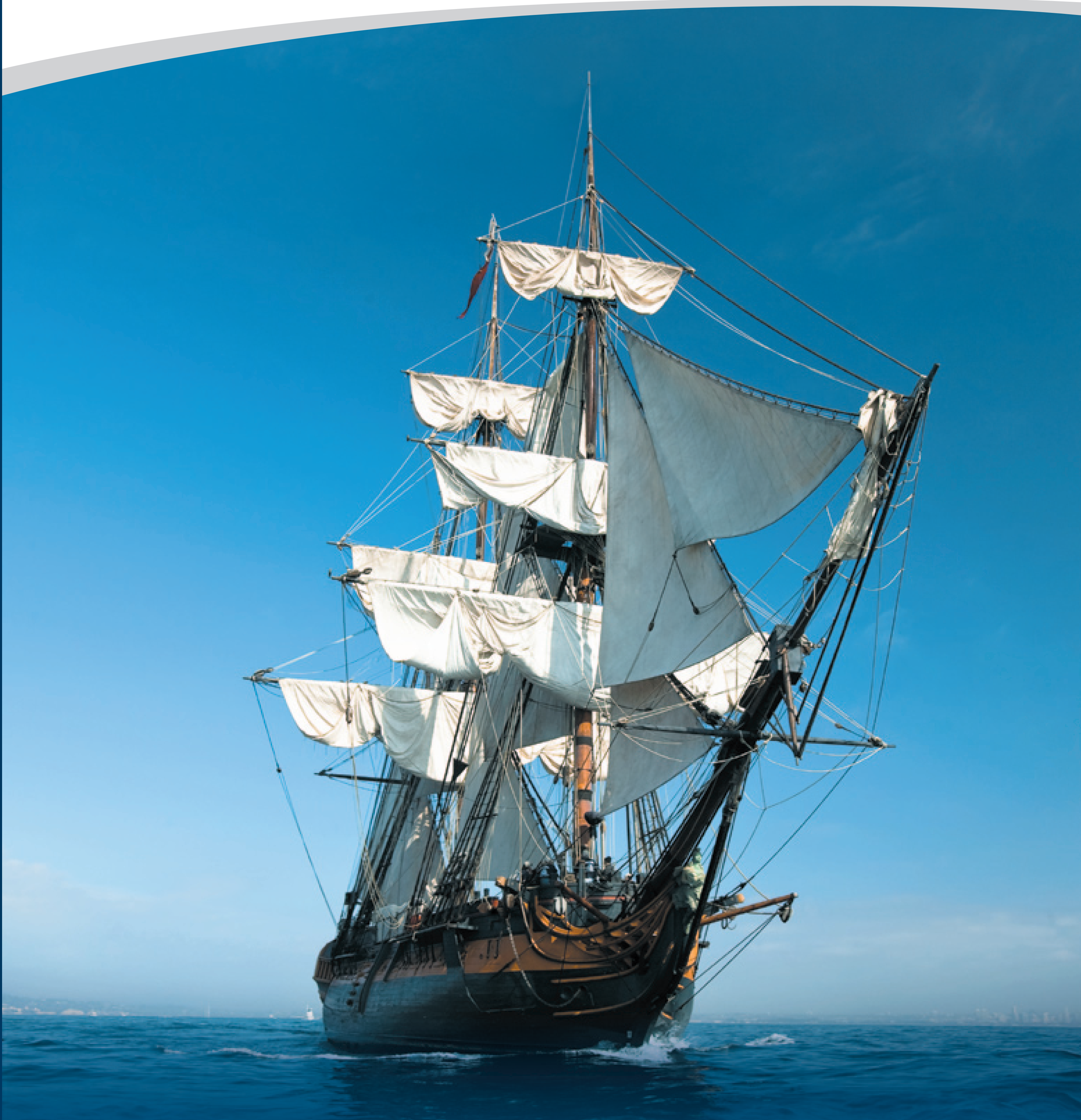
FINANCIAL STATEMENTS '2008

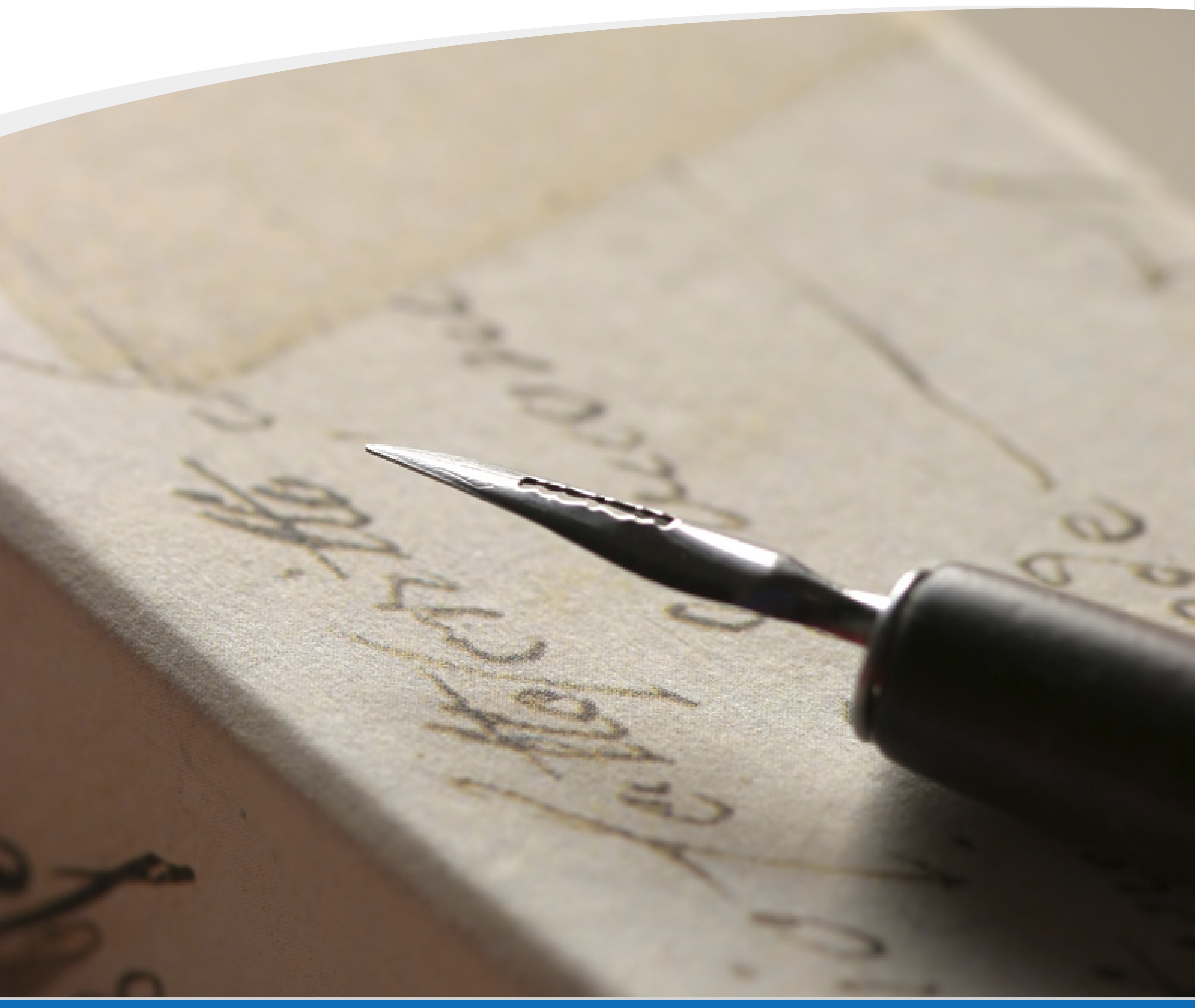
norvikbanka



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 December 31, 2008 and independent auditors' report

CONTENTS

REPORT OF THE CHAIRMAN OF THE SUPERVISORY COUNCIL AND THE CHAIRMAN OF THE MANAGEMENT BOARD



Dear shareholders and clients!

