value of the identifiable net assets of the acquired subsidiary at the date of acquisition is recorded as goodwill.

After initial recognition, goodwill in the business combination is carried at cost less any impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from acquisition date, allocated to each of the Group's cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units. Each unit to which the goodwill is allocated:

- Represents the lowest level within the group at which the goodwill is monitored for internal management purposes; and
- Is not larger than a segment based on either the Group's primary or secondary reporting format determined in accordance with IAS 14 Segment Reporting.

Under IAS 36 *"Impairment of Assets"*, goodwill is reviewed for impairment at each balance sheet date or more frequently when there are indications that impairment may have occurred. If such indications exist the Bank estimates the recoverable amount of goodwill. In case of the carrying amount of goodwill is greater than its estimated recoverable amount an impairment loss of goodwill is recognised in the Group's consolidated income statement. There was no impairment identified in 2007 (2006: nil).

(2) Significant accounting judgements and estimates

In the process of applying the Group's accounting policies, management has used its judgements and made estimates in determining the amounts recognized in the financial statements. The most significant use of judgements and estimates are as follows:

Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded on the balance sheet cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values.

Impairment losses on loans and receivables

The Group reviews its problem loans and receivables at each reporting date to assess whether an allowance for impairment should be recorded in the income statement. In particular, judgement by management is required in the estimation of the amount and timing of future cash flows when determining the level of allowance required. Such estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance. In addition to specific allowances against individually significant loans and receivables, the group also makes a collective impairment allowance against exposures which, although not specifically identified as requiring a specific allowance, have a greater risk of default than when originally granted.

Impairment of equity investments

The Group treats available-for-sale equity investments as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists.

(3) Foreign currency translation

Transactions and balances

Transactions denominated in foreign currencies are translated into Latvian lat (LVL) at the official Bank of Latvia exchange rate on the date of the transaction, which approximates the prevailing market rates. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date.

The fair value of available for sale monetary assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the balance sheet date.

All realised gains and losses are recorded in the income statement in the period in which they arise. Unrealised gains and losses at reporting dates are credited or charged to the income statement.

The foreign currency exchange rates for the principal currencies that were used as of the end of the period were as follows (lats for one foreign currency unit):

	Bank of Latvia exchange rates as of 31 December 2007	**Bank of Latvia exchange rates as of 31 December 2006**
EUR	0.702804	0.702804
USD	0.484000	0.536000

Group companies

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions);

- all resulting exchange differences are recognised as a separate component of equity “Revaluation reserve of foreign currency translations”.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities are taken to shareholders’ equity. When a foreign operation is disposed of, or partially disposed of, such exchange differences are recognised in the income statement as part of the gain or loss on sale.

(4) Financial assets and liabilities

Financial assets and liabilities held for trading

Financial assets and liabilities held for trading are those that have been acquired or have arisen, mainly for the purpose of gaining profit from short-term fluctuations in prices. These include trading debt securities and shares.

Trading securities are initially recorded in the balance sheet at fair value. Subsequently these securities are recorded at their fair value, based on quoted market price. Any realized and unrealized profit or loss is recorded in the income statement as net profit or loss from trading securities. Interest earned by the Group from held for trading securities is recognized as interest income. Dividends received are recorded as dividend income. The Group recognizes purchase or sale of trading securities using settlement date accounting.

Derivatives recorded at fair value through profit or loss

The Group operates with derivative financial instruments such as spot foreign exchange contracts, future currency agreements (forwards), currency exchange agreements (swaps), future currency agreements traded on stock exchange (futures). All derivatives are carried as assets if their fair value is positive and as liabilities if their fair value is negative. Fair value of derivative transactions is included in balance sheet as “Derivatives financial instruments”. Changes in the fair value of derivatives are included in the income statement in “Net trading income” on a daily basis.

Financial assets or financial liabilities designated at fair value through profit and loss

Financial assets or financial liabilities designated at fair value through profit and loss are designated by management on initial recognition as a part of financial assets which are managed and their performance evaluated on a fair value basis in accordance with an investment strategy of the Group. These include investments in open-end investment funds.

Financial assets and financial liabilities at fair value through profit or loss are recorded in the balance sheet at fair value. Changes in fair value are included in the income statement in “Net gain or loss on financial assets and liabilities designated at fair value through profit or loss”. The Group recognizes purchase or sale of such assets using settlement date accounting.

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 as loans and receivables, held-to-maturity investments or financial assets at fair value through profit and loss. Available-for-sale financial assets include certain bonds and investments in funds.

Available-for-sale financial assets are initially recorded at their fair value (including expenses on purchase of the securities). The Group recognizes purchase or sale of available-for-sale financial assets using settlement date accounting. Subsequently, securities are stated at their fair value based on quoted market prices, where available. If financial assets are not quoted in an active market their fair value is stated using alternative methods (for example, prices of similar investments).

Available-for-sale assets, for which the market price is not quoted and which fair value is not possible to measure by using other previously mentioned alternative methods, are initially recorded at their fair value and subsequently measured at cost less allowance for impairment, when appropriate.

Unrealised gains or losses on available-for-sale financial assets are recognized directly in equity, except for impairment losses and foreign exchange gains and losses arising from monetary assets, until the financial asset is derecognized, at which time the cumulative gain or loss previously recognized in equity is recognized in the income statement.

Loans and receivables to banks and to customers

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

Loans are measured at amortised cost using the effective interest method. The amortised cost of a loan is the amount at which the loan is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (through the use of an allowance account) for impairment or uncollectibility.

Finance lease

A finance lease is a lease that transfers substantially all the risks and rewards incident to ownership to the lessee at the inception of the lease. Receivables arising from finance lease are recognised as loans granted to clients. Received lease payments, less principal amount, are recognised as interest income based on a pattern reflecting a constant periodic return on the net investment.

Reverse repurchase agreements

Securities purchases under agreements to resell at a specified future date (“reverse repo”) are not recognized on the balance sheet. The corresponding cash paid, including accrued interest, is recognised on the balance sheet as a “Loans and receivables to customers”. The difference between the purchase and resale price is treated as interest income and is accrued over the life of the agreement using the effective interest method.

Financial liabilities

Included in balance sheets as “Due to banks”, “Customer deposits”, “Subordinated debt” and “Debt securities in issue” financial instruments are classified as financial liabilities measured at amortised cost.

After initial measurement, these financial liabilities are subsequently measured at amortised cost using the effective interest method. Amortised cost is calculated by taking into account any discount on the issue and costs that are an integral part of the effective interest rate. The amortization is included in "Interest and similar expense" in the income statement.

Derecognition of financial assets and financial liabilities

A financial asset is derecognized where:

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

The Group derecognizes a financial liability when its contractual obligations are discharged or cancelled or expired.

Impairment of financial assets

The Group assesses, at each balance sheet date, whether there is objective evidence that a financial asset or group of financial assets is impaired.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant and for all loans with overdue payments or interest regardless of the size of the outstanding principal. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in the collective assessment of impairment.

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured 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. Due to the fact that the Bank's portfolio mainly consists of loans with collateral the Group uses discounted collateral realisation value as an approximation of the present value of future cash flows.

For the measurement of collective impairment the bank assumes that all contractual cash flows will be received and recognises impairment loss based on historical loss experience which is adjusted on the basis of currently available data.

Allowances are assessed collectively on portfolios comprising similar features, such as credit cards portfolio and unsecured consumer lending. The main criterion for assessment is settlement discipline and calculation of necessary allowance on portfolio is based on experience and previous period's statistics: overdue loans more than 30 days multiplied by average-weighted per cent of written off loans in the loan portfolio overdued more than 30 days during the past 12 months.

The carrying amount of the asset is reduced through the use of an allowance and the increase/decrease in the amount of the impairment loss is recognised in the income statement. If any loan and receivable can not be recovered, they are written off from balance sheet accounts and charged against allowance for credit losses.

(5) Investment property

In accordance with IAS 40 *Investment Property*, from June 2007 Bank holds real estate as an investment property with the purpose to earn rental income or for value appreciation. Initially investment property was measured at cost. The fair value model of accounting is used for subsequent measurement of investment property. Fair value of investment property reflects market conditions at the balance sheet date. See Note 23 for more detailed information with respect to the Bank's investment property. Gains arising from changes in the fair value of investment property are included in the income statement in "Other operating income" in the period in which they arise.

(6) Intangible and tangible fixed assets

All fixed tangible and intangible assets are recorded at their cost less accumulated depreciation and amortisation. Depreciation and amortisation is calculated on a straight-line basis using the following depreciation and amortisation rates:

Intangible assets:	
Licenses	20 %
Software	33 %
Tangible fixed assets:	
Buildings	10 %
Other	7 % - 33%

Intangible assets with finite lives are amortised over the useful life. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year-end. The depreciation and amortization expense on tangible fixed and intangible assets with finite lives is recognized in the income statement line "Depreciation and amortisation".

(7) Income and expense recognition

Interest income and expenses are recognized in the income statement on accrual basis of accounting using the effective interest rate method. Interest income and expense include the amortization of any difference (discount, premium or other) between the initial carrying amount of the interest-bearing financial asset or liability and its maturity amount calculated on an effective interest rate foundation.

Interest income include coupons earned on trading and available-for-sale bonds and other fixed income securities.

Accrued interest income is recognized in the income statement if the Group has not objective evidence that those payments will not be collected in defined term as well as on impaired financial assets.

Fees and commissions are generally recognized on an accrual basis either as the service is provided or on the execution of a significant act, as applicable. Income and expenses relating to the reporting period are recognised in the income statement irrespective of the date of receipt or payment.

(8) Cash and cash equivalents

Under IAS 7 *"Cash Flow Statements"*, cash and cash equivalents comprise cash, balances with the Bank of Latvia, correspondent accounts and deposits with original maturity of 3 months or less in other banks. Cash flow statement reflects an analysis of the cash flow from operating, investing and financing activities for the year period.

Cash flows from operating activities are presented under the indirect method. Cash flows from investing and financing activities are presented on the basis of gross receipts and payments made during the reporting period.

(9) Taxes

Corporate income tax is calculated in conformity with the tax legislation of the Republic of Latvia. Deferred taxation is provided for temporary differences arising between the carrying amount of an asset or liability in the balance sheet and its tax base according to taxation legislation. The deferred taxation asset or liability is calculated on the basis of the tax rates that are expected to apply when the temporary differences reverse. When an overall deferred tax asset arises, this is only recognised in the financial statements where its recoverability is foreseen with reasonable certainty.

(10) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. Segment revenue, segment expenses and segment performance include transfers between business segments and between geographical segments.

(11) Use of estimates

In preparing the financial statements, the management of the Group makes estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

3. RISK MANAGEMENT

Risk is inherent in the group's activities but is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Group's continuing profitability and each individual within the Group is accountable for the risk exposures relating to their responsibilities. The Group is exposed to liquidity risk, credit risk and market risk. It is also subject to operational risk.

Risk management structure

The Management Board is ultimately responsible for identifying and controlling risks.

Supervisory Council

The Supervisory Council reviews and agrees policies for risks managing.

Management Board

The Management Board is responsible for the overall risk management approach and for approving the principles, frameworks, methodologies and procedures to ensure risk management policies implementation. The Management Board sets limits on total portfolios and restrictions on large exposures.

Assets and liabilities Committee

The assets and liabilities Committee has responsibility to monitor the assets and liabilities management and sets limits on counterparties within the limits and restrictions set by the Board.

Risk management Committee

The risk management Committee is responsible for the assessing the current quality of the Group's assets and off-balance sheet items, and for making decisions on provisions for and/or writing off impaired assets.

Risk management

The Risk management is responsible for implementing risk related procedures to ensure independent control process. This unit also ensures the complete capture of the risks in risk measurement and reporting systems.

Treasury

Treasury is responsible for managing assets and liabilities and the overall financial structure. It is also primarily responsible for the funding and liquidity risks of the Bank and Group.

Internal Audits

Risk management processes are audited annually by the internal audit service, that examines both the adequacy of the policies and procures and the compliance with the internal and external requirements. Internal Audit discusses the results of all assessments with management, and reports its findings and recommendations to the Supervisory Council, Management Board and related units.

To ensure the control and management over financial risks, the Management Board and Supervisory Council of the Group has approved Credit policy, Investment policy and an internal financial risks control policy regarding the significant risks, liquidity risk, credit risk and market risk, and regulates the other documents, that comprise the system for the Group's financial risk management.

LIQUIDITY RISK

Liquidity risk is the risk that the Group will be unable to meet its payment obligations associated with its financial liabilities when they fall due and to replace funds when they are withdrawn. The consequence may be the failure to meet obligations to repay depositors and fulfil commitments to lend.

To limit this risk, the Bank as the Group liquidity manager places its assets so as to ensure settling of their creditors' legal claims at any time (liquidity), arranges diversified funding sources in addition to its core deposit base, and monitors future cash flows and liquidity on a daily basis.

To ensure liquidity the Bank evaluates and plans the term structures of assets and liabilities on a regular basis. The Bank maintains marketable trading portfolio that can be liquidated or pledged in the event of unforeseen situations. The Bank also has Money market and committed lines of credit that it can use to meet liquidity needs. In addition, the Bank maintains an obligatory reserve deposit with the Central bank of Latvia equal to 8% of borrowings. In accordance with Liquidity requirements determined by the FCMC the Bank maintains liquid assets that are sufficient for settling liabilities, however, not less than 30% of total current liabilities of the Bank (liquidity ratio). Current liabilities are demand liabilities and liabilities with a residual maturity of no more than 30 days. The liquidity ratio during the year was as follows:

	2007 %	2006 %
31 December	57.0	43.5
Average during the period	49.2	51.9
Highest	58.5	65.8
Lowest	42.1	43.5

The Internal Financial Risk Management Policy determines Liquidity risk control and management, and includes the treatment of the risk of the untimely settlement of customer and other legal creditor claims. The Management Board of the Group and the Assets and Liabilities Committee state general liquidity risk management criteria by regulating the volumes, terms and directions of the Group's activities. The Treasury department manages liquidity I Reserve fund (cash, balances with correspondent bank accounts and short term interbank deals).

Liquidity risk management and control is based on asset and liability term analysis, internal limit regulations regarding the net liquidity position, the effective usage of liquidity I Reserve fund and liquidity regulation for the remaining free resources, etc.

Notes to the Consolidated and Separate Financial Statement
for the year ended 31 december 2007

MATURITY ANALYSIS OF ASSETS AND LIABILITIES

The table below presents the analysis of the Group assets, liabilities and off-balance sheet liabilities analysed according to when they are expected to be recovered or settled.

As at 31 December 2007- Group	Up to 1 month LVL'000	From 1 to 3 months LVL'000	From 3 to 6 months LVL'000	From 6 months to 1 year LVL'000	From 1 to 5 years LVL'000	5 years and over LVL'000	Other LVL'000	Total LVL'000
Assets								
Cash and balance with the central bank	42 157	-	-	-	-	-	-	**42 157**
Loans and receivables to banks	175 782	2 811	5 226	3 743	501	1 024	-	**189 087**
Trading financial assets	37 900	-	-	-	-	-	-	**37 900**
Financial assets at fair value through profit or loss	1 454	-	-	-	-	-	-	**1 454**
Derivative financial instruments	4 959	208	104	68	-	-	-	**5 339**
Loans and receivables to customers	16 806	21 978	46 318	29 582	150 063	57 736	1 979	**324 462**
Available-for-sale financial assets	971	-	-	-	-	8 267	-	**9 238**
Investment property	-	-	-	-	-	-	4 224	**4 224**
Tangible assets	-	-	-	-	-	-	2 775	**2 775**
Goodwill and other intangible assets	-	-	-	-	-	-	919	**919**
Other assets	1 124	26	-	-	-	-	43	**1 193**
Total assets	281 153	25 023	51 648	33 393	150 564	67 027	9 940	618 748
Liabilities								
Due to the central bank and other banks	24 619	17 274	34 901	15 512	-	-	-	**92 306**
Derivative financial instruments	4 494	330	93	57	-	-	-	**4 974**
Customer deposits	373 030	22 419	23 736	20 880	7 311	-	-	**447 376**
Subordinated debt	-	-	-	-	1 895	6 607	-	**8 502**
Debt securities in issue	-	2 826	2 217	827	-	-	-	**5 870**
Current tax liabilities	579	-	-	-	-	-	-	**579**
Deferred tax	-	-	-	-	-	-	478	**478**
Other liabilities	2 927	-	-	221	-	-	-	**3 148**
Total liabilities	405 649	42 849	60 947	37 497	9 206	6 607	478	563 233
Off-balance sheet items	44 989	-	-	-	-	-	-	**44 989**
Net liquidity	(169 485)	(17 826)	(9 299)	(4 104)	141 358	60 420	9 462	

Notes to the Consolidated and Separate Financial Statement
for the year ended 31 december 2007

As at 31 December 2006- Group	Up to 1 month LVL'000	From 1 to 3 months LVL'000	From 3 to 6 months LVL'000	From 6 months to 1 year LVL'000	From 1 to 5 years LVL'000	5 years and over LVL'000	Other LVL'000	Total LVL'000
Assets								
Cash and balances with the central bank	28 094	-	-	-	-	-	-	**28 094**
Loans and receivables to banks	22 491	3 790	2 340	87	1 718	504	-	**30 930**
Trading financial assets	41 248	-	-	-	-	-	-	**41 248**
Derivative financial instruments	941	42	82	-	-	-	-	**1 065**
Loans and receivables to customers	6 551	17 017	25 524	24 407	83 882	31 288	1 151	**189 820**
Available-for-sale financial assets	5 681	-	-	-	-	-	-	**5 681**
Current tax assets	427	-	-	-	-	-	-	**427**
Tangible assets	-	-	-	-	-	-	5 362	**5 362**
Goodwill and other intangible assets	-	-	-	-	-	-	709	**709**
Deferred tax assets	-	-	-	-	-	-	12	**12**
Other assets	1 159	-	-	-	-	-	43	**1 202**
Total assets	106 592	20 849	27 946	24 494	85 600	31 792	7 277	304 550
Liabilities								
Due to the central bank and other banks	27 440	7 823	1 059	14 069	15 074	-	-	**65 465**
Derivative financial instruments	835	372	81	-	-	-	-	**1 288**
Customer deposits	155 827	9 600	14 684	18 189	3 826	30	-	**202 156**
Subordinated debt	-	-	-	-	-	1 777	-	**1 777**
Deferred tax	-	-	-	-	-	-	107	**107**
Other liabilities	1 891	-	-	180	-	-	-	**2 071**
Total liabilities	185 993	17 795	15 824	32 438	18 900	1 807	107	272 864
Off-balance sheet items	35 965	-	-	-	-	-	-	**35 965**
Net liquidity	(115 366)	3 054	12 122	(7 944)	66 700	29 985	7 170	

According to the regulations of the Latvian Financial and Capital Market Commission, securities that are available for sale or that the Bank is able to sell without any significant losses or use as security assets for loan issue are reflected in the group "Up to 1 month".

Notes to the Consolidated and Separate Financial Statement

for the year ended 31 december 2007

As at 31 December 2007- Bank	Up to 1 month LVL'000	From 1 to 3 months LVL'000	From 3 to 6 months LVL'000	From 6 months to 1 year LVL'000	From 1 to 5 years LVL'000	5 years and over LVL'000	Other LVL'000	Total LVL'000
Assets								
Cash and balances with the central bank	42 157	-	-	-	-	-	-	**42 157**
Loans and receivables to banks	175 677	2 811	5 226	3 680	501	1 024		**188 919**
Trading financial assets	37 900	-	-	-	-	-	-	**37 900**
Financial assets at fair value through profit or loss	1 454	-	-	-	-	-	-	**1 454**
Derivative financial instruments	4 959	208	104	68	-	-	-	**5 339**
Loans and receivables to customers	16 004	20 664	44 857	43 719	139 260	55 012	1 918	**321 434**
Available-for-sale financial assets	971	-	-	-	-	8 267	-	**9 238**
Investment property	-	-	-	-	-	-	4 224	**4 224**
Investments in subsidiaries	-	-	-	-	-	-	3 115	**3 115**
Tangible assets	-	-	-	-	-	-	2 665	**2 665**
Goodwill and other intangible assets	-	-	-	-	-	-	600	**600**
Other assets	1 042	-	-	-	-	-	43	**1 085**
Total assets	280 164	23 683	50 187	47 467	139 761	64 303	12 565	618 130
Liabilities								
Due to the central bank and other banks	24 619	17 274	34 901	15 512	-	-	-	**92 306**
Derivative financial instruments	4 494	330	93	57	-	-	-	**4 974**
Customer deposits	373 220	22 469	23 962	20 880	7 311	-	-	**447 842**
Subordinated debt	-	-	-	-	1 895	6 607	-	**8 502**
Debt securities in issue	-	2 826	2 217	827	-	-	-	**5 870**
Current tax liabilities	415	-	-	-	-	-	-	**415**
Deferred tax	-	-	-	-	-	-	446	**446**
Other liabilities	2 733	-	-	221	-	-		**2 954**
Total liabilities	405 481	42 899	61 173	37 497	9 206	6 607	446	563 309
Off-balance sheet items	45 990	-	-	-	-	-	-	**45 990**
Net liquidity	(171 307)	(19 216)	(10 986)	9 970	130 555	57 696	12 119	

Notes to the Consolidated and Separate Financial Statement

for the year ended 31 december 2007

As at 31 December 2006 - Bank	Up to 1 month LVL'000	From 1 to 3 months LVL'000	From 3 to 6 months LVL'000	From 6 months to 1 year LVL'000	From 1 to 5 years LVL'000	5 years and over LVL'000	Other LVL'000	Total LVL'000
Assets								
Cash and balances with the central bank	28 094	-	-	-	-	-	-	**28 094**
Loans and receivables to banks	22 412	3 674	2 300	87	1 718	504	-	**30 695**
Trading financial assets	41 248	-	-	-	-	-	-	**41 248**
Derivative financial instruments	941	42	82	-	-	-	-	**1 065**
Loans and receivables to customers	6 464	16 828	25 524	27 159	81 810	30 151	1 151	**189 087**
Available-for-sale financial assets	5 681	-	-	-	-	-	-	**5 681**
Current tax assets	427	-	-	-	-	-	-	**427**
Investments in subsidiaries	-	-	-	-	-	-	1 544	**1 544**
Tangible assets	-	-	-	-	-	-	5 304	**5 304**
Goodwill and other intangible assets	-	-	-	-	-	-	436	**436**
Other assets	1 163	-	-	-	-	-	43	**1 206**
Total assets	106 430	20 544	27 906	27 246	83 528	30 655	8 478	304 787
Liabilities								
Due to the central bank and other banks	27 440	7 823	1 059	14 069	15 074	-	-	**65 465**
Derivative financial instruments	835	372	81	-	-	-	-	**1 288**
Customer deposits	155 879	9 620	14 684	18 269	3 826	30	-	**202 308**
Subordinated debt	-	-	-	-	-	1 777	-	**1 777**
Deferred tax	-	-	-	-	-	-	107	**107**
Other liabilities	1 826	-	-	170	-	-	-	**1 996**
Total liabilities	185 980	17 815	15 824	32 508	18 900	1 807	107	272 941
Off-balance sheet items	37 687	-	-	-	-	-	-	**37 687**
Net liquidity	(117 237)	2 729	12 082	(5 262)	64 628	28 848	8 371	

ANALYSIS OF FINANCIAL LIABILITIES BY REMAINING CONTRACTUAL MATURITIES

The table below presents the maturity profile of the Group's and the Bank's balance and off-balance sheet financial liabilities by the remaining maturities under agreements. The amounts of the liabilities disclosed in the table are the contractual undiscounted cash flows.