Despite the global crisis and deepening difficulties in the entire banking business, JSC "NORVIK Bank" continued to maintain strong position in the market and demonstrated its business resilience to operating environment deterioration.

Group assets were LVL 506 million at the end of 2008, consolidated annual profit reached LVL 2.6 million that could be regarded as a success given extraordinary tough market. It is important to mention further strengthening of the capital base that was bolstered by full capitalisation of current year profit and resulted in high capital adequacy ratio of 14.41%.

The Bank placed an intense focus on its funding base development putting customers' deposits as the main priority. The customers' deposits remained stable and steadily growing in spite of sharp market worsening in the second half of the year and reached LVL 352 million.

The total number of the Bank's customers was growing by 8'650 during the year 2008, achieving 114'625 customers at the end of the year. The Bank highly appreciates the strong confidence that its customers extend to it and commits to continue meeting its customers' expectations in future.

The Bank is proud of having an excellent franchise in the Latvian market. The broad coverage of the regional network gives the Bank an obvious advantage in getting closer to the local customers and allows to react quickly on any request. The Bank constantly works on its product range extension and existing service development. Newly introduced "Indigo" payment card and improved version of Internet banking system e-Norvik gained immediate popularity among customers.

In July 2008 the Bank successfully attracted its already fifth syndicated loan. The syndicated loan in amount of EUR 25 million was granted by ten leading European and American financial institutions. The Bank's ability to borrow in overall credit crunch circumstances provides clear evidence of trust to the Bank, its good reputation and recognition in international financial markets. In December the Bank re-paid upon maturity previously borrowed syndicated loan in amount of EUR 22 million.

The Bank successfully continued diversification of its funding and conducted corporate bonds issuance, then listed at the Baltic Stock Exchange, in April 2008.

As the Bank expected the difficult operating conditions to continue, it further improved its risk management and provisioning standards that were already high. The Bank exercised very caution attitude to any of its businesses and will continue to apply this conservative approach without compromise.

In February 2008 the Bank has established an IT servicing company aimed at providing software developing services for all Group members.

2008 was another successful year for "Norvik Assets Management Company", the Bank's subsidiary mainly focused on the second tier pension fund management. Growth of number of participants resulted in substantial increase in value of assets under management that reached LVL 12 million by the end of the year.

"Norvik UCO"- the Bank's subsidiary in Armenia achieved its record results since the beginning of operations in 2006 and showed annual net profit of LVL 2.2 million.

In 2008 JSC "NORVIK Bank" continued its sponsorship in Latvian cultural and sports projects. The Bank supported various concert and city festival arrangements, sponsored participation of Latvian sportsmen in international competitions.

According to the Law on Financial Instrument Market the management of JSC "NORVIK Bank" informs about its corporate governance.

The information about Group's internal control environment and key elements of risk management system used in preparation of the financial statements are disclosed in Note 3 to the financial statements. The information regarding persons that possess significant direct and indirect influence in the Bank as well as their shareholdings is stated in Note 33 to the financial statements.

All shares of the Bank are registered shares with equal voting rights and rights to receive dividends. Each paid registered share bears one vote. The Articles of Incorporation of JSC "NORVIK Bank" do not limit the voting rights or maximum number of voting rights. In accordance with the Articles of Incorporation of JSC "NORVIK Bank", the right to elect and dismiss the members of the Management Board belongs to the Supervisory Council. The members of the Management Board are elected for a period no longer than three years. The Management Board has authority to pass decisions, if the majority of the Board members participate. The decisions are passed with simple majority of voting.

The Management Board has the following rights to represent the Bank:

- Chairman of the Management Board has the right to represent the Bank alone;

- Other five Management Board members have the right to represent the Bank together with another Management Board.

The shareholder meeting has the right to make decisions regarding increase and decrease of share capital and changes to the Articles of Incorporation.

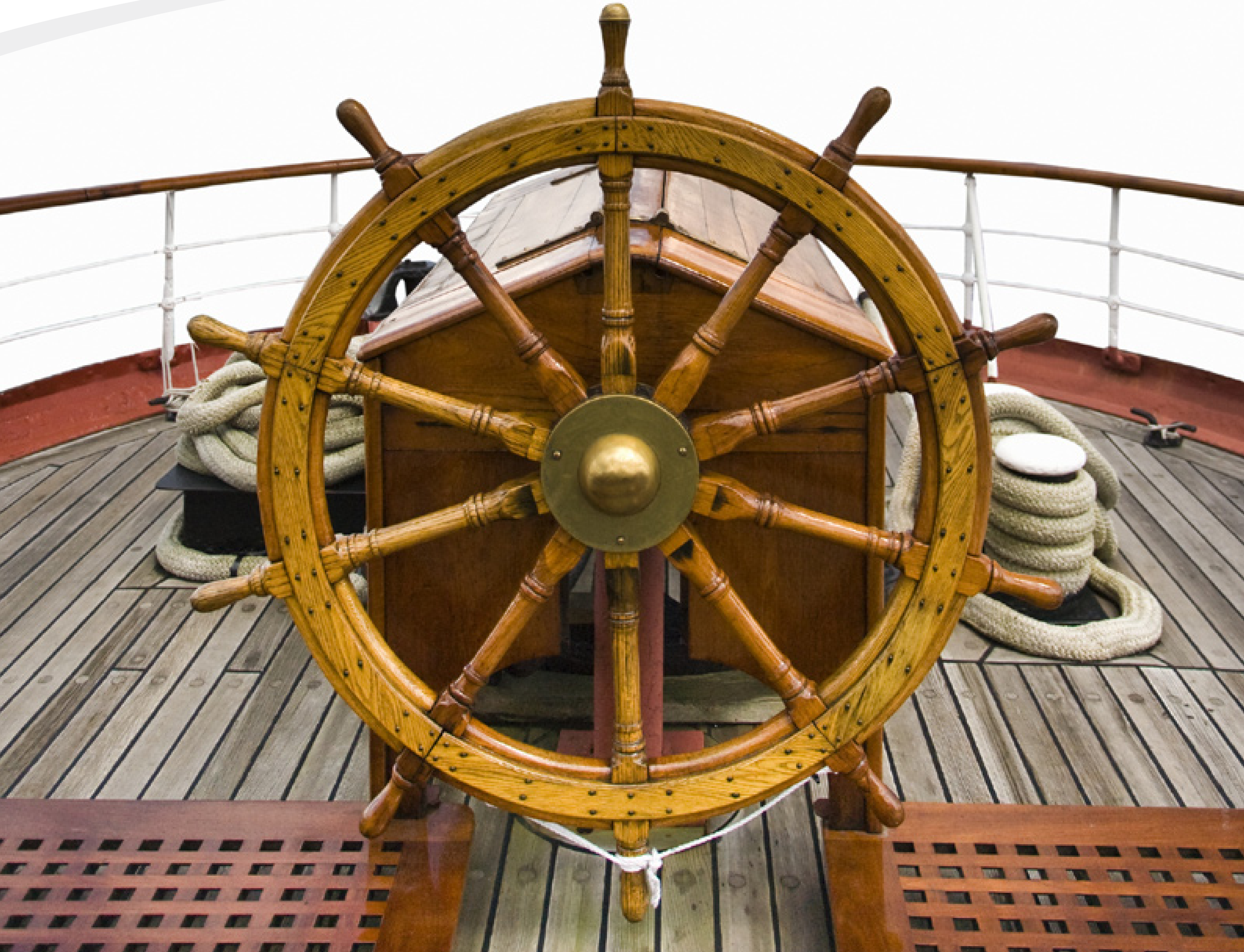
In conclusion, we would like to express our gratitude to employees and shareholders of the bank for their contribution in the bank's development and prosperity. We also thank our clients and partners for successful cooperation and their trust.

Chairman of the Supervisory Council
J. H. Gudmundsson

Chairman of the Management Board
A. Svirčenkovs

Riga, March 25, 2009

SUPERVISORY COUNCIL AND MANAGEMENT BOARD



SUPERVISORY COUNCIL

Supervisory Council as at December 31, 2008

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

MANAGEMENT BOARD

Management Board as at December 31, 2008

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
M. Stepiņa	Member of the Management Board	06/11/2008

During the current period the following persons were appointed:
- Member of the Management Board M. Stepiņa.

On behalf of the Supervisory Council
and Management Board:

Padomes priekšsēdētājs
J. H. Gudmundsson

Valdes priekšsēdētājs
A. Svirčenkovs

Riga, March 25, 2009

STATEMENT OF MANAGEMENT`S RESPONSIBILITIES

The Management of JSC "NORVIK Bank" (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 December 31, 2008 and the results of its operations and cash flows for the financial year ended December 31, 2008, as well as the financial position of the Bank as of December 31, 2008 and the results of its operations and cash flows for the financial year ended December 31, 2008.

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 December 31, 2008 set out on pages 7 to 66. 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 issued by the Latvian Financial and Capital Market Commission (FCMC) and other legislation of the Republic of Latvia in all material respects.

On the behalf of the Supervisory Council
and Management Board:

Chairman
of the Supervisory Council
J. H. Gudmundsson

Chairman
of the Management Board
A. Svirčenkovs

Riga, March 25, 2009

CONSOLIDATED AND SEPARATE INCOME STATEMENT

		2008		2007	
	Notes	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Interest and similar revenue		46 909	43 454	34 855	33 335
Interest and similar expense		(21 564)	(21 621)	(17 545)	(17 564)
Net interest income	5	**25 345**	**21 833**	**17 310**	**15 771**
Fee and commission revenue		8 887	8 407	7 035	6 751
Fee and commission expense		(1 772)	(1 739)	(1 585)	(1 542)
Net fee and commission income	6	**7 115**	**6 668**	**5 450**	**5 209**
Dividend revenue		19	19	3	3
Net trading income	7	4 916	4 952	863	840
Net gain or (loss) on financial assets and liabilities designated at fair value through profit or loss	8	(582)	(582)	(55)	(55)
Net gain or (loss) from sales of available-for-sale financial assets	9	(47)	(47)	-	-
Other operating income	10	1 522	1 558	2 283	2 357
Other operating expense		(920)	(876)	(491)	(464)
Net operating income		**37 368**	**33 525**	**25 473**	**23 771**
Administrative expenses	11	(19 751)	(18 294)	(15 373)	(14 829)
Personnel expenses		*(11 186)*	*(9 951)*	*(8 002)*	*(7 620)*
Other expenses		*(8 565)*	*(8 343)*	*(7 371)*	*(7 209)*
Depreciation and amortization		(1 192)	(1 129)	(988)	(970)
Impairments losses on financial investments	19	(12 944)	(12 805)	(1 183)	(1 096)
Operating expenses		**(33 887)**	**(32 228)**	**(17 544)**	**(16 895)**
Net operating profit before tax		**3 481**	**1 297**	**7 929**	**6 876**
Corporate income tax	12	(836)	(277)	(1 714)	(1 491)
Profit for the year		**2 645**	**1 020**	**6 215**	**5 385**
Attributable to:					
Equity holders of the parent		**2 643**		**6 217**	
Minority interest		2		(2)	
Basic and Diluted Earnings per share (LVL)	34	**0.07**		**0.23**	

The accompanying notes on pages 13 to 66 form an integral part of these consolidated and Bank financial statements.

The consolidated and separate financial statements on pages 7 to 66 were approved by the Supervisory Council and the Management Board on March 25, 2009, and signed on their behalf by:

Chairman of the Supervisory Council
J. H. Gudmundsson

Chairman of the Management Board
A. Svirčenkovs

CONSOLIDATED AND SEPARATE BALANCE SHEET AND OFF-BALANCE SHEET AS OF 31 DECEMBER 2008

	Pieli-kumi	31.12.2008 Group LVL'000	31.12.2008 Bank LVL'000	31.12.2007 Group LVL'000	31.12.2007 Bank LVL'000
Assets					
Cash and balances with the central bank	13	58 621	58 621	42 157	42 157
Loans to and receivables from banks	14	42 447	40 741	189 087	188 919
Trading financial assets	15	9 258	9 258	37 900	37 900
Financial assets designated at fair value through profit or loss	16	465	465	1 454	1 454
Held-to-maturity financial assets	21	11 441	11 441	-	-
Derivatives financial instruments	17	7 690	7 690	5 339	5 339
Loans to and receivables from customers	18	326 167	321 674	324 462	321 434
Available-for-sale financial assets	20	38 569	38 569	9 238	9 238
Current tax assets		1 629	1 629	-	-
Investment property	24	4 367	4 367	4 224	4 224
Investment in subsidiaries	22	-	3 574	-	3 115
Tangible fixed assets	25	2 720	2 289	2 775	2 665
Goodwill and other intangible assets	23	1 011	808	919	600
Other assets	26	1 307	1 154	1 193	1 085
Total assets		**505 692**	**502 280**	**618 748**	**618 130**
Liabilities					
Due to the central bank and other banks	28	77 543	76 367	92 306	92 306
Derivatives financial instruments	17	5 621	5 621	4 974	4 974
Customer deposits	29	350 718	351 622	447 376	447 842
Subordinated debt	30	8 972	8 972	8 502	8 502
Debt securities in issue	31	2 314	2 314	5 870	5 870
Current tax liabilities		349	-	579	415
Deferred tax liabilities	12	653	557	478	446
Other liabilities	32	2 860	2 543	3 148	2 954
Total liabilities		**449 030**	**447 996**	**563 233**	**563 309**
Equity attributable to equity holders of the Bank					
Share capital	33	40 500	40 500	40 500	40 500
Reserves		7	7	7	7
Revaluation reserve of available-for-sale financial assets		(2 015)	(2 015)	(458)	(458)
Revaluation reserve of foreign currency translation		65	-	6	-
Retained earnings		15 437	14 772	9 220	9 387
Profit for the year		2 643	1 020	6 217	5 385
Total equity attributable to equity holders of the Bank		**56 637**	**54 284**	**55 492**	**54 821**
Minority interest		**25**	**-**	**23**	**-**
Total equity		**56 662**	**54 284**	**55 515**	**54 821**
Total liabilities and equity		**505 692**	**502 280**	**618 748**	**618 130**
Commitments and contingencies					
Contingent liabilities		4 218	5 275	4 087	4 680
Commitments		13 597	13 405	41 498	41 905
Total commitments and contingencies	36	**17 815**	**18 680**	**45 585**	**46 585**

The accompanying notes on pages 13 to 66 form an integral part of these consolidated and Bank financial statements.

The consolidated and separate financial statements on pages 7 to 66 were approved by the Supervisory Council and the Management Board on March 25, 2009, and signed on their behalf by:

Chairman of the Supervisory Council
J. H. Gudmundsson

Chairman of the Management Board
A. Svirčenkovs

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Group	Share capital	Reserve	Revaluation reserve of available-for-sale financial assets	Revaluation reserve of foreign currency translation	Retained earnings	Total	Minority interest	Total Groups' equity
	Attributable to shareholders of the Bank							
	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000
As at December 31, 2006	**22 500**	**7**	**(48)**	**(8)**	**9 220**	**31 671**	**15**	**31 686**
PRevaluation of available-for-sale financial assets	-	-	(410)	-	-	**(410)**	-	**(410)**
Foreign currency translation of foreign subsidiary	-	-	-	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 December 31, 2007	**40 500**	**7**	**(458)**	**6**	**15 437**	**55 492**	**23**	**55 515**
Revaluation of available-for-sale financial assets	-	-	(1 557)	-	-	**(1 557)**	-	**(1 557)**
Foreign currency translation of foreign subsidiary	-	-	-	59	-	**59**	-	**59**
Total income and expenses for the year recognised directly in equity	**-**	**-**	**(1 557)**	**59**	**-**	**(1 498)**	**-**	**(1 498)**
Profit for the year	-	-	-	-	2 643	**2 643**	2	**2 645**
Total income and expense for the year	**-**	**-**	**(1 557)**	**59**	**2 643**	**1 145**	**2**	**1 147**
As at December 31, 2008	**40 500**	**7**	**(2 015)**	**65**	**18 080**	**56 637**	**25**	**56 662**

SEPARATE STATEMENT OF CHANGES IN EQUITY

Bank	Share capital	Reserve	Revaluation reserve of available-for-sale financial assets	Retained earnings	Total
	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000
As at December 31, 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 December 31, 2007	**40 500**	**7**	**(458)**	**14 772**	**54 821**
Revaluation of available-for-sale financial assets	-	-	(1 557)	-	(1 557)
Total income and expenses for the year recognised directly in equity	**-**	**-**	**(1 557)**	**-**	**(1 557)**
Profit for the year	-	-	-	1 020	1 020
Total income and expense for the year	**-**	**-**	**(1 557)**	**1 020**	**(537)**
As at December 31, 2008	**40 500**	**7**	**(2 015)**	**15 792**	**54 284**

The accompanying notes on pages 13 to 66 form an integral part of these consolidated and Bank financial statements.