As at 31 December 2007	Up to 1 month LVL'000	From 1 to 3 months LVL'000	From 3 to 6 months LVL'000	From 6 months to 1 year LVL'000	From 1 to 5 years LVL'000	5 years and over LVL'000	Total LVL'000
Financial liabilities							
Due to the central bank and other banks	24 944	17 466	36 928	16 354	-	-	**95 692**
Derivatives financial instruments	(454)	(29)	(69)	(97)	-	-	**(649)**
- Contractual amounts payable	*1 168 804*	*13 383*	*6 810*	*5 878*	-	-	*1 194 875*
- Contractual amounts receivable	*(1 169 258)*	*(13 412)*	*(6 879)*	*(5 975)*	-	-	*(1 195 524)*
Customer deposits	391 971	22 465	24 762	22 210	6 813	-	**468 221**
Subordinated debt	22	44	68	137	2 374	10 055	**12 700**
Debt securities in issue	-	2 921	2 383	922	-	-	**6 226**
Total undiscounted financial liabilities	416 483	42 867	64 072	39 526	9 187	10 055	582 190
Contingent liabilities	4 681	-	-	-	-	-	**4 681**
Commitments	41 905	-	-	-	-	-	**41 905**
Total	46 586	-	-	-	-	-	46 586

As at 31 December 2006	Up to 1 month LVL'000	From 1 to 3 months LVL'000	From 3 to 6 months LVL'000	From 6 months to 1 year LVL'000	From 1 to 5 years LVL'000	5 years and over LVL'000	Total LVL'000
Financial liabilities							
Due to the central bank and other banks	27 814	7 855	731	15 731	15 866	-	**67 997**
Derivatives financial instruments	(80)	373	(1)	-	-	-	**292**
- Contractual amounts payable	*436 226*	*113 246*	*6 721*	*16*	-	-	*556 209*
- Contractual amounts receivable	*(436 306)*	*(112 873)*	*(6 722)*	*(16)*	-	-	*(555 917)*
Customer deposits	156 764	9 804	15 270	19 479	3 064	-	**204 381**
Subordinated debt	12	22	35	71	2 081	-	**2 221**
Total undiscounted financial liabilities	184 510	18 054	16 035	35 281	21 011	-	274 891
Contingent liabilities	2 958	-	-	-	-	-	**2 958**
Commitments	35 302	-	-	-	-	-	**35 302**
Total	38 260	-	-	-	-	-	38 260

CREDIT RISK

Credit risk includes the risk of untimely or incomplete settlement of debtor balances. The Group manages the total credit risk, including the country risk, in accordance with the Internal Financial Risk Management Policy, Credit Policy and Country Risk Management Policy. The system of credit risk management includes the approval of the evaluation of credit risks in connection with partners, creditors and issuers, regulations regarding credit types (by credit volumes and terms) and investments in the Group's portfolio, and regular evaluation of assets and off-balance sheets. The Board and the Credit Committee manage this credit risk, and the Credit Department continuously monitors compliance with related procedures and limits. The credit quality of financial assets is monitored mainly on the basis of their past due status.

MAXIMUM EXPOSURE TO CREDIT RISK

The amount of the Group's maximum exposure to credit risk without taking account of any collateral is represented by the carrying amount of each category of financial assets in the balance sheet and off-balance sheet items.

	31.12.2007		31.12.2006	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Credit risk exposure relating to on-balance sheet assets	568 528	565 257	270 112	269 148
Loans and receivables to banks	189 087	188 919	30 930	30 695
Trading financial assets	37 900	37 900	41 248	41 248
Financial assets designated at fair value through profit or loss	1 454	1 454	-	-
Derivative assets	5 339	5 339	1 065	1 065
Loans and receivables to customers	324 462	321 434	189 820	189 087
Available-for-sale financial assets	9 238	9 238	5 681	5 681
Other assets	1 048	973	1 368	1 372
Credit risk exposure relating to off-balance sheet items	45 585	46 585	36 578	38 260
Contingent liabilities	4 087	4 680	2 958	2 958
Commitments	41 498	41 905	33 620	35 302
Maximum exposure	614 113	611 842	306 690	307 408

Risk concentrations of the maximum exposure to credit risk

Concentration of risk is managed by a client/group of clients. The maximum credit exposure to any client or group of clients during 2007 was limited maximum to 24 % of the sum tier 1 and tier 2 capitals before taking account of collateral or other credit enhancements.

In accordance with Credit Policy the maximum volume of Group's loans portfolio is limited to 70 % of the total assets and shall not exceed the sum tier 1 and tier 2 capitals more than 10 times. The share of loans granted to non-resident customers can not to exceed 40% of total loans portfolio. Any type of loans is limited to 40% of the total loans portfolio.

The Group's and Bank's financial assets, before taking into account any collateral held or other credit enhancements are presented by the following geographical regions:

At 31 December 2007 - Group	Latvia LVL'000	OECD countries LVL'000	Other countries LVL'000	Total LVL'000
Credit risk exposure relating to on-balance sheet assets	205 523	168 668	194 337	568 528
Loans and receivables to banks	1 061	151 716	36 310	**189 087**
Trading financial assets	-	953	36 947	**37 900**
Financial assets designated at fair value through profit or loss	1 454	-	-	**1 454**
Derivative assets	255	2 604	2 480	**5 339**
Loans and receivables to customers	201 479	13 314	109 669	**324 462**
Available-for-sale financial assets	488	-	8 750	**9 238**
Other assets	786	81	181	**1 048**
Credit risk exposure relating to off-balance sheet items	30 503	1 322	13 760	45 585
Total	236 026	169 990	208 097	614 113

At 31 December 2006 - Group	Latvia LVL'000	OECD countries LVL'000	Other countries LVL'000	Total LVL'000
Credit risk exposure relating to on-balance sheet assets	126 423	37 625	106 064	270 112
Loans and receivables to banks	394	18 972	11 564	**30 930**
Trading financial assets	749	2 161	38 338	**41 248**
Derivative assets	232	570	263	**1 065**
Loans and receivables to customers	120 332	14 184	55 304	**189 820**
Available-for-sale financial assets	3 536	1 610	535	**5 681**
Other assets	1 180	128	60	**1 368**
Credit risk exposure relating to off-balance sheet items	24,053	2 046	10 479	36 578
Total	150 476	39 671	116 543	306 690

At 31 December 2007 - Bank	Latvia LVL'000	OECD countries LVL'000	Other countries LVL'000	Kopā LVL'000
Credit risk exposure relating to on-balance sheet assets	205 401	168 668	191 188	565 257
Loans and receivables to banks	997	151 716	36 206	**188 919**
Trading financial assets	-	953	36 947	**37 900**
Financial assets designated at fair value through profit or loss	1 454	-	-	**1 454**
Derivative assets	255	2 604	2 480	**5 339**
Loans and receivables to customers	201 479	13 314	106 641	**321 434**
Available-for-sale financial assets	488	-	8 750	**9 238**
Other assets	728	81	164	**973**
Credit risk exposure relating to off-balance sheet items	30 503	1 322	14 760	46 585
Total	235 904	169 990	205 948	611 842

At 31 December 2006 - Bank	Latvija LVL'000	OECD valstis LVL'000	Citas valstis LVL'000	Kopā LVL'000
Credit risk exposure relating to on-balance sheet assets	126 272	37 625	105 251	269 148
Loans and receivables to banks	232	18 972	11 491	**30 695**
Trading financial assets	749	2 161	38 338	**41 248**
Derivative assets	232	570	263	**1 065**
Loans and receivables to customers	120 332	14 184	54 571	**189 087**
Available-for-sale financial assets	3 536	1 610	535	**5 681**
Other assets	1 191	128	53	**1 372**
Credit risk exposure relating to off-balance sheet items	24 053	2 046	12 161	38 260
Total	150 325	39 671	117 412	307 408

An industry sector analysis of the Group's and Bank's financial assets, before taking into account any collateral held or other credit enhancements, is as following:

	31.12.2007		31.12.2006	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Credit risk exposure relating to on-balance sheet assets	568 528	565 257	270 112	269 148
Banks	227 517	227 348	61 149	60 914
Private individuals	90 699	80 075	47 351	44 202
Transport	75 410	75 175	47 578	47 485
Trade	43 848	39 595	30 426	29 326
Financial services	38 656	56 795	22 967	26 957
Processing industry	25 895	25 759	25 118	25 118
Building	14 546	9 141	3 986	3 866
Governments	488	488	8 252	8 252
Other	51 469	50 881	23 285	23 028
Credit risk exposure relating to off-balance sheet items	45 585	46 585	36 578	38 260
Total	614 113	611 842	306 690	307 408

Collateral and other credit enhancements

The type and amount of collateral required depends on an assessment of the credit risk of the client/group of clients. The types of collateral and valuation parameters are obtained by Credit Policy and Monitoring Procedure. The main types of collateral are as follows: mortgage, ships, commercial collateral, deposits and securities; the bank also obtains guarantees as additional (secondary) collateral. Management monitors the market value of collateral to ensure loan-to-value or adequacy of the allowance for impairment losses. In accordance with the Credit Policy the loans without security are limited to 30% of the total loan portfolio.

Renegotiated loans

In accordance with the Credit Policy Renegotiated loan is a loan which terms and conditions are significantly changed in favour of the borrower, because of its financial difficulties, i.e. benefits are granted, which would not be granted in other case.

Renegotiating may be:

- alteration of terms and conditions of a loan, i.e. reduction of the initial debt along with reduction of the interest rate;
- taking over movable and real property, receivables, other assets or the borrower's equity capital shares for full or partial loan repayment;
- substitution of the initial borrower or involving of an additional debtor.

Renegotiated loan, however, is not a loan which repayment term is prolonged or which is substituted with a new loan with the similar level of risk, without changing the interest rate, or which interest rate is changed, in order it would be equal to the current (market) interest rate or the interest rate, which is typical of similar loans at the Bank when changing the terms and conditions of an agreement.

There were no renegotiated loans identified in 2007 (2006: nil).

Credit quality of loans and receivables to customers

	31.12.2007		31.12.2006	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Loans and receivables to customers				
Neither past due nor impaired	295 358	292 803	182 415	181 677
Past due but not impaired	25 623	25 623	6 775	6 775
Impaired	4 696	4 127	821	821
Gross amount	325 677	322 553	190 011	189 273
(Provisions)	(1 215)	(1 119)	(191)	(186)
Total net loans and receivables to customers	324 462	321 434	189 820	189 087

As at 31 December 2007 and 31 December 2006 other financial assets: loans and receivables to banks, available-for-sale financial assets, contingent liabilities and commitments have been classified as neither past due nor impaired.

Ageing analysis of past due but not impaired loans and receivables to customers

The table below represents an analysis of past due but not impaired loans as at 31 December 2007 which is attributed completely to the Bank.

	Past due but not impaired					
At 31 December 2007 - Bank	Up to 30 days LVL'000	31 to 60 days LVL'000	61 to 90 days LVL'000	91 to 180 days LVL'000	More than 180 days LVL'000	Total LVL'000
Mortgage loans	9 058	4 622	100	39	-	**13 819**
Industrial loans	3 721	2 341	-	-	-	**6 062**
Commercial loans	2 176	1 573	10	-	-	**3 759**
Consumer loans	397	-	4	-	-	**401**
Credit card	207	-	-	-	-	**207**
Financial lease	136	-	-	-	-	**136**
Other	100	1 139	-	-	-	**1 239**
Total	15 795	9 675	114	39	-	25 623

Of the total amount of gross past due but not impaired loans and receivables to customers, the fair value of collateral that the Bank held as at 31 December 2007 was LVL'000 53 850 (2006: LVL'000 10 052).

The table below represents the analysis of past due but not impaired loans of the Bank as at 31 December 2006; there were no past due but not impaired loans in the Bank's subsidiaries as they have been classified as neither past due nor impaired.

	Past due but not impaired					
At 31 December 2006 - Bank	Up to 30 days LVL'000	31 to 60 days LVL'000	61 to 90 days LVL'000	91 to 180 days LVL'000	More than 180 days LVL'000	Total LVL'000
Commercial loans	3 477	-	-	-	-	3 477
Industrial loans	1 726	-	-	-	-	1 726
Consumer loans	1 114	16	-	-	-	1 130
Mortgage loans	258	3	3	9	-	273
Credit card	115	-	-	-	-	115
Financial lease	15	-	8	-	-	23
Other	31	-	-	-	-	31
Total	6 736	19	11	9	-	6 775

See Note 19 for more detailed information with respect to the allowance for impairment losses on loans and receivables to customers.

MARKET RISK

Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, exchange rates and equity prices.

The Bank classifies exposures to market risk into either trading or non-trading portfolios; other Bank's subsidiaries do not have trading portfolio. Trading portfolio include those positions arising from market-making transactions where the Bank acts as principal with clients or with the market and are managed by the Bank's Treasury according to the Investment Policy and the Internal Financial Risk Management Policy within the limits and restrictions set by the Board.

Market risks arise from open positions (both trading and non-trading) in interest rate and foreign currency exchange rates. Interest rate risk and foreign exchange risk are managed and monitored using sensitivity analyses. The Group has no significant concentration of market risk.

The Management Board and the Assets and Liabilities Committee state the basic interest rate for deposits and loans for each currency group and period analyzing the maturity and interest rates of assets and liabilities, the net interest margin and liquidity in connection with currencies and directions of operations.

Interest rate risk

The following table demonstrates the sensitivity to a reasonable possible change in interest rates, with all other variables held constant, of the Group's income statement and equity.

The sensitivity of the income statement is the effect of the assumed changes in interest rates on the net interest income (with equal effect on pre-tax profit) for one year, on the basis of financial assets and financial liabilities (variable loan commitments are not included) categorised by the earlier of contractual re-pricing or maturity dates. The sensitivity of equity is calculated by revaluing fixed rate available-for-sale financial assets held at 31 December 2007 and is based on the assumption that there are parallel shifts in the yield curve discounting future cash flows by amended interest rate. There is the same effect on sensitivity of equity of the Group as only the Bank has available-for-sale assets revaluing them through the equity.