The consolidated and separate financial statements on pages 7 to 66 were approved by the Supervisory Council and the Management Board on March 25, 2009, and signed on their behalf by:

Chairman of the Supervisory Council
J. H. Gudmundsson

Chairman of the Management Board
A. Svirčenkovs

CONSOLIDATED AND SEPARATE CASH FLOW STATEMENT

		2008		2007	
		Group	Bank	Group	Bank
	Note	LVL'000	LVL'000	LVL'000	LVL'000
Cash flow from operations					
Profit before corporate income tax		3 481	1 297	7 929	6 876
Depreciation of intangible and tangible fixed assets and write off		1 783	1 697	2 025	2 007
Increase in provisions for impairments losses on financial investments		13 002	12 863	1 370	1 284
Loss/(profit) from foreign exchange revaluation		3 686	3 645	1 602	1 622
Revaluation reserve of foreign currency translation		59	-	14	-
Non-realised (profit)/loss from investment property		(143)	(143)	(1 589)	(1 589)
Operating cash flow before changes in operating assets and liabilities		**21 868**	**19 359**	**11 351**	**10 200**
Decrease/(increase) in loans and receivables to banks		4 843	4 843	(6 805)	(6 845)
Decrease/(increase) in trading financial assets		16 316	16 316	3 348	3 348
(Increase) in financial assets at fair value through profit or loss		989	989	(1 454)	(1 454)
Decrease/(increase) in derivatives financial assets		(2 351)	(2 351)	(4 274)	(4 274)
Decrease/(increase) in loans and receivables to customers		(13 815)	(12 211)	(136 012)	(133 631)
Decrease/(increase) in other assets		355	580	448	548
Increase/(decrease) in due to banks		(14 763)	(15 939)	26 841	26 841
Increase/(decrease) in customer deposits		(96 658)	(96 220)	245 220	245 534
Increase/(decrease) in derivatives financial liabilities		647	647	3 686	3 686
Increase/(decrease) in other liabilities		(525)	(833)	1 078	960
Cash provided by (used in) operating activities		**(83 094)**	**(84 820)**	**143 427**	**144 913**
Corporate income tax (paid)		(2 759)	(2 444)	(765)	(739)
Net cash provided by (used in) operating activities		**(85 853)**	**(87 264)**	**142 662**	**144 174**
Cash flow from investing activities					
Acquisition of intangible and tangible fixed assets		(1 820)	(1 529)	(2 263)	(2 147)
Acquisition of subsidiary		-	(459)	-	(1 571)
Decrease/(increase) in available-for-sale financial assets		(30 888)	(30 888)	(3 967)	(3 967)
Other cash received/(paid) as a result of investment activity		-	-	(20)	(20)
Net cash used in investing activities		**(32 708)**	**(32 876)**	**(6 250)**	**(7 705)**
Cash flow from financing activities					
Increase in share capital		-	-	18 010	18 000
Increase in subordinated debt		470	470	6 725	6 725
Issue of debt securities		2 314	2 314	42 885	42 885
Mature of debt securities		(5 870)	(5 870)	(37 015)	(37 015)
Net cash provided by/(used in) financing activities		**(3 086)**	**(3 086)**	**30 605**	**30 595**
Net increase/(decrease) in cash and cash equivalents		**(121 647)**	**(123 226)**	**167 017**	**167 064**
Cash and cash equivalents at the beginning of the period		219 790	219 622	54 375	54 180
Effect of exchange changes on cash and cash equivalents		(3 686)	(3 645)	(1 602)	(1 622)
Cash and cash equivalents at the end of the period	35	**94 457**	**92 751**	**219 790**	**219 622**

Operating cash flows from interest and dividends

	2008		2007	
	Group LVL'000	**Bank LVL'000**	**Group LVL'000**	**Bank LVL'000**
Interest paid	19 302	19 359	16 151	16 190
Interest received	44 013	40 844	32 633	31 271
Dividend received	19	19	3	3

The accompanying notes on pages 13 to 66 form an integral part of these consolidated and Bank financial statements.

The consolidated and separate financial statements on pages 7 to 66 were approved by the Supervisory Council and the Management Board on March 25, 2009, and signed on their behalf by:

Chairman of the Supervisory Council
J. H. Gudmundsson

Chairman of the Management Board
A. Svirčenkovs

1. GENERAL INFORMATION

"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 April 27, 1992.

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

The Bank has a central office, 14 branches, 62 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 and obligation 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"). IFRS as adopted by the EU do not currently differ from IFRS as issued by the International Accounting Standards Board (IASB) and currently effective for the purpose of these financial statements, except for certain hedge accounting requirements under IAS 39, which have not been adopted by the EU. The Group/Bank has determined that the unendorsed hedge accounting requirements under IAS 39 would not impact the Bank's and the Group's financial statements had they been endorsed by the EU at the balance sheet date.

The consolidated and separate financial statements have been prepared under the historical cost convention, except for available for sale securities, financial assets and financial liabilities held at fair value through profit or loss and investment property, which are measured 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 December 31, 2007. However, in the preparation of the financial statement for the year ended December 31, 2008 the Group and Bank adopted Amendments to IAS 39 'Financial Instruments: Recognition and Measurement' and IFRS 7 'Financial Instruments: Disclosures' – 'Reclassification of Financial Assets' (effective on or after July 1, 2008).

Standards and Interpretations effective in the current period

The following Standards issued by the International Accounting Standards Board and Interpretations issued by the International Financial Reporting Interpretations Committee are effective for the current period:

- Amendments to IAS 39 'Financial Instruments: Recognition and Measurement' and IFRS 7 'Financial Instruments: Disclosures' – 'Reclassification of Financial Assets' (effective on or after July 1, 2008);
- Amendments to IAS 39 'Financial Instruments: Recognition and Measurement' and IFRS 7 'Financial Instruments: Disclosures' – 'Effective date and transition' (effective on or after July 1, 2008, not yet endorsed by EU);
- IFRIC 14, IAS 19 – 'The limit on a defined benefit asset, minimum funding requirements and their interaction' (effective for accounting period beginning on or after January 1, 2008), provides guidance on assessing the limit in IAS 19 on the amount of the surplus that can be recognised as an asset. It also explains how the pension asset or liability may be affected by a statutory or contractual minimum funding requirement;
- IFRIC 11, IFRS 2 – 'Group and treasury share transactions' (effective for accounting period beginning on or after March 1, 2007), provides guidance on whether share-based transactions involving treasury shares or involving group entities (for example, options over a parent's shares) should be accounted for as equity- settled or cash-settled share-based payment transactions in the stand-alone accounts of the parent;

- IFRIC 12 'Service Concession Arrangements' (effective for accounting periods beginning on or after January 1, 2008, however, not yet adopted by EU). The interpretation addresses how service concession operators should apply existing International Financial Reporting Standards to account for the obligations they undertake and rights they receive in service concession arrangements.