At 31 December 2007

		Bank	Group	Sensitivity of equity			
Currency	Increase in basis points LVL'000	Sensitivity of net interest income LVL'000	Sensitivity of net interest income LVL'000	0 to 6 months LVL'000	6 months to 1 year LVL'000	More than 1 year LVL'000	Total LVL'000
LVL	+ 300	186	197	-	-	(66)	(66)
USD	+ 150	(42)	(255)	-	-	-	-
EUR	+ 100	233	232	-	-	-	-

		Bank	Group	Sensitivity of equity			
Currency	Decrease in basis points LVL'000	Sensitivity of net interest income LVL'000	Sensitivity of net interest income LVL'000	0 to 6 months LVL'000	6 months to 1 year LVL'000	More than 1 year LVL'000	Total LVL'000
LVL	- 300	(186)	(197)	-	-	25	25
USD	- 150	42	255	-	-	-	-
EUR	- 100	(233)	(232)	-	-	-	-

Notes to the Consolidated and Separate Financial Statement
for the year ended 31 december 2007

At 31 December 2006

Currency	Increase in basis points LVL'000	Banka: Sensitivity of net interest income LVL'000	Group: Sensitivity of net interest income LVL'000	Sensitivity of equity: 0 to 6 months LVL'000	6 months to 1 year LVL'000	More than 1 year LVL'000	Total LVL'000
LVL	+ 500	255	266	-	-	(63)	(63)
USD	+ 100	41	46	-	(9)	-	(9)
EUR	+ 125	(216)	(217)	-	-	-	-

Currency	Decrease in basis points LVL'000	Banka: Sensitivity of net interest income LVL'000	Group: Sensitivity of net interest income LVL'000	Sensitivity of equity: 0 to 6 months LVL'000	6 months to 1 year LVL'000	More than 1 year LVL'000	Total LVL'000
LVL	- 300	(153)	(159)	-	-	39	39
USD	- 200	(83)	(93)	-	35	-	35
EUR	- 125	216	217	-	-	-	-

Currency risk

Currency risk is the risk that the fair value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Large Exposures Control Policy and the Internal Financial Risk Management Policy govern foreign exchange risk control and management. These policies are based on meeting the restrictions of the net open position of each foreign currency and the total amount of the net open position of foreign currencies, in compliance with the limits and stop losses set by the Board and with the requirements of the Latvian Financial and Capital Market Commission. In order to avoid losses arising from adverse changes in exchange rates, the Treasury continuously supervises compliance with the restrictions on foreign currency positions.

The sensitivity analysis for the Group's foreign exchange risk is presented in the following tables:

As at 31 December 2007 - Group	LVL LVL'000	USD LVL'000	EUR LVL'000	Other currencies LVL'000	Total LVL'000
Assets					
Cash and due from the central bank	37 231	1 367	2 514	1 045	**42 157**
Loans and receivables to banks	416	154 417	8 119	26 135	**189 087**
Trading financial assets	-	37 557	343	-	**37 900**
Financial assets designated at fair value through profit or loss	-	-	1 454	-	**1 454**
Derivative financial instruments	5 271	-	68	-	**5 339**
Loans to customers and receivables	46 699	96 598	175 601	5 564	**324 462**
Available-for-sale financial assets	468	483	8 287	-	**9 238**
Investment property	4 221	-	-	3	**4 224**
Tangible assets	2 680	-	-	95	**2 775**
Goodwill and other intangible assets	912	-	-	7	**919**
Other assets	962	21	58	152	**1 193**
Total assets	98 860	290 443	196 444	33 001	618 748
Liabilities and equity					
Due to the central bank and other banks	1 273	15 559	73 442	2 032	**92 306**
Derivative financial instruments	4 974	-	-	-	**4 974**
Customer deposits	56 490	281 919	98 345	10 622	**447 376**
Subordinated debt	1 750	24	6 728	-	**8 502**
Debt securities in issue	-	-	-	5 870	**5 870**
Current tax liabilities	415	-	-	164	**579**
Deferred tax liabilities	446	-	-	32	**478**
Other liabilities	2 619	133	241	155	**3 148**
Total liabilities	67 967	297 635	178 756	18 875	563 233
Share capital and reserves	54 591	-	-	901	**55 492**
Minority interest	23	-	-	-	**23**
Total liabilities and equity	122 581	297 635	178 756	19 776	618 748
Net balance sheet long/(short) position	**(23 721)**	**(7 192)**	**17 688**	**13 225**	-
Spot foreign-exchange contracts long/(short) position	1 055	(16 817)	7 230	8 532	-
Swap foreign-exchange contracts long/(short) position	31 105	23 571	(33 406)	(21 270)	-
Forward foreign-exchange contracts long/(short) position	(10 874)	439	9 021	1 414	-
Net open long/(short) currency position	(2 435)	1	533	1 901	
Currency open position in % from capital as of 31/12/2007	-	**0.00**	**0.87**	-	-

As at 31 December 2006 - Group	LVL LVL'000	USD LVL'000	EUR LVL'000	Citas valūtas LVL'000	Kopā LVL'000
Net open long/(short) currency position	(1 428)	102	178	1 148	
Currency open position in % from capital as of 31/12/2006	-	**0.32**	**0.56**	-	-

The table below indicates the currencies to which the Group had significant exposure as at 31 December 2007 and as at 31 December 2006 on its bank and trading monetary assets and liabilities and its forecast cash flows. The analysis calculates the effect of a reasonable possible movement of the currency rate against the lat, with all other variables held constant, on the income statement.

	31.12.2007		31.12.2006	
Currency	**Change in currency rate %**	**Effect on income statement LVL'000**	**Change in currency rate %**	**Effect on income statement LVL'000**
USD	- 10	-	- 10	(10)
EUR	- 1	(5)	- 1	(2)
USD	+ 10	-	+ 10	10
EUR	+ 1	5	+ 1	2

The sensitivity analysis for the Bank's foreign exchange risk is presented in following tables:

As at 31 December 2007 - Bank	LVL LVL'000	USD LVL'000	EUR LVL'000	Other currencies LVL'000	Total LVL'000
Assets					
Cash and due from the central bank	37 231	1 367	2 514	1 045	**42 157**
Loans and receivables to banks	352	154 400	8 113	26 054	**188 919**
Trading financial assets	-	37 557	343	-	**37 900**
Financial assets designated at fair value through profit or loss	-	-	1 454	-	**1 454**
Derivative financial instruments	5 271	-	68	-	**5 339**
Loans to customers and receivables	46 699	97 010	175 619	2 106	**321 434**
Available-for-sale financial assets	468	483	8 287	-	**9 238**
Investment property	4 221	-	-	3	**4 224**
Investment in subsidiaries	1 030	-	-	2 085	**3 115**
Tangible assets	2 665	-	-	-	**2 665**
Goodwill and other intangible assets	600	-	-	-	**600**
Other assets	899	21	57	108	**1 085**
Total assets	99 436	290 838	196 455	31 401	618 130
Liabilities and equity					
Due to the central bank and other banks	1 273	15 559	73 442	2 032	**92 306**
Derivative financial instruments	4 974	-	-	-	**4 974**
Customer deposits	56 956	281 919	98 345	10 622	**447 842**
Subordinated debt	1 750	24	6 728	-	**8 502**
Debt securities in issue	-	-	-	5 870	**5 870**
Current tax liabilities	415	-	-	-	**415**
Deferred tax liabilities	446	-	-	-	**446**
Other liabilities	2 563	133	241	17	**2 954**
Total liabilities	68 377	297 635	178 756	18 541	563 309
Share capital and reserves	54 821	-	-	-	**54 821**
Total liabilities and equity	123 198	297 635	178 756	18 541	618 130

• The continuation of the table

As at 31 December 2007 - Bank	LVL LVL'000	USD LVL'000	EUR LVL'000	Other currencies LVL'000	Total LVL'000
Net balance sheet long/(short) position	(23 762)	(6 797)	17 699	12 860	-
Spot foreign-exchange contracts long/(short) position	1 055	(16 817)	7 230	8 532	-
Swap foreign-exchange contracts long/(short) position	31 105	23 571	(33 406)	(21 270)	-
Forward foreign-exchange contracts long/(short) position	(10 874)	439	9 021	1 414	-
Net open long/(short) currency position	(2 476)	396	544	1 536	
Currency open position in % from capital as of 31/12/2007	-	0.65	0.89	-	-
As at 31 December 2006 - Bank					
Net open long/(short) currency position	(1 505)	217	179	1 109	-
Currency open position in % from capital as of 31/12/2006	-	0.67	0.55	-	-

As at 31 December 2007, the Bank's open position was 4.14 % of the tier 1 and tier 2 of the share capital (2006: 3.59%).

"Other currencies" includes the items denominated in Icelandic kronas (ISK). As at 31 December 2007 ISK open position was 0.08% of the tier 1 and tier 2 share capital.

According to the Law on Credit Institutions of the Republic of Latvia the total open position should not exceed 20% of the capital amount, and the open position for every currency should not exceed 10 %; the internal limits set by the Board during the 2007 were stronger (15 % and 7% accordingly).

The table below indicates the currencies to which the Bank had significant exposure at 31 December 2007 and at 31 December 2006 on its bank and trading monetary assets and liabilities and its forecasted cash flows. The analysis calculates the effect of a reasonable possible movement of the currency rate against the lat, with all other variables held constant, on the income statement.

	31.12.2007		31.12.2006	
Currency	Change in currency rate %	Effect on income statement LVL`000	Change in currency rate %	Effect on income statement LVL`000
USD	- 10	(40)	- 10	(22)
EUR	- 1	(5)	- 1	(2)
USD	+ 10	40	+ 10	22
EUR	+ 1	5	+ 1	2

Operational risk

Operational risk is the risk of loss arising from the impact of inadequate or unsuccessful internal processes: personnel errors, systems failure, or external events. The Management Board and appropriate organizational units of the Group exercise supervision and control over the operational risk on the basis of the approved Operational Risk Management Policy. The operational risk is monitored and managed by the following methods: effective segregation of duties, access, authorisation and reconciliation; operational risk is daily monitored by back-office and operational risk cases are registered in on-line database for the further analysis; direct reporting on operational risk cases to the Board, respective heads of department and product managers; regular internal control process reviews; regular inspections by the Internal Audit, including regular IT systems inspections by IT system internal auditor.

4. SEGMENT INFORMATION

The primary segment reporting format is determined to be business segments as the Group's risks and rates of return are affected predominantly by differences in the products and services produced.

For the management purposes, the Group is organized into three business segments:

Banking finance operations – principally includes attraction of deposits and other repayable funds; crediting and issuance of guarantees; performance of cash and non-cash payments; issuance and servicing of non-cash means of payment; investing and provision of investment services.

Asset management - principally includes management of investment funds and second-tier pension plans; fiduciary operations (trust).

Insurance – provision of insurance agent services.

Primary segment information – business segments

The following table presents income and profit and certain asset and liability information regarding the Group's business segments for the year ended 31 December 2006 and 2007:

As at 31 December 2007	Banking finance operations LVL'000	Asset management LVL'000	Insurance LVL'000	Adjustment on consolidation LVL'000	Total LVL'000
Revenue					
External operating income					
Net interest income	17 304	23	-	(17)	**17 310**
Net fee and commission income	4 869	497	4	80	**5 450**
Dividend income	3	-	-	-	**3**
Net trading income	918	-	-	-	**918**
Other operating income	2 368	-	-	(85)	**2 283**
Other operating expense	(473)	(16)	(2)	-	**(491)**
Net operating income	**24 989**	**504**	**2**	**(22)**	**25 473**
Impairment losses on financial investments	(1 183)	-	-	-	**(1 183)**
Result					
Net operating profit before tax	**7 606**	**360**	**(20)**	**(17)**	**7 929**
Income tax					(1 714)
Profit for the year					**6 215**
Assets and liabilities					
Segment assets	619 239	479	45	(1 015)	**618 748**
Unallocated assets	-	-	-	-	-
Total assets	**619 239**	**479**	**45**	**(1 015)**	**618 748**
Segment liabilities	562 137	23	16	-	**562 176**
Unallocated liabilities	1 057	-	-	-	**1 057**
Total liabilities	**563 194**	**23**	**16**	-	**563 233**
Other segment information					
Capital expenditure					
Tangible assets	2 771	2	2	-	**2 775**
Intangible assets	641	-	12	-	**653**
Depreciation	796	2	-	-	**798**
Amortisation of other intangible assets	190	-	-	-	**190**

Notes to the Consolidated and Separate Financial Statement

for the year ended 31 december 2007

As at 31 December 2006	Banking finance operations LVL'000	Asset management LVL'000	Insurance LVL'000	Adjustment on consolidation LVL'000	Total LVL'000
Revenue					
External operating income					
Net interest income	10 607	9	-	(1)	**10 615**
Net fee and commission income	3 947	338	-	23	**4 308**
Dividend income	4	-	-	-	**4**
Net trading income	2 483	-	-	-	**2 483**
Other operating income	475	-	-	(23)	**452**
Other operating expense	(284)	(9)	-	-	**(293)**
Net operating income	**17 232**	**338**	**-**	**(1)**	**17 569**
Impairment losses on financial investments	(282)				**(282)**
Result					
Net operating profit before tax	**3 550**	**259**	**-**	**(1)**	**3 808**
Income tax					**(572)**
Profit for the year					**3 236**
Assets and liabilities					
Segment assets	304 330	325	-	(544)	**304 111**
Unallocated assets	439	-	-	-	**439**
Total assets	**304 769**	**325**	**-**	**(544)**	**304 550**
Segment liabilities	272 890	34	-	(167)	**272 757**
Unallocated liabilities	107	-	-	-	**107**
Total liabilities	**272 997**	**34**	**-**	**(167)**	**272 864**
Other segment information					
Capital expenditure					
Tangible assets	5 359	3	-	-	**5 362**
Intangible assets	443	-	-	-	**443**
Depreciation	704	2	-	-	**706**
Amortisation of other intangible assets	146	-	-	-	**146**

Secondary segment information – geographical segments

Principally the Group operates in the Republic of Latvia. The following table shows the distribution of the Group's external net operating income and total assets by geographical segment, allocated on the basis of location in which the transactions and assets are recorded, for the years ended 31 December 2007 and 2006:

As at 31 December 2007	Latvia LVL`000	Other countries LVL`000	Adjustment on consolidation LVL`000	Total LVL`000
Revenue				
External operating income				
Net interest income	15 028	2 299	(17)	**17 310**
Net fee and commission income	5 314	56	80	**5 450**
Dividend income	3	-	-	**3**
Net trading income	895	23	-	**918**
Other operating income	2 355	13	(85)	**2 283**
Other operating expense	(482)	(9)	-	**(491)**
Net operating income	**23 113**	**2 382**	**(22)**	**25 473**
Impairment losses on financial investments	(1 096)	(87)	-	**(1 183)**
Total assets	598 312	21 451	(1 015)	**618 748**
Capital expenditure				
Tangible assets	2 680	95	-	**2 775**
Intangible assets	646	7	-	**653**

As at 31 December 2006	Latvia LVL`000	Other countries LVL`000	Adjustment on consolidation LVL`000	Total LVL`000
Revenue				
External operating income				
Net interest income	10 559	57	(1)	**10 615**
Net fee and commission incomes	4 277	8	23	**4 308**
Dividend income	4	-	-	**4**
Net trading income	2 497	(14)	-	**2 483**
Other operating income	475	-	(23)	**452**
Other operating expense	(292)	(1)	-	**(293)**
Net operating income	**17 520**	**50**	**(1)**	**17 569**
Impairment losses on financial investments	(277)	(5)	-	**(282)**
Total assets	300 218	4 876	(544)	**304 550**
Capital expenditure				
Tangible assets	5 307	55	-	**5 362**
Intangible assets	436	7	-	**443**

5. INTEREST INCOME, NET

	2007		2006	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Interest income	34 855	33 335	16 953	16 906
Loans and receivables to customers	25 925	24 439	11 550	11 511
Trading securities	4 793	4 793	2 888	2 888
Loans and receivables to banks	3 801	3 792	2 103	2 095
Available-for-sale securities	116	116	245	245
Other	220	195	167	167
Interest expense	17 545	17 564	6 338	6 339
Deposits from banks	7 128	7 128	2 088	2 088
Customer deposits	6 918	6 937	3 738	3 739
Debt securities in issue	2 711	2 711	-	-
Payments in the Deposit Guarantee Fund	490	490	359	359
Subordinated debts	298	298	153	153
Net interest income	17 310	15 771	10 615	10 567

As at 31 December 2007, interest income accrued on impaired loans to customers amounted to LVL'000 69 (2006: LVL'000 nil).

6. FEE AND COMMISSION INCOME, NET

	2007		2006	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Fee and commission income	7 035	6 751	5 596	5 577
Account services and money transfer fees	3 996	3 993	3 474	3 467
Payment cards	1 005	1 005	771	771
Asset management fees	614	394	361	361
Cash withdrawal	391	391	147	147
Brokerage services on securities	381	381	227	227
Commission for public utility payments	312	312	366	366
Commission for letters of credit and collection	91	91	112	112
Other	245	184	138	126
Fee and commission expense	1 585	1 542	1 288	1 275
Payment cards	705	705	537	537
Services of correspondent banks	415	409	459	459
Securities purchase and brokerage services	351	314	208	208
Other	114	114	84	71
Net fee and commission income	5 450	5 209	4 308	4 302

7. NET TRADING INCOME

	2007		2006	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Profit/(loss) from trading financial assets, net	(4 238)	(4 238)	70	70
Bonds and other fixed income securities	*(4 450)*	*(4 450)*	*53*	*53*
Net trading profit/(loss)	(2 808)	(2 808)	(182)	(182)
Fair value adjustment	(1 642)	(1 642)	235	235
Shares and other non- fixed income securities	*212*	*212*	*17*	*17*
Net trading profit/(loss)	264	264	13	13
Fair value adjustment	(52)	(52)	4	4
Profit/(loss) from derivative instruments and foreign exchanges trading, net	6 703	6 700	3 261	3 256
Net trading profit/(loss)	6 464	6 461	3 476	3 471
Fair value adjustment	239	239	(215)	(215)
Profit/(loss) from revaluation of open position, net	(1 602)	(1 622)	(545)	(526)
Net trading income	863	840	2 786	2 800

8. NET GAIN OR LOSS ON FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

	2007		2006	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Profit/(loss) from financial assets designated at FV through PL, net	56	56	-	-
Net realised profit/(loss)	-	-	-	-
Fair value adjustment	56	56	-	-
Profit/(loss) from financial liabilities designated at FV through PL, net	(1)	(1)	-	-
Net realised profit/(loss)	(1)	(1)	-	-
Fair value adjustment	-	-	-	-
Total	55	55	-	-

Notes to the Consolidated and Separate Financial Statement
for the year ended 31 december 2007

9. NET GAIN OR LOSS FROM SALES OF AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2007		2006	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Bonds and other fixed income securities	-	-	(76)	(76)
Shares and other non-fixed income securities	-	-	(227)	(227)
Total	-	-	(303)	(303)

These are the amounts transferred from equity to the income statement upon the derecognition of available-for-sale financial instruments.

10. OTHER OPERATING INCOME

	2007		2006	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Change in fair value of investment property (Note 23)	1 589	1 589	-	-
Penalties	305	305	143	143
Rent of investment property	241	241	-	-
Rent of premises	95	103	146	146
Other	53	119	163	186
Total	2 283	2 357	452	475

11. ADMINISTRATIVE EXPENSES

	2007		2006	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Personnel expense	8 002	7 620	5 858	5 737
Personnel remuneration	6 194	5 892	4 385	4 312
Supervisory Council and Management Board remuneration	392	360	417	386
Social security contributions	1 416	1 368	1 056	1 039
Other expense	7 371	7 209	6 769	6 715
Professional services	1 274	1 201	1 296	1 282
Rent	1 198	1 184	1 021	1 003
Computer repair and communications	1 006	991	1 104	1 097
VAT	649	649	524	524
Public utilities and maintenance	628	623	771	771
Advertising	512	510	450	449
Rebranding	317	317	7	7
Write-off of leasehold improvement	315	315	316	316
Donations	292	292	134	134
Business trip	223	221	171	171
Security	173	168	141	140
Stationery and miscellaneous	158	151	207	207
Real estate tax	35	35	21	21
Other administrative expenses	591	552	606	593
Total	15 373	14 829	12 627	12 452

During the 2007 the average number of employees of the Group and the Bank was 773 (including 10 Supervisory Council and 13 Management Board members) and 727 (including 6 Supervisory Council and 5 Management Board members), respectively.

The average number of employees of the Group and the Bank in 2006 was 657 (including 6 Supervisory Council and 6 Management Board members) and 635 (including 6 Supervisory Council and 5 Management Board members), respectively.

12. CORPORATE INCOME TAX

a) Components of corporate income tax

	2007		2006	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Corporate income tax expense for the year	1 332	1 152	534	534
Change in deferred tax liability	382	339	50	50
Change in deferred tax asset	-	-	(12)	-
Total	1 714	1 491	572	584

b) Reconciliation of accounting profit to tax charge

	2007		2006	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Profit before taxation	7 929	6 876	3 808	3 992
Expected corporate income tax *	1 260	1 031	583	599
Tax effect of:				
(Untaxed income)/non-deductible expense	875	881	145	141
Sponsorship	(177)	(177)	(114)	(114)
Tax exemptions	(244)	(244)	(42)	(42)
Total	1 714	1 491	572	584

**15% rate in Latvia and 20% rate in Armenia*

c) Reconciliation of prior year deferred tax balance with that of current period is as follows:

	2007		2006	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Deferred tax asset at the beginning of year	(12)	-	-	-
Deferred tax asset (increase)/decrease for the year	12	-	(12)	-
Deferred tax asset at the year end	**-**	**-**	**(12)**	**-**
Deferred tax liability at the beginning of year	107	107	57	57
Deferred tax liability increase for the year	370	339	50	50
Foreign exchange	1	-	-	-
Deferred tax liability at the year end	**478**	**446**	**107**	**107**

d) The deferred tax included in the balance sheet and changes recorded in the income statement are as follows:

	2007		2006	
Group	Deferred tax asset LVL'000	Deferred tax liability LVL'000	Deferred tax asset LVL'000	Deferred tax liability LVL'000
Loans to customers	-	(26)	-	(2)
Accruals for vacations	35	-	26	-
Revaluation of available-for-sale financial assets*	-	(69)	-	-
Depreciation and amortisation	-	(177)	-	(132)
Change in fair value of investment property	-	(238)	-	-
Other assets	1	-	1	-
Other liabilities	-	(4)	-	-
Tax loss carry-forwards	-	-	12	-
Total mutual off setting of asset/(liability)	36	(514)	27	(134)
Total non-mutual off setting of asset/(liability)	-	-	12	-
Net deferred tax asset/(liability)	**-**	**(478)**	**12**	**(107)**

** Changes of the item "Revaluation of available-for-sale financial assets" recorded directly in equity.*

Bank	2007 Deferred tax asset LVL'000	2007 Deferred tax liability LVL'000	2006 Deferred tax asset LVL'000	2006 Deferred tax liability LVL'000
Accruals for vacations	33	-	25	-
Revaluation of available-for-sale financial assets	-	(69)	-	-
Depreciation and amortisation	-	(172)	-	(132)
Change in fair value of investment property	-	(238)	-	-
Total mutual off setting of asset/(liability)	**33**	**(479)**	**25**	**(132)**
Net deferred tax asset/(liability)	**-**	**(446)**	**-**	**(107)**

13. CASH AND BALANCES WITH THE CENTRAL BANK

	31.12.2007 Group LVL'000	31.12.2007 Bank LVL'000	31.12.2006 Group LVL'000	31.12.2006 Bank LVL'000
Cash	8 205	8 205	6 941	6 941
Due from the central bank	33 952	33 952	21 153	21 153
Total	42 157	42 157	28 094	28 094

Balances with the Bank of Latvia represent funds held in the Bank's clearing account. In accordance with the regulations set by the Bank of Latvia, the Bank's average monthly correspondent account balance should not be less than the amount of the statutory reserve which is calculated on the basis of the balance of liabilities included in the reserve base, as at the end of month. As at 31 December 2007 and 2006 the amount of the statutory reserve of the Bank was LVL'000 33 588 and LVL'000 19 308, respectively.