The adoption of the above Standards and Interpretations did not have a material impact on the financial statements of the Group, except for adoption of Amendments to IAS 39 'Financial Instruments: Recognition and Measurement' and IFRS 7 'Financial Instruments: Disclosures' – 'Reclassification of Financial Assets'. See note 21.

Standards and Interpretations in issue not yet adopted

At the date of authorisation of these financial statements the following Standards and Interpretations were in issue but not yet effective:

- IAS 23 (Revised) 'Borrowing Costs' (effective for accounting periods beginning on or after January 1, 2009). According to this amendment borrowing costs, that are directly attributable to the acquisition, construction and production of a qualifying asset, should form part of the cost of that asset;
- IAS 1 (Revised), 'Presentation of financial statements' (effective for accounting period beginning on or after January 1, 2009). The revised standard will prohibit the presentation of items of income and expenses (that is, 'non-owner changes in equity') in the statement of changes in equity, requiring 'non-owner changes in equity' to be presented separately from owner changes in equity. All non-owner changes in equity will be required to be shown in a performance statement, but entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the income statement and statement of comprehensive income). Where entities restate or reclassify comparative information, they will be required to present a restated balance sheet as at the beginning of the comparative period in addition to the current requirement to present balance sheets at the end of the current period and comparative period;
- IFRS 2 (Amendment), 'Share-based payment' (effective for accounting period beginning on or after
- January 1, 2009). The amendment deals with vesting conditions and cancellations;
- IAS 32 (Amendment), 'Financial instruments: Presentation', and IAS 1 (Amendment), 'Presentation of financial statements' – 'Puttable financial instruments and obligations arising on liquidation' (effective for accounting period beginning on or after January 1, 2009);
- IAS 27 'Consolidated and separate financial statements' (effective for accounting period beginning on or after January 1, 2009). The standard requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost;
- IAS 27 (Revised) 'Consolidated and separate financial statements' (effective for accounting period beginning on or after July 1, 2009, not yet endorsed by EU);
- IFRS 3 (Revised), 'Business combinations' (effective for accounting period beginning on or after 1 July 2009), (not yet endorsed by EU). The standard continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the income statement. There is a choice to measure the non – controlling interest either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition related costs should be expensed;
- IFRS 1 (Revised) 'First-time Adoption of IFRS (effective for accounting periods beginning on or after January 1, 2009, not yet endorsed by EU);
- Amendments to IFRS 1 'First-time Adoption of IFRS' and IAS 27 'Consolidated and separate financial statements' – Cost of Investment on first-time adoption (effective for accounting periods beginning on or after January 1, 2009);
- Amendment to IAS 39 'Financial Instruments: Recognition and Measurement' – 'Eligible Hedged Items' (effective for accounting periods beginning on or after July 1, 2009, not yet endorsed by EU);
- In May 2008 the Board issued its first collection of amendments to various standards and interpretations resulting from the Annual quality improvement project of IFRS (IAS 1, IFRS 5, IFRS 7, IAS 8, IAS 10, IAS 16, IAS 18, IAS 19, IAS 20, IAS 23, IAS 27, IAS 28, IAS 29, IAS 31, IAS 34, IAS 36, IAS 38, IAS 39, IAS 40, IAS 41) primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard.

- IFRS 5 (Amendment), 'Non-current assets held-for-sale and discontinued operations' (and consequential amendment to IFRS 1, 'First-time adoption') (effective from July 1, 2009), (not yet endorsed by EU). The standard clarifies that all of a subsidiary's assets and liabilities are classified as held for sale if a partial disposal sale plan results in loss of control.
- IFRS 8 Operating Segments (effective for accounting periods beginning on or after January 1, 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;
- IFRIC 13 Customer Loyalty Programmes (effective for accounting periods beginning on or after July 1, 2008). The interpretation specifies how customer loyalty programs should be accounted for;
- IFRIC 15 'Agreements for the Construction of Real Estate' (effective for accounting periods beginning on or after January 1, 2009, not yet endorsed by EU);
- IFRIC 16 'Hedges of a Net Investment in a Foreign Operation' (effective for accounting period beginning on or after October 1, 2008, not yet endorsed by EU);
- IFRIC 17 'Distribution of Non-cash Assets to Owners' (effective for accounting periods beginning on or after July 1, 2009, not yet endorsed by EU); and
- IFRIC 18 'Transfers of Assets from Customers' (effective for transfers of assets from customers received on or after July 1, 2009, not yet endorsed by EU).

The Group and the Bank anticipates that all of the adoption of the above Standards and Interpretations will have no material impact on their financial statements in the period of initial application.

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 Tecnology", "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 of the Bank.

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. Intra-group balances of the Bank and its subsidiary as well as intra-group transactions, including income and expenses, are eliminated.

Goodwill

Summa, par kuru iegādes vērtība pārsniedz Banks līdzdalības daļu iegādātās meitas kompānijas tīro identificējamo 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 2008 (2007: nil).

(2) Significant accounting judgments and estimates

The presentation of consolidated financial statements in conformity with IFRS as adopted by the EU requires the entity to make estimates and assumptions that affect the recognised amounts for assets, liabilities and disclosure of contingent assets and liabilities as of the date of balance sheet date as well as recognised income and expenses for the reporting period. The Group makes estimates and assumptions concerning the future. The resulting accounting estimates may differ from related actual results.

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

The most significant judgments and estimates representing most probably sources of uncertainty existing in current financial and economical market are presented below:

Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recognized in the balance sheet cannot be obtained from active markets, fair value is 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 judgment is required in establishing fair values depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

Allowances for impairment losses on loans and receivables

The Group reviews its loan portfolios at each reporting date to assess whether an allowance for impairment should be recognized in the income statement and for which amount. In particular, judgment about financial position of counterparty and realization value of underlined collateral made by management in the estimation of net present value of expected future cash flows when determining the amount of allowance required, based on best knowledge about current situation. As of reporting date real estate market was inactive and there was significant uncertainty around the valuation of collateral and difficulties to predict timing of realization of collateral. Consequently actual future results might differ from the estimates recorded.

In addition to specific allowances for individually significant loans and receivables, the Group also creates a collective impairment allowance for exposures which, although not specifically identified as requiring a specific allowance, have a greater risk of default than when originally granted. Collective impairment allowances reflect historical data of respective markets as well as specific features of financial investment for which allowances estimations are made.

Impairment of financial instruments

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

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

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.

Valuation of investment property

Investment property is stated at fair value, which has been determined based on valuation performed by certified valuator close to reporting date. The fair value represents the amount at 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.

Current operating environment and the Bank's responsive actions

Global financial crisis and Latvian economy downturn unfavorably affected environment in which Latvian companies operated in 2008 and continues to operate at present.

The crisis prompted drying up liquidity, drop of fair value, high volatility of financial instruments, increasing borrowers default risk, difficulties in asset valuation matters, limited funding through capital market. Reported data reflect the tough market circumstances the Bank operated in. Given the market continuous deterioration, the Bank respectively adjusted its 2009 budget.

Although the Bank observed some liquidity decline in the middle of December caused by a number of negative events that happened in the Latvian banking sector, the deposit level re-gained its previous pre-declined level by the end of 2008 that proves the high level of trust to the Bank.

In 2009 the Bank places particular focus on further strengthening its deposit base through continuous increase of customers' deposits. It is planned to improve even more already tough approach in Risk Management and provisioning. An increasing number of re-scheduled loans is expected. The bank plans to maintain higher than required liquidity level, to have a buffer in case if the market takes a turn to the worse.

The Bank's management believes that the Bank has sufficient resources to continue its activities in future.

(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 December 31, 2008	**Bank of Latvia exchange rates as of December 31, 2007**
EUR	0.702804	0.702804
USD	0.495000	0.484000

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 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 the 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 financial assets 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.

Held-to-maturity financial assets

Held to maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Bank has the positive intention and ability to hold to maturity. Held to maturity investments includes certain bonds. Held to maturity investments are initially recorded at their purchase price (including expenses on purchase of the securities), and are then recorded at their amortized using the effective interest rate method, and impairment.

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 amortized cost using the effective interest rate method. The amortized cost of a loan is the amount at which the loan is measured at initial recognition minus principal repayments, plus or minus the cumulative amortization 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 bad debt.

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 rate method.

Financial liabilities

Included in balance sheets as "Due to banks", "Customer deposits", "Subordinated debt" and "Debt securities in issue" are financial liabilities measured at amortized cost.

After initial measurement, these financial liabilities are subsequently measured at amortized cost using the effective interest rate method. Amortized 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 financial assets carried at amortized 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.

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 with 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.

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 the 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 24 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 (except for goodwill) and tangible fixed assets

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

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

Intangible assets with finite lives are amortized over the useful life. The amortization period and the amortization 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 amortization".

(7) Income and expense recognition

Interest income and expenses are recognized in the income statement on an 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 includes 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 no objective evidence that

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 period.

Cash flows from operating activities are presented using the indirect method. Cash flows from investing and financing activities are presented based on 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 based on 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 it 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 Managing Board is ultimately responsible for identifying and controlling risks.

Supervisory Council

The Supervisory Council reviews and agrees policies for risks managing.

Managing Board

The Managing 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 set 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 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 Audit

Risk management processes are audited annually by the internal audit function, 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, Managing Board and related units.

To ensure the control and management over financial risks, the Managing 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 Group liquidity manager places its assets so as to ensure settling of their creditors' legal claims at any time (liquidity), has arranged 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 their 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 5% of borrowings (at the end of 2008). In accordance to Liquidity requirements determined by the FCMC the Bank maintains liquid assets that are sufficient for settling liabilities, however, no 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:

	2008 %	2007 %
31 December	45.8	57.0
Average during the period	41.5	49.2
Highest	59.0	58.5
Lowest	32.8	42.1

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's I Reserve fund (cash, balances with correspondent bank accounts and short term interbank's deals).

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

MATURITY ANALYSIS OF ASSETS AND LIABILITIES

The table below presents an analysis of the Group assets, liabilities and off-balance sheet liabilities analyzed according to contractual maturity.

As at December 31, 2008- Group	Up to 1 month	From 1 to 3 months	From 3 to 6 months	From 6 months to 1 year	From 1 to 5 years	5 years and over	Citi	Kopā
Assets	**LVL'000**	**LVL'000**	**LVL'000**	**LVL'000**	**LVL'000**	**LVL'000**	**LVL'000**	**LVL'000**
Cash and balance with the central bank	58 621	-	-	-	-	-	-	**58 621**
Loans and receivables to banks	38 549	1 084	1 148	206	1 460	-	-	**42 447**
Trading financial assets	9 258	-	-	-	-	-	-	**9 258**
Financial assets at fair value through profit or loss	465	-	-	-	-	-	-	**465**
Held-to-maturity financial investments	7 027	-	-	-	4 414	-	-	**11 441**
Derivative financial instruments	4 383	578	-	2 729	-	-	-	**7 690**
Loans and receivables to customers	25 901	43 361	22 525	35 430	175 361	16 536	7 053	**326 167**
Available-for-sale financial assets	639	-	-	-	-	10 919	27 011	**38 569**
Current tax assets	-	-	-	-	1 629	-	-	**1 629**
Investment property	-	-	-	-	-	-	4 367	**4 367**
Tangible assets	-	-	-	-	-	-	2 720	**2 720**
Goodwill and other intangible assets	-	-	-	-	-	-	1 011	**1 011**
Other assets	1 205	19	1	-	-	-	82	**1 307**
Total assets	**146 048**	**45 042**	**23 674**	**38 365**	**182 864**	**27 455**	**42 244**	**505 692**
Liabilities								
Due to the central bank and other banks	6 810	731	25 054	17 937	-	-	27 011	**77 543**
Derivative financial instruments	4 579	509	26	507	-	-	-	**5 621**
Customer deposits	218 742	50 897	37 491	38 205	5 383	-	-	**350 718**
Subordinated debt	25	-	-	1 100	7 847	-	-	**8 972**
Debt securities in issue	-	-	2 314	-	-	-	-	**2 314**
Current tax liabilities	-	-	-	-	-	-	349	**349**
Deferred tax	-	-	-	-	-	-	653	**653**
Other liabilities	2 510	-	-	307	-	-	43	**2 860**
Total liabilities	**232 666**	**52 137**	**64 885**	**58 056**	**13 230**	**-**	**28 056**	**449 030**
Off-balance sheet items	11 929	2 118	841	100	1 440	-	-	**16 428**
Net liquidity	**(98 547)**	**(9 213)**	**(42 052)**	**(19 791)**	**168 194**	**27 455**	**14 188**	

As at December 31, 2007 - Group **Assets**	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
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**	

According to the regulations of the Latvian Financial and Capital Market Commission, securities that the Bank is able to sell without any significant losses or use them as security assets for loan issue are classified in the group "Up to 1 month". The amount of pledged available-for-sale financial assets is classified in the group "Other assets". From Bank of Latvia borrowed amount is classified in the group "Other liabilities".

As at December 31, 2008 - Bank	**Up to 1 month**	**From 1 to 3 months**	**From 3 to 6 months**	**From 6 months to 1 year**	**From 1 to 5 years**	**5 years and over**	**Other**	**Total**
Assets	**LVL'000**	**LVL'000**	**LVL'000**	**LVL'000**	**LVL'000**	**LVL'000**	**LVL'000**	**LVL'000**
Cash and balance with the central bank	58 621	-	-	-	-	-	-	**58 621**
Loans and receivables to banks	36 843	1 084	1 148	206	1 460	-	-	**40 741**
Trading financial assets	9 258	-	-	-	-	-	-	**9 258**
Financial assets at fair value through profit or loss	465	-	-	-	-	-	-	**465**
Held-to-maturity financial investments	7 027		-	-	4 414	-	-	**11 441**
Derivative financial instruments	4 383	578	-	2 729	-	-	-	**7 690**
Loans and receivables to customers	25 352	42 065	21 083	74 191	145 099	11 351	2 533	**321 674**
Available-for-sale financial assets	639	-	-	-	-	10 919	27 011	**38 569**
Current tax assets	-	-	-	-	1 629	-	-	**1 629**
Investment property	-	-	-	-	-	-	4 367	**4 367**
Investments in subsidiaries	-	-	-	-	-	-	3 574	**3 574**
Tangible assets	-	-	-	-	-	-	2 289	**2 289**
Goodwill and other intangible assets	-	-	-	-	-	-	808	**808**
Other assets	1 111	-	-	-	-	-	43	**1 154**
Total assets	**143 699**	**43 727**	**22 231**	**77 126**	**152 602**	**22 270**	**40 625**	**502 280**
Liabilities								
Due to the central bank and other banks	5 634	731	25 054	17 937		-	27 011	**76 367**
Derivative financial instruments	4 579	509	26	507	-	-	-	**5 621**
Customer deposits	219 192	50 982	37 663	38 402	5 383	-	-	**351 622**
Subordinated debt	25	-	-	1 100	7 847	-	-	**8 972**
Debt securities in issue	-	-	2 314	-	-	-	-	**2 314**
Deferred tax	-	-	-	-	-	-	-	**-**
Other liabilities	-	-	-	-	-	-	557	**557**
Total liabilities	2 282	-	-	261	-	-	-	**2 543**
Kopā pasīvi	**231 712**	**52 222**	**65 057**	**58 207**	**13 230**	**-**	**27 568**	**447 996**
Off-balance sheet items	12 794	2 118	841	100	1 440	-	-	**17 293**
Net liquidity	**(100 807)**	**(10 613)**	**(43 667)**	**18 819**	**137 932**	**22 270**	**13 057**	

As at December 31, 2007 - Bank	Up to 1 month	From 1 to 3 months	From 3 to 6 months	From 6 months to 1 year	From 1 to 5 years	5 years and over	Other	Total
Assets	**LVL'000**	**LVL'000**	**LVL'000**	**LVL'000**	**LVL'000**	**LVL'000**	**LVL'000**	**LVL'000**
Cash and balance 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**	

ANALYSIS OF FINANCIAL LIABILITIES BY REMAINING CONTRACTUAL MATURITIES

The table below presents the maturity profile of the Bank's financial liabilities by the remaining maturities: principal payment and/or interest payments under agreements. The amounts of the liabilities disclosed in the table are the contractual undiscounted cash flows.