14. LOANS AND RECEIVABLES TO BANKS

	31.12.2007 Group LVL'000	31.12.2007 Bank LVL'000	31.12.2006 Group LVL'000	31.12.2006 Bank LVL'000
Demand placements with:	40 485	40 380	22 422	22 343
other countries banks	23 762	23 658	4 090	4 017
OECD countries banks	16 697	16 697	18 159	18 159
Banks of the Republic of Latvia	26	25	173	167
Loans and receivables to:	148 602	148 539	8 508	8 352
Banks of the OECD countries	135 019	135 019	813	813
Banks of other countries	12 548	12 548	7 474	7 474
Banks of the Republic of Latvia	1 035	972	221	65
Total	189 087	188 919	30 930	30 695

15. TRADING FINANCIAL ASSETS

	31.12.2007		31.12.2006	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Trading bonds and other fixed income securities	37 030	37 030	41 189	41 189
Other country bonds	36 077	36 077	38 279	38 279
OECD country bonds	953	953	2 161	2 161
Latvian bonds	-	-	749	749
Trading shares and other non- fixed income securities	870	870	59	59
Other country shares	870	870	59	59
Total	37 900	37 900	41 248	41 248

16. FINANCIAL ASSETS DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS

	31.12.2007		31.12.2006	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Fund participations	1 454	1 454	-	-
Latvian funds	1 454	1 454	-	-

As at 31 December 2007, the Bank has investments in open-end investment funds, which JSC NORVIK ieguldījumu pārvaldes sabiedrība, a subsidiary company of the Bank, has registered in the Financial and Capital Market Commission (FCMC) in 2007.

17. DERIVATIVE FINANCIAL INSTRUMENTS

The table below presents the fair value of the Group's and the Bank's derivatives held for trading. Derivative financial instruments are recorded as assets or liabilities, together with their notional values. The notional values are the gross amount of a derivative's underlying assets and are calculated based on FCMC regulation on calculation of capital adequacy. The notional amounts indicate the volume of transactions outstanding at the year end.

	31.12.2007			31.12.2006		
	Assets LVL'000	Liabilities LVL'000	Notional amount LVL'000	Assets LVL'000	Liabilities LVL'000	Notional amount LVL'000
Swaps	3 802	3 320	776 995	761	742	418 339
Spot	900	948	389 098	150	194	122 095
Forwards	569	706	29 620	101	352	15 487
Options	68	-	745	-	-	-
Futures	-	-	-	53	-	7 119
Total	5 339	4 974	1 196 458	1 065	1 288	563 040

18. LOANS AND RECEIVABLES TO CUSTOMER

	31.12.2007		31.12.2006	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Net loans to:	320 318	317 290	184 176	183 443
Private companies	230 830	237 711	131 957	134 390
Individuals	90 703	80 698	52 410	49 239
Allowance for impairment losses (Note 16)	(1 215)	(1 119)	(191)	(186)
Receivables to:	4 144	4 144	5 644	5 644
Finances companies	4 144	4 144	5 644	5 644
Total net loans and receivables to customers	324 462	321 434	189 820	189 087

	31.12.2007		31.12.2006	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Geographical segmentation of loans and receivables				
Net loans to:	320 318	317 290	184 176	183 443
Residents of Latvia	202 595	202 595	120 518	120 518
Residents of the other countries	109 763	106 639	55 309	54 571
Residents of OECD countries	9 175	9 175	8 540	8 540
Allowance for impairment losses (Note 16)	(1 215)	(1 119)	(191)	(186)
Receivables to:	4 144	4 144	5 644	5 644
Residents of OECD countries	4 139	4 139	5 644	5 644
Residents of the other countries	3	3	-	-
Residents of Latvia	2	2	-	-
Total loans and receivables to customers	324 462	321 434	189 820	189 087

	31.12.2007		31.12.2006	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Analysis of loans by type				
Industrial loans	91 613	91 613	46 871	46 871
Mortgage loans	65 367	60 078	38 099	36 221
Commercial loans	63 822	71 418	43 488	45 921
Consumer loans	40 161	34 826	10 800	9 512
Reverse Repo transactions	39 814	39 814	27 287	27 287
Credit card balances	8 956	8 956	7 050	7 050
Finance leases	4 788	4 788	1 635	1 635
Factoring loans	1 864	1 864	2 608	2 608
Other	3 933	3 933	6 338	6 338
Net loans to customers	320 318	317 290	184 176	183 443

The Group has received securities at fair value LVL'000 41 015 (at 31 December 2006: LVL'000 32 741) as collateral for reverse repo deals and the Group is permitted to sell or repledge them. As at 31 December 2007 have been sold or repledged received securities at fair value LVL'000 nil (at 31 December 2006: LVL'000 7 215).

	31.12.2007		31.12.2006	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Finance leases				
Gross investments	5 903	5 903	1 832	1 832
Within 1 year	1 180	1 180	730	730
From 1 year to 5 years	3 695	3 695	1 041	1 041
More than 5 years	1 028	1 028	61	61
Unearned income	1 115	1 115	197	197
Within 1 year	424	424	90	90
From 1 year to 5 years	640	640	104	104
More than 5 years	51	51	3	3
Present value of minimum lease payments	4 788	4 788	1 635	1 635
Within 1 year	756	756	640	640
From 1 year to 5 years	3 055	3 055	937	937
More than 5 years	977	977	58	58

19. IMPAIRMENT LOSSES ON FINANCIAL INVESTMENTS

The total impairment allowance for the Group's loans and receivables to customers is LVL'000 1 215 (at 31 December 2006: LVL'000 191) of which LVL'000 855 (at 31 December 2006: LVL'000 139) represents allowance for impaired loans that have been made by using an individual valuation approach and the remaining amount of LVL'000 360 (at 31 December 2006: LVL'000 52) represents allowances that have been made for loan portfolios as groups of financial assets.

The following table presents an analysis of the change in allowance account for impairment. The Group attributes the allowance for impairment losses completely to the loans to customers.

Group	Industrial loans LVL'000	Commercial loans LVL'000	Consumer loans LVL'000	Credit cards LVL'000	Finance leasing LVL'000	Mortgage loans LVL'000	Total LVL'000
At 31 December 2006	41	21	12	40	77	-	191
Increase in allowance for loans	-	31	796	598	9	15	**1 449**
Written off loans	-	-	(69)	(251)	(31)	-	**(351)**
Released from allowance	(9)	(17)	(4)	(23)	(25)	-	**(78)**
Foreign exchange	-	1	2	-	-	1	**4**
At 31 December 2007	32	36	737	364	30	16	1 215
Individual impairment	32	4	454	335	30	-	**855**
Collective impairment	-	32	283	29	-	16	**360**
	32	36	737	364	30	16	1 215
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	32	6	454	335	30	-	**857**

Group	Industrial loans LVL'000	Commercial loans LVL'000	Consumer loans LVL'000	Credit cards LVL'000	Finance leasing LVL'000	Total LVL'000
At 31 December 2005	13	32	4	5	92	146
Increase in allowance for loans	30	1	65	342	31	**469**
Written off loans	-	-	(55)	(305)	-	**(360)**
Released from allowance	(2)	(11)	(2)	(2)	(46)	**(63)**
Foreign exchange	-	(1)	-	-	-	**(1)**
At 31 December 2006	41	21	12	40	77	191
Individual impairment	41	21	-	-	77	**139**
Collective impairment	-	-	12	40	-	**52**
	41	21	12	40	77	191
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	44	29	-	-	101	**174**

Notes to the Consolidated and Separate Financial Statement

for the year ended 31 december 2007

Group	2007 LVL'000	2006 LVL'000
Result of allowance for impairment losses	(1 183)	(282)
Increase in allowance	(1 449)	(469)
Released from allowance (loans)	78	63
Released from allowance (other)	-	34
Recovery of previously written-off assets	188	90

The total impairment allowance for the Bank's loans and receivables to customers is LVL'000 1 119 (at 31 December 2006: LVL'000 186) of which LVL'000 855 (at 31 December 2006: LVL'000 139) represents the individually impaired loans and the remaining amount of LVL'000 264 (at 31 December 2006: LVL'000 47) represents the portfolio allowance.

Bank	Industrial loans LVL'000	Commercial loans LVL'000	Consumer loans LVL'000	Credit cards LVL'000	Finance leasing LVL'000	Total LVL'000
At 31 December 2006	41	21	7	40	77	186
Increase in allowance for loans	-	1	754	598	9	**1 362**
Written off loans	-	-	(68)	(251)	(31)	**(350)**
Released from allowance	(9)	(17)	(4)	(23)	(25)	**(78)**
Foreign exchange	-	(1)	-	-	-	**(1)**
At 31 December 2007	32	4	689	364	30	1 119
Individual impairment	32	4	454	335	30	**855**
Collective impairment	-	-	235	29	-	**264**
	32	4	689	364	30	1 119
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	32	6	454	335	30	**857**

Bank	Industrial loans LVL'000	Commercial loans LVL'000	Consumer loans LVL'000	Credit cards LVL'000	Finance leasing LVL'000	Total LVL'000
At 31 December 2005	13	32	4	5	92	146
Increase in allowance for loans	30	1	60	342	31	**464**
Written off loans	-	-	(55)	(305)	-	**(360)**
Released from allowance	(2)	(11)	(2)	(2)	(46)	**(63)**
Foreign exchange	-	(1)	-	-	-	**(1)**
At 31 December 2006	41	21	7	40	77	186
Individual impairment	41	21	-	-	77	**139**
Collective impairment	-	-	7	40	-	**47**
	41	21	7	40	77	186
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	44	29	-	-	101	**174**

Bank	2007 LVL'000	2006 LVL'000
Result from allowance for impairment losses	(1 096)	(277)
Increase in allowance	(1 362)	(464)
Released from allowance (loans)	78	63
Released from allowance (other)	-	34
Recovery of previously written-off assets	188	90

20. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	31.12.2007		31.12.2006	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Bonds and other fixed income securities	971	971	5 681	5 681
Latvian bonds	488	488	3 536	3 536
OECD country bonds	-	-	1 610	1 610
Other country bonds	483	483	535	535
Shares and other non-fixed income securities	8 267	8 267	-	-
EU country funds	8 267	8 267	-	-
Total	9 238	9 238	5 681	5 681

21. INVESTMENT IN SUBSIDIARIES

As at 31 December 2007 the Bank had the following investment in the subsidiaries:

Company	Country and address of registration	Business profile	Share capital LVL'000	Bank's investments LVL'000	Bank's share capital %	Total equity value LVL'000	Goodwill LVL'000
JSC NORVIK Ieguldījumu pārvaldes sabiedrība	Latvia, Riga, E.Birznieka-Upīša str. 21	Finance	755	830	94.95	456	266
JSC NORVIK Universal Credit Organization	Armenia, Yerevan, Khanjyan str. 41	Finance	2 085	2 085	100.00	2 986	-
NORVIK Līzings Ltd	Latvia, Riga, E.Birznieka-Upīša str. 21	Finance	200	200	100.00	141	-
Total				3 115			

In March 2007, the Bank established a 100% owned subsidiary - NORVIK Līzings Ltd - in Latvia. The purpose of NORVIK Līzings Ltd activity is lending in form of finance leasing.

In May 2007, JSC NORVIK Ieguldījumu pārvaldes sabiedrība registered an increase in share capital of LVL'000 555 up to LVL'000 755. The Bank additionally invested LVL'000 190 in share capital of the JSC NORVIK Ieguldījumu pārvaldes sabiedrība. As a result the total sum of the Bank's investment as at 31 December 2007 was LVL'000 830.

In August 2007, the Bank increased the share capital of JSC NORVIK Universal Credit Organization (Armenia) by AMD`000 700 000, as a result of which the share capital of this subsidiary company now amounts to AMD`000 1 314 040.

22. GOODWILL AND OTHER INTANGIBLE ASSETS

	31.12.2007		31.12.2006	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Goodwill	266	-	266	-
Other intangible assets	645	592	442	435
Prepayments for intangible assets	8	8	1	1
Net book value of other intangible assets	**919**	**600**	**709**	**436**

The following table shows the changes in the Group's and the Bank's intangible assets for the year ended 31 December 2007 and 31 December 2006:

Group

LVL `000	Goodwill	Other intangible assets	Prepayments for other intangible assets	Total
Historical cost				
At 31 December 2006	**266**	**953**	**1**	**1220**
Additions	-	394	102	**496**
Disposals	-	(86)	(95)	**(181)**
At 31 December 2007	**266**	**1 261**	**8**	**1 535**
Amortisation				
At 31 December 2006	**-**	**511**	**-**	**511**
Charge	-	191	-	**191**
Disposals	-	(86)	-	**(86)**
At 31 December 2007	**-**	**616**	**-**	**616**
Net book value				
At 31 December 2006	**266**	**442**	**1**	**709**
At 31 December 2007	**266**	**645**	**8**	**919**

Group

LVL `000	Goodwill	Other intangible assets	Prepayments for other intangible assets	Total
Historical cost				
At 31 December 2005	-	776	1	777
Additions	266	177	26	469
Disposals	-	-	(26)	(26)
At 31 December 2006	266	953	1	1 220
Amortisation				
At 31 December 2005	-	365	-	365
Charge	-	146	-	146
Disposals	-	-	-	-
At 31 December 2006	-	511	-	511
Net book value				
At 31 December 2006	266	442	1	709

Goodwill with indefinite live obtained through business combination has been tested for impairment as an individual cash-generating unit – Investment Funds Management, which is included into reportable segment Asset Management.