Financial liabilities	**Up to 1 month**	**From 1 to 3 months**	**From 3 to 6 months**	**From 6 months to 1 year**	**From 1 to 5 years**	**5 years and over**	**Total**
As at December 31, 2008	**LVL'000**	**LVL'000**	**LVL'000**	**LVL'000**	**LVL'000**	**LVL'000**	**LVL'000**
Due to the central bank and other banks	32 624	737	25 708	18 685	-	-	**77 754**
Derivative financial instruments	148	-16	-86	-1 340	-	-	**-1 294**
Contractual amounts payable	*1 100 709*	*7 074*	*3 831*	*22 704*	-	-	***1 134 318***
Contractual amounts receivable	*(1 100 561)*	*(7 090)*	*(3 917)*	*(24 044)*	-	-	***(1 135 612)***
Customer deposits	221 396	48 946	45 668	43 340	2 581	-	**361 931**
Subordinated debt	28	-	-	1 516	11 132	-	**12 676**
Debt securities in issue	-	-	2 368	-	-	-	**2 368**
Total undiscounted financial liabilities	**254 196**	**49 667**	**73 658**	**62 201**	**13 713**	**-**	**453 435**
Contingent liabilities	5 275	-	-	-	-	-	**5 275**
Commitments	8 906	2 118	841	100	1 440	-	**13 405**
Total	**14 181**	**2 118**	**841**	**100**	**1 440**	**-**	**18 680**
As at December 31, 2007							
Due to the central bank and other banks	24 944	17 466	36 928	16 354	-	-	**95 692**
Derivative 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**

The maturity profile of the Group's financial liabilities is not presented, as the only items the Bank's subsidiaries have is due to the Bank.

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 based on 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.

	31.12.2008		31.12.2007	
	Group LVL'000	**Bank LVL'000**	**Group LVL'000**	**Bank LVL'000**
Credit risk exposure relating to on-balance sheet assets	**438 665**	**432 383**	**568 528**	**565 257**
Loans and receivables to banks	42 447	40 741	189 087	188 919
Trading financial assets	9 258	9 258	37 900	37 900
Financial assets designated at fair value through profit or loss	465	465	1 454	1 454
Held-to-maturity financial investments	11 441	11 441	-	-
Derivatives assets	7 690	7 690	5 339	5 339
Loans and receivables to customers	326 167	321 674	324 462	321 434
Available-for-sale financial assets	38 569	38 569	9 238	9 238
Current tax assets	1 629	1 629	-	-
Other assets	999	916	1 048	973
Credit risk exposure relating to off-balance sheet items	**17 815**	**18 680**	**45 585**	**46 585**
Contingent liabilities	4 218	5 275	4 087	4 680
Commitments	13 597	13 405	41 498	41 905
Maximum exposure	**456 480**	**451 063**	**614 113**	**611 842**

Risk concentrations of the maximum exposure to credit risk

Concentration of risk is managed by client/group of clients. The maximum credit exposure to any client or group of clients during 2008 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 80 % 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 exceed 50% 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 December 31, 2008 - Group	Latvia LVL'000	OECD countries LVL'000	Other countries LVL'000	Total LVL'000
Credit risk exposure relating to on-balance sheet assets	**223 169**	**33 036**	**182 460**	**438 665**
Loans and receivables to banks	3 745	14 817	23 885	**42 447**
Trading financial assets	-	923	8 335	**9 258**
Financial assets designated at fair value through profit or loss	465	-	-	**465**
Held-to-maturity financial investments	-	-	11 441	**11 441**
Derivatives assets	460	5 302	1 928	**7 690**
Loans and receivables to customers	188 964	11 894	125 309	**326 167**
Available-for-sale financial assets	27 144	12	11 413	**38 569**
Current tax assets	1 629	-	-	**1 629**
Other assets	762	88	149	**999**
Credit risk exposure relating to off-balance sheet items	**12 404**	**362**	**5 049**	**17 815**
Total	**235 573**	**33 398**	**187 509**	**456 480**

At December 31, 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**
Derivatives 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**

Uz 2008.g. 31.decembri - Bank	Latvia LVL'000	OECD countries LVL'000	Other countries LVL'000	Total LVL'000
Credit risk exposure relating to on-balance sheet assets	**223 495**	**33 038**	**175 850**	**432 383**
Loans and receivables to banks	3 745	14 817	22 179	40 741
Trading financial assets	-	923	8 335	9 258
Financial assets designated at fair value through profit or loss	465	-	-	465
Held-to-maturity financial investments	-	-	11 441	11 441
Derivatives assets	460	5 302	1 928	7 690
Loans and receivables to customers	189 391	11 894	120 389	321 674
Available-for-sale financial assets	27 144	12	11 413	38 569
Current tax assets	1629	-	-	1 629
Other assets	661	90	165	916
Credit risk exposure relating to off-balance sheet items	**12 687**	**362**	**5 631**	**18 680**
Total	**236 182**	**33 400**	**181 481**	**451 063**

At December 31, 2007 - Bank	Latvia LVL'000	OECD countries LVL'000	Other countries LVL'000	Total 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
Derivatives 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**

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:

	31.12.2008		31.12.2007	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Credit risk exposure relating to on-balance sheet assets	**438 665**	**432 383**	**568 528**	**565 257**
Banks	66 546	64 839	227 517	227 348
Private individuals	79 104	65 402	90 699	80 075
Transport	84 592	82 660	75 410	75 175
Trade	51 088	45 148	43 848	39 595
Financial services	19 143	67 255	38 656	56 795
Processing industry	34 354	27 395	25 895	25 759
Building	22 312	7 310	14 546	9 141
Governments	27 091	27 091	488	488
Other	54 435	45 283	51 469	50 881
Credit risk exposure relating to off-balance sheet items	**17 815**	**18 680**	**45 585**	**46 585**
Total	**456 480**	**451 063**	**614 113**	**611 842**

Renegotiated loans

In accordance with Credit Policy Renegotiated loan is a loan which terms and conditions are significantly changed in favour of the borrower, because of his financial difficulties, i.e. benefits are granted, which would not be granted in other circumstances, and loans that could become overdue or impaired if the conditions remain unchanged.

Renegotiating may be:

- alteration of terms and conditions of a loan, i.e. reduction of both the principal amount and 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 additional debtor.

But Renegotiated loan 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 to similar loans at the Bank when changing the terms and conditions of an agreement.

In terms of the above mentioned point the renegotiable loan is considered to be a new loan which substitutes the "old" one with interest capitalisation (to the overdrafts to the credit cards at the moment when the terms and conditions are being changed) and:

- the borrower's creditworthiness has become substantially worse (after the establishing of the credit rating - two lowest categories. i.e. the highest risk) if compared to the initial evaluation;
- new maturity is substantially longer than that of standard similar Bank loans.

The amount of Renegotiated loans as at December 31, 2008 is LVL' 000 3 568 (2007: nil).

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 accepts guarantees as additional (secondary) collateral. Management monitors the market value of collateral, paying special attention to the real estate property and corrects it accordingly taking into account the decrease of its value, in order to ensure loan-to-value or adequacy of the allowance for impairment losses.

In accordance with Credit Policy the unsecured loans (mainly, consumer loans and credit cards overdrafts) are considered as a group of similar loans having the same credit risk that is analysed, evaluated and accepted, and comprise the appropriate credit product, the unsecured loans are limited to 30% of the total of loan portfolio.