Bank

LVL `000	Other intangible assets	Prepayments for other intangible assets	Total
Historical cost			
At 31 December 2006	945	1	946
Additions	345	102	447
Disposals	(86)	(95)	(181)
At 31 December 2007	1 204	8	1 212
Amortisation			
At 31 December 2006	510	-	510
Charge	188	-	188
Disposals	(86)	-	(86)
At 31 December 2007	612	-	612
Net book value			
At 31 December 2006	435	1	436
At 31 December 2007	592	8	600

Bank

LVL `000	Other intangible assets	Prepayments for other intangible assets	Total
Historical cost			
At 31 December 2005	**775**	**1**	**776**
Additions	170	26	**196**
Disposals	-	(26)	**(26)**
At 31 December 2006	**945**	**1**	**946**
Amortisation			
At 31 December 2005	**364**	**-**	**364**
Charge	146	-	146
Disposals	-	-	-
At 31 December 2006	**510**	**-**	**510**
Net book value			
At 31 December 2006	**435**	**1**	**436**

Other intangible assets represent computer software and licenses which were purchased from the third parties.

23. INVESTMENT PROPERTY

The following table shows changes in the Group's and the Bank's investment property for the period ended 31 December 2007:

LVL`000	Building
As at 31 December 2006	**-**
Reclassification	2 615
Net change in fair value	1 589
Additions	20
As at 31 December 2007	**4 224**

The reclassification during the year from buildings to investment property relates to property which was acquired for the purpose of earning rental income, following its renovation immediately after acquisition. Upon acquisition and during the renovation the building has been presented as a part of tangible fixed assets. During 2007, the renovation has been finished and the premises were leased out to a related party, resulting in a transfer to investment property. Upon reclassification the building was revalued.

Investment property is reflected at fair value, which has been determined on the basis of on valuation performed by CJSC "Independent consulting group 2K Audit – Business consultations" *("ЗАО "Независимая консалтинговая группа «2К Аудит –Деловые консультации»)*, an industry specialist in valuing such types of investment properties, on 18 December 2007. The fair value represents the amount for which the assets could be exchanged between a knowledgeable, willing buyer and a knowledgeable, willing seller in an arm's length transaction at the date of valuation. Net change in fair value of investment property is recognized in the income statement in "Other operating income".
All investment property generated rental income during 2007. The property rental income earned by the Bank from its investment property, all of which is leased out to a related company under an operating lease agreement, amounted to LVL'000 241, at the same time the related property maintenance expense was LVL'000 69.

24. TANGIBLE FIXED ASSETS

	31.12.2007		31.12.2006	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Land and buildings	941	941	3 154	3 154
Vehicles	296	240	259	238
Office equipment and other fixed assets	1 293	1 239	1 182	1 145
Prepayments for tangible fixed assets	3	3	199	199
Leasehold improvements	242	242	568	568
Net book value of tangible fixed assets	**2 775**	**2 665**	**5 362**	**5 304**

The following table shows the changes in the Group's and the Bank's tangible fixed assets for the year ended 31 December 2007:

LVL `000	Land and Buildings	Vehicles	Office equipment and other fixed assets	Prepayments for tangible fixed assets	Leasehold improvements	Total
Historical cost						
At 31 December 2006	**4 912**	**338**	**3 175**	**199**	**568**	**9 192**
Additions	59	38	571	489	543	**1 700**
Reclassification (Note 23)	(1 991)	-	-	(81)	(543)	**(2 615)**
Disposals	-	(26)	(211)	(604)	(326)	**(1 167)**
At 31 December 2007	**2 980**	**350**	**3 535**	**3**	**242**	**7 110**
Depreciation						
At 31 December 2006	**1 758**	**100**	**2 030**	**-**	**-**	**3 888**
Charge	281	36	465	-	-	**782**
Disposals	-	(26)	(199)	-	-	**(225)**
At 31 December 2007	**2 039**	**110**	**2 296**	**-**	**-**	**4 445**
Net book value						
At 31 December 2006	**3 154**	**238**	**1 145**	**199**	**568**	**5 304**
At 31 December 2007	**941**	**240**	**1 239**	**3**	**242**	**2 665**
Fair value	**4 860**	**-**	**-**	**-**	**-**	**-**

As of 31 December 2006, the fixed asset category Land and buildings included property in the course of construction for future use as investment property with the carrying amount of LVL`000 1 991.

Notes to the Consolidated and Separate Financial Statement
for the year ended 31 december 2007

LVL `000	Land and Buildings	Vehicles	Office equipment and other fixed assets	Prepayments for tangible fixed assets	Leasehold improvements	Total
Historical cost						
At 31 December 2005	4 898	307	2 483	56	834	8 578
Additions	172	34	853	620	51	1 730
Reclassification	(158)	-	-	-	-	(158)
Disposals	-	(3)	(161)	(477)	(317)	(958)
At 31 December 2006	4 912	338	3 175	199	568	9 192
Depreciation						
At 31 December 2005	1 483	71	1 800	-	-	3 354
Charge	275	32	388	-	-	695
Disposals	-	(3)	(158)	-	-	(161)
At 31 December 2006	1 758	100	2 030	-	-	3 888
Net book value						
At 31 December 2005	3 154	238	1 145	199	568	5 304

25. OTHER ASSETS

	31.12.2007		31.12.2006	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Deferred expenses	341	305	113	113
Accrued income	195	149	152	169
VAT	152	152	471	471
Cards transactions	89	89	110	110
Other debtors	416	390	356	343
Total	1 193	1 085	1 202	1 206

26. MANAGED TRUST ASSETS AND LIABILITIES

	31.12.2007		31.12.2006	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Managed trust assets	43 157	43 157	58 411	58 411
Debt securities	22 122	22 122	13 560	13 560
Loans	15 282	15 282	41 926	41 926
Shares and other securities with non-fixed income	1 348	1 348	1 370	1 370
Due from credit institutions	557	557	617	617
Other	3 848	3 848	938	938
Managed trust liabilities	43 157	43 157	58 411	58 411
Private companies	42 322	42 322	26 137	26 137
Individuals	835	835	32 274	32 274

The financial statements disclose assets and liabilities held by the Bank on behalf of clients and registered in the name of the Bank. The Group does not carry credit, interest rate or any other risk connected with these managed assets. The Bank receives commission fee for rendering of trust services to clients.

27. DUE TO THE CENTRAL BANK AND OTHER BANKS

	31.12.2007		31.12.2006	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Demand deposits	4 848	4 848	5 679	5 679
Banks registered in Latvia	2 199	2 199	5 130	5 130
Banks registered in other countries	2 165	2 165	549	549
Banks registered in OECD countries	484	484	-	-
Term deposits	87 458	87 458	59 786	59 786
Banks registered in OECD countries	80 763	80 763	55 097	55 097
Banks registered in other countries	4 578	4 578	2 085	2 085
Banks registered in Latvia	2 117	2 117	2 604	2 604
Total	92 306	92 306	65 465	65 465

28. CUSTOMER DEPOSITS

	31.12.2007		31.12.2006	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Current accounts	147 695	147 789	120 556	120 563
Private companies	130 226	130 320	101 220	101 227
Individuals	16 989	16 989	18 642	18 642
Public organizations	281	281	467	467
Government companies	147	147	-	-
Local government	52	52	227	227
Fixed-term deposits	299 681	300 053	81 600	81 745
Private companies	223 718	224 090	38 920	39 065
Individuals	69 824	69 824	42 680	42 680
Government companies	6 000	6 000	-	-
Public organizations	139	139	-	-
Total	447 376	447 842	202 156	202 308
Geographical segmentation of customer deposits				
Current accounts	147 695	147 789	120 556	120 563
Residents of the other countries	85 562	85 562	61 725	61 725
Residents of Latvia	32 359	32 453	32 241	32 248
Residents of OECD countries	29 774	29 774	26 590	26 590
Fixed-term deposits	299 681	300 053	81 600	81 745
Residents of OECD countries	137 215	137 215	3 203	3 203
Residents of the other countries	83 235	83 235	42 237	42 237
Residents of Latvia	79 231	79 603	36 160	36 305
Total	447 376	447 842	202 156	202 308

29. SUBORDINATED DEBT

As at 31 December 2007 and 2006 the Bank's depositors with more than 10% of the subordinated debt amount were as follows:

	Maturity	Interest rate (%)	Currency	31.12.2007 LVL'000	31.12.2006 LVL'000
"Straumborg Ehf." (Iceland)	2013	9	EUR	5 252	-
"Ice-Balt Invest Ehf." (Iceland)	2013	9	EUR	949	-
Other persons	2009 - 2013	6-9	LVL, USD,EUR	2 301	1 777
Total				**8 502**	**1 777**

30. DEBT SECURITIES IN ISSUE

	Nominal ISK`000	Effective interest rate %	Group 31.12.2007 LVL'000	Bank 31.12.2007 LVL'000
Corporate bills due 2008	810 000	16.33	5 870	5 870
Total	810 000	16.33	5 870	5 870

Corporate bills with a nominal value of ISK`000 380 000 mature on 19 March 2008, with a nominal value of ISK`000 310 000 mature on 19 June 2008 and those with the nominal value of ISK`000 120 000 mature on 19 September 2008.

31. OTHER LIABILITIES

	31.12.2007		31.12.2006	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Payments collected on behalf of communal utilities providers	954	954	494	494
Accrued expenses	588	568	498	498
Cards transactions	457	457	428	428
Accruals for vacations	221	221	180	170
Suspense amounts	214	214	257	257
Deferred income	37	37	26	26
Other	677	503	188	123
Kopā	3 148	2 954	2 071	1 996

Suspense amounts represent payments received by the Bank where the beneficiary is not clearly identified and are cleared after year-end. Based on cooperation agreements *Payments collected on behalf of communal utilities providers are transferred to providers* after year end.

32. SHARE CAPITAL

	31.12.2007		31.12.2006	
	Quantity `000	LVL `000	Quantity `000	LVL `000
Registered and paid – in share capital	40 500	40 500	22 500	22 500

On 3 May 2007 at the Shareholders Meeting of the Bank, it was decided to increase the share capital by issuing 8 000 000 new registered voting shares with a nominal value of 1 LVL each.

On 26 October 2007 at the Shareholders Meeting of the Bank, it was decided to increase the share capital by issuing 10 000 000 new registered voting shares with a nominal value of 1 LVL each. As at 31 December 2007, all issued shares are fully paid and the Bank's paid-in share capital amounts to LVL'000 40 500 (as at 31 December 2006: LVL'000 22 500).

As at 31 December 2007 and 2006, Bank's shareholders were as follows:

	31.12.2007			31.12.2006		
	Number of shares	% of total shares	Paid up share capital	Number of shares	% of total shares	Paid up share capital
"Straumborg Ehf."(Iceland)	20 705 879	51.13	20 706	11 487 459	51.06	11 488
J. Šapurovs	8 007 091	19.77	8 007	4 444 125	19.75	4 444
A. Svirčenkovs	8 007 089	19.77	8 007	4 444 123	19.75	4 444
Other (individually less than 10%)	3 779 869	9.33	3 780	2 124 221	9.44	2 124
Total	40 499 928	100.00	40 500	22 499 928	100.00	22 500

33. EARNINGS PER SHARE

Earnings per share are based on net profit attributable to ordinary equity holders of the parent divided by the weighted average number of issued shares. As of 31 December 2007 and 2006 there is no difference between basic and diluted earnings per share calculation.

	Group 31.12.2007	Group 31.12.2006
Net profit (LVL'000)	6 217	3 241
Weighted average number of ordinary shares	26 500	16 667
Earnings per share (LVL)	0.23	0.19

34. CASH AND CASH EQUIVALENTS

	31.12.2007		31.12.2006	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Cash and balances due on demand from the Bank of Latvia	42 157	42 157	28 094	28 094
Balances due from other banks with original maturity of 3 months or less	177 633	177 465	26 281	26 086
Total	219 790	219 622	54 375	54 180

35. COMMITMENTS AND CONTINGENCIES

	31.12.2007		31.12.2006	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Contingent liabilities	4 087	4 680	2 958	2 958
Guarantees	4 039	4 632	2 904	2 904
Other	48	48	54	54
Commitments	41 498	41 905	33 620	35 302
Unused credit lines	40 945	41 352	31 595	33 277
Letters of credit	553	553	2 025	2 025
Total off-balance sheet items, gross	45 585	46 585	36 578	38 260

In the ordinary course of business, the Group gives loans commitments, guarantees and letters of credit. The main purpose of these instruments is to ensure the availability of necessary funds to the clients. Guarantees and letters of credit, that include irrevocable liabilities - the ones that the Bank will have to pay in the event of failure by the clients to meet their obligations to third parties - are assigned the same risk as for loans. Letters of credit, in accordance with which the Bank has the right, on behalf of the client, to accept invoices from third parties, are secured with goods being transported.

Unused part of credit lines is viewed as an obligation arising from credit lines. As regards the credit risk, the Bank is potentially exposed to losses arising also from obligations under unused credit lines.

36. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

The following table shows a comparison by class of the Group's and the Bank's carrying values and fair values of the financial instruments that are carried in the financial statements.

	31.12.2007.			31.12.2006.		
Group	Carrying value LVL'000	Fair value LVL'000	Difference LVL'000	Carrying value LVL'000	Fair value LVL'000	Difference LVL'000
Financial assets						
Cash and balances with the central bank	42 157	42 157	-	28 094	28 094	-
Loans and receivables to banks	189 087	189 461	374	30 930	30 975	45
Trading financial assets	37 900	37 900	-	41 248	41 248	-
Financial assets designated at fair value through profit or loss	1 454	1 454	-	-	-	-
Derivative financial instruments	5 339	5 339	-	1 065	1 065	-
Loans to customer and receivables	324 462	330 902	6 440	189 820	189 803	(17)
Available-for-sale financial assets	9 238	9 238	-	5 681	5 681	-
Financial liabilities						
Due to the central bank and other banks	92 306	92 750	(444)	65 465	65 816	(351)
Derivative financial instruments	4 974	4 974		1 288	1 288	-
Customer deposits	447 376	448 431	(1 055)	202 156	202 230	(74)
Subordinated debt	8 502	8 502	-	1 777	1 777	-
Debt securities in issue	5 870	5 899	(29)	-	-	-
Total difference			5 286			(397)

Bank	31.12.2007. Carrying value LVL'000	Fair value LVL'000	Difference LVL'000	31.12.2006. Carrying value LVL'000	Fair value LVL'000	Difference LVL'000
Financial assets						
Cash and balances with the central bank	42 157	42 157	-	28 094	28 094	-
Loans and receivables to banks	188 919	189 293	374	30 695	30 740	45
Trading financial assets	37 900	37 900	-	41 248	41 248	-
Financial assets designated at fair value through profit or loss	1 454	1 454	-	-	-	-
Derivative financial instruments	5 339	5 339	-	1 065	1 065	-
Loans to customers and receivables	321 434	327 874	6 440	189 087	189 070	(17)
Available-for-sale financial assets	9 258	9 258	-	5 681	5 681	-
Financial liabilities						
Due to the central bank and other banks	92 306	92 750	(444)	65 465	65 816	(351)
Derivative financial instruments	4 974	4 974	-	1 288	1 288	-
Customer deposits	447 842	448 897	(1 055)	202 308	202 382	(74)
Subordinated debt	8 502	8 502	-	1 777	1 777	-
Debt securities in issue	5 870	5 899	(29)	-	-	-
Total difference			5 286			(397)

The following describes the methodologies and assumptions used to determine fair value for those financial instruments which are not recorded at fair value in the financial statements:

- For financial assets and liabilities that have a short term maturity (such as overdrafts, money market deals with maturity less than 3 months) it is assumed that the carrying amounts approximate to their fair value. This assumption is also applied to demand deposits, current accounts without a specific maturity and subordinated debts with special conditions which permit for such debts to be eligible as tier 2 capital.
- The fair value of fixed rate financial assets and liabilities carried at amortised cost are estimated as the present value of future cash flows using average market interest rates for loans and debts with similar credit risk and maturity.

37. FINANCIAL INSTRUMENTS RECORDED AT FAIR VALUE

The following table shows the analysis of the Group's and the Bank's financial instruments recorded at fair value, between those whose fair value is based on quoted market prices, those involving valuation techniques where all the model inputs are observable in the market, and those where the valuation techniques involve the use of non-market observable inputs.

As at 31 December 2007 - Group	Quoted market LVL'000	Valuation techniques – market observable inputs LVL'000	Valuation techniques – non-market observable inputs LVL'000	Total LVL'000
Financial assets	38 456	7 208	8 267	53 931
Trading financial assets	37 900	-	-	37 900
Financial assets designated at fair value through profit or loss	-	1 454	-	1 454
Derivative financial instruments	68	5 271	-	5 339
Available-for-sale financial assets	488	483	8 267	9 238
Financial liabilities	-	4 974	-	4 974
Derivative financial instruments	-	4 974	-	4 974

As at 31 December 2006 - Group	Quoted market LVL'000	Valuation techniques – market observable inputs LVL'000	Valuation techniques – non-market observable inputs LVL'000	Total LVL'000
Financial assets	46 982	1 012	-	47 994
Trading financial assets	41 248	-	-	41 248
Derivative financial instruments	53	1 012	-	1 065
Available-for-sale financial assets	5 681	-	-	5 681
Financial liabilities	-	1 288	-	1 288
Derivative financial instruments	-	1 288	-	1 288

38. CAPITAL ADEQUACY CALCULATION

As of 31 December 2007	Notional risk level %	Group Weighted risk value LVL'000	Group Riska svērtā pakāpe LVL'000	Bank Balance sheet value LVL'000	Bank Weighted risk value LVL'000
Assets					
Cash and due from the central bank	0%	42 157	-	42 157	-
Due from central governments of OECD countries (securities available for sale)	0%	488	-	488	-
Claims secured with securities issued by central governments of OECD countries (securities available for sale)	0%	483	-	483	-
Claims secured with term deposits placed with the bank	0%	3 078	-	3 078	-
Due from credit institutions of OECD countries excluding amounts that comprise share capital of credit institutions	20%	152 306	30 461	152 242	30 448
Loans fully secured on property registered in the Land Register	50%	922	461	922	461
Due from non-OECD credit institutions	100%	36 281	36 281	36 176	36 176
Due from borrowers with 100% risk	100%	280 664	280 664	277 636	277 636
Shares and other securities with non-fixed income	100%	8 267	8 267	8 267	8 267
Investment property	100%	4 224	4 224	4 224	4 224
Investments in subsidiaries	100%	-	-	3 115	3 115
Tangible assets	100%	2 775	2 775	2 665	2 665
Other assets		1 193	1 193	1 085	1 085
Other intangible assets	*	653		600	
Total assets with weighted risks		**533 491**	**364 326**	**533 138**	**364 077**

** Decreased Tier 1*

Off-balances sheet items		Full value LVL'000		Full value LVL'000	
Items with 50% adjustment	20%	107	11	107	11
Items with 50% adjustment	50%	253	63	253	63
Items with 50% adjustment	100%	38 145	19 072	36 566	18 283
Items with 100% adjustment	100%	3 213	3 213	3 807	3 807
Amounts that are not included in the calculation of the weighted risk value	0%	3 867	-	5 852	0
Total off-balance sheet items		**45 585**	**22 359**	**46 585**	**22 164**

Derivatives		Nominal value LVL'000		Nominal value LVL'000	
Currency agreements with weighted risk value	**	84 287	1 277	84 287	1 277
Amounts that are not included in the calculation of the weighted risk value		1 112 171	-	1 112 171	-
Total derivatives		**1 196 458**	**1 277**	**1 196 458**	**1 277**
Total assets and off-balance sheet items		**1 775 534**	**387 962**	**1 776 181**	**387 518**

*** Weighted risk value is calculated according to the Market value method (FCMC).*

Notes to the Consolidated and Separate Financial Statement
for the year ended 31 december 2007

The Group's and the Bank's capital adequacy ratio as of 31 December 2007 has been calculated as follows:

	Group LVL'000	Bank LVL'000
Tier 1		
Paid-in share capital	40 500	40 500
Reserve capital	7	7
Retained earnings for previous years	9 220	9 387
Minority interest	23	-
Revaluation reserve of available for sale financial assets	(458)	(458)
Revaluation reserve of foreign currency	6	-
Retained earnings	6 217	5 385
Goodwill	(266)	-
Other intangible assets	(653)	(600)
Total tier 1	54 596	54 221
Tier 2		
Subordinated capital	7 121	7 121
Total tier 2	7 121	7 121
Total capital	61 717	61 342
Summary		
Credit risk capital	31 153	31 117
Currency risk capital	203	203
Position risk capital	3 583	3 583
Capital covered by share capital	26 778	26 439
Capital adequacy rate as of 31.12.2007	**14.13%**	**14.06%**
Capital adequacy rate as of 31.12.2006	**13.11%**	**13.17%**
Minimal capital adequacy ratio (%) 2007 and 2006	**8.00%**	**8.00%**

39. RELATED PARTIES

Related parties are shareholders, which have control or significant influence over the management policy of the Group, members of the Council and the Board, senior level executives, their immediate family members, and enterprises where they have a controlling interest, as well as associated companies of the Group. Assets and liabilities in relation to related parties are as follows:

Group	Average interest rate %	Amount LVL'000	Off-balance sheet items LVL'000	31.12.2007 Total LVL'000	31.12.2006 Total LVL'000
Assets		27 766	165	27 931	4 516
Loans and receivables, net		27 766	165	27 931	4 516
Related undertakings and Individuals	2.13	27 637	115	**27 752**	2 631
Council and Board	5.67	7	45	**52**	568
Other senior executives	6.85	122	5	**127**	1 317
Liabilities		16 884	-	16 884	6 335
Deposits		9 910	-	9 910	4 843
Related undertakings and Individuals	0.28	9 287	-	**9 287**	896
Council and Board	2.72	616	-	**616**	3 812
Other senior executives	-	7	-	**7**	135
Subordinated debt		**6 974**	**-**	**6 974**	**1 492**
Related undertakings and Individuals	9.00	5 131	-	**5 131**	-
Council and Board	8.19	1 843	-	**1 843**	1 492

Bank	Average interest rate %	Amount LVL'000	Off-balance sheet items LVL'000	31.12.2007 Total LVL'000	31.12.2006 Total LVL'000
Assets		45 832	2 744	48 576	9 106
Loans and receivables, net		45 832	2 744	48 576	9 106
Related undertakings and Individuals	2.13	27 637	115	27 752	5 712
Subsidiaries	6.68	18 171	2 579	20 750	2 631
Council and Board	5.67	8	45	53	568
Other senior executives	5.87	16	5	21	195
Liabilities		17 322	-	17 322	6 487
Deposits		10 348	-	10 348	4 995
Related undertakings and Individuals	0.28	9 287	-	9 287	896
Subsidiaries	6.22	438	-	438	152
Council and Board	2.72	616	-	616	3 812
Other senior executives	-	7	-	7	135
Subordinated debt		**6 974**	**-**	**6 974**	**1 492**
Related undertakings and Individuals	9.00	5 131	-	5 131	**-**
Council and Board	8.19	1 843	-	1 843	1 492

As at 31 December 2007, the amount of the Bank's exposure transactions with related parties is LVL`000 4 120 or 6.7% of the sum tier 1 and tier 2 capital. According to the Law on Credit Institutions of the Republic of Latvia the total amount of exposure transactions with persons that are associated with the bank may not exceed 15 % of the sum tier 1 and tier 2 capital of the Bank.

Transactions between related parties are based on standard interest rates offered by the bank. The following table presents income and expense resulting from above-mentioned related parties transactions:

	2007		2006	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Interest income	438	1 221	273	289
Interest expense	(384)	(403)	(296)	(297)
Net interest income	54	818	(23)	(8)

40. SUBSEQUENT EVENTS

In February 2008, the bank increased the share capital of NORVIK Līzings Ltd. (Latvia) by LVL`000 500, as result of which the share capital of this subsidiary company now amounts to LVL`000 700.

In February 2008 it was decided to establish a 100% owned subsidiary company "NORVIK Technology" Ltd. (Latvia) with the share capital of LVL`000 100.

norvikbanka

E. Birznieka-Upīša iela 21, Rīga, LV-1011, Latvija
Phone (+371) 67041100, fax (+371) 67041111
e-mail: welcome@norvik.lv
www.norvik.lv