Credit quality of loans and receivables to customers

	31.12.2008		31.12.2007	
	Group	**Bank**	**Group**	**Bank**
	LVL'000	**LVL'000**	**LVL'000**	**LVL'000**
Loans and receivables to customers				
Neither past due nor impaired	233 613	240 570	295 358	292 803
Past due, but not impaired	64 675	56 618	25 623	25 623
Impaired	37 901	34 342	4 696	4 127
Gross amount	**336 189**	**331 530**	**325 677**	**322 553**
(Provisions)	(10 022)	(9 856)	(1 215)	(1 119)
Total net loans and receivables to customers	**326 167**	**321 674**	**324 462**	**321 434**

As at December 31, 2008 and December 31, 2007 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 the Group's and the Bank's analysis of past due, but not impaired loans as at December 31, 2008

Group	**Past due, but not impaired**					
At December 31, 2008	**up to 30 days**	**31 to 60 days**	**61 to 90 days**	**91 to 180 days**	**More than 180 days**	**Total**
	Total	**LVL'000**	**LVL'000**	**LVL'000**	**LVL'000**	**LVL'000**
Mortgage loans	5 237	5 752	3 214	2 870	283	**17 356**
Industrial loans	14 958	14 448	6 452	-	-	**35 858**
Commercial loans	1 467	3 463	63	530	266	**5 789**
Consumer loans	913	134	20	10	3	**1 080**
Credit card	280	-	-	-	-	**280**
Finance leases	219	2 458	202	52	-	**2 931**
Factoring	65	-	124	-	-	**189**
Other	1 133	59	-	-	-	**1 192**
Total	**24 272**	**26 314**	**10 075**	**3 462**	**552**	**64 675**

Bank	Past due, but not impaired					
At December 31, 2008	up to 30 days	31 to 60 days	61 to 90 days	91 to 180 days	More than 180 days	Total
	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000
Mortgage loans	4 906	5 752	1 211	1 605	22	**13 496**
Industrial loans	14 958	13 437	6 452	-	-	**34 847**
Commercial loans	1 425	3 435	63	508	-	**5 431**
Consumer loans	869	64	9	-	-	**942**
Credit card	280	-	-	-	-	**280**
Finance leases	81	124		36	-	**241**
Factoring loans	65	-	124	-	-	**189**
Other	1 133	59	-	-	-	**1 192**
Total	**23 717**	**22 871**	**7 859**	**2 149**	**22**	**56 618**

Sekojošā tabula atspoguļo nokavēto, ar nesamazinātu vērtību Banks kredītu analīzi uz 2007.gada 31. decembri; nokavēto, ar nesamazinātu vērtību kredītu Banks meitas uzņēmumos nav bijis, sakarā ar to, ka tie tika klasificēti kā nenokavēti, ar nesamazinātu vērtību.

Bank/ Group	Past due, but not impaired					
At December 31, 2007	up to 30 days	31 to 60 days	61 to 90 days	91 to 180 days	More than 180 days	Total
	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000	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**
Finance leases	136	-	-	-	-	**136**
Other	100	1 139	-	-	-	**1 239**
Total	**15 795**	**9 675**	**114**	**39**	**-**	**25 623**

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 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 set by the Board limits and restrictions.

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 Managing Board and 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, based on 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 December 31, 2008 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 December 31, 2008		Bank	Group	Sensitivity of equity			
Currency	Increase in basis points	Sensitivity of net interest income	Sensitivity of net interest income	0 to 6 months	6 months to 1 year	More than 1 year	Total
		LVL`000	LVL`000	LVL`000	LVL`000	LVL`000	LVL`000
LVL	+ 500	(1 044)	(1 011)	-	-	(51)	(51)
USD	+ 75	178	19	-	-	-	-
EUR	+ 50	84	78	-	-	-	-

At December 31, 2007		Bank	Group	Sensitivity of equity			
Currency	Increase in basis points	Sensitivity of net interest income	Sensitivity of net interest income	0 to 6 months	6 months to 1 year	More than 1 year	Total
		LVL`000	LVL`000	LVL`000	LVL`000	LVL`000	LVL`000
LVL	+ 300	186	197	-	-	(66)	(66)
USD	+ 150	(42)	(255)	-	-	-	-
EUR	+ 100	233	232	-	-	-	-

Interest rates decreasing have opposite effect on the net interest income.

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 following tables:

As at December 31, 2008 - Group	LVL	USD	EUR	Other currencies	Total
	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000
Assets					
Cash and due from the central bank	55 311	1 063	1 594	653	**58 621**
Loans and receivables to banks	1 386	18 310	4 062	18 689	**42 447**
Trading financial assets	-	7 611	181	1 466	**9 258**
Financial assets designated at fair value through profit or loss	-	-	465	-	**465**
Held-to-maturity financial investments	-	8 690	2 751	-	**11 441**
Derivative financial instruments	7 662	-	28	-	**7 690**
Loans to customers and receivables	39 691	109 395	172 559	4 522	**326 167**
Available-for-sale financial assets	27 144	506	10 919		**38 569**
Current tax assets	1 629	-	-	-	**1 629**
Investment property	4 367	-	-	-	**4 367**
Tangible assets	2 345	-	290	85	**2 720**
Goodwill and other intangible assets	1 004	-	-	7	**1 011**
Other assets	866	101	83	257	**1 307**
Total assets	**141 405**	**145 676**	**192 932**	**25 679**	**505 692**
Liabilities and equity					
Due to the central bank and other banks	29 284	2 009	46 171	79	**77 543**
Derivative financial instruments	5 621	-	-	-	**5 621**
Customer deposits	81 208	121 809	136 331	11 370	**350 718**
Subordinated debt	1 750	25	7 197	-	**8 972**
Debt securities in issue	-	-	2 314	-	**2 314**
Current tax liabilities	-	-	-	349	**349**
Deferred tax liabilities	557	-	-	96	**653**
Other liabilities	1 741	458	341	320	**2 860**
Total liabilities	**120 161**	**124 301**	**192 354**	**12 214**	**449 030**
Share capital and reserves	53 482	-	-	3 155	**56 637**
Minority interest	25	-	-	-	**25**
Total liabilities and equity	**173 668**	**124 301**	**192 354**	**15 369**	**505 692**
Net balance sheet long/(short) position	**(32 263)**	**21 375**	**578**	**10 310**	
Spot foreign-exchange contracts long/(short) position	(232)	(3 186)	1 207	2 211	
Swap foreign-exchange contracts long/(short) position	32 360	(11 836)	(12 589)	(7 935)	
Forward foreign-exchange contracts long/(short) position	380	(7 425)	8 112	(1 067)	
Net open long/(short) currency position	**245**	**(1 072)**	**(2 692)**	**3 519**	
Currency open position in % from capital as of 31/12/2008		**1.82**	**4.56**		
As at December 31, 2007 - Group					
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**		

The table below indicates the currencies to which the Group had significant exposure at December 31, 2008 and at December 31, 2007 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.

	31.12.2008		31.12.2007	
Currency	**Change in currency rate**	**Effect on income statement**	**Change in currency rate**	**Effect on income statement**
	%	**LVL`000**	**%**	**LVL`000**
USD	+15	(161)	+ 10	-
EUR	+10	(27)	+ 1	5

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

As at December 31, 2008 - Bank	LVL	USD	EUR	Other currencies	Total
	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000
Assets					
Cash and due from the central bank	55 311	1 063	1 594	653	**58 621**
Loans and receivables to banks	1 386	17 978	4 056	17 321	**40 741**
Trading financial assets	-	7 611	181	1 466	**9 258**
Financial assets designated at fair value through profit or loss	-	-	465	-	**465**
Held-to-maturity financial investments	-	8 690	2 751	-	**11 441**
Derivative financial instruments	7 662	-	28	-	**7 690**
Loans to customers and receivables	39 693	108 911	172 699	371	**321 674**
Available-for-sale financial assets	27 144	506	10 919	-	**38 569**
Current tax assets	1 629	-	-	-	**1 629**
Investment property	4 367	-	-	-	**4 367**
Investment in subsidiaries	3 574	-	-	-	**3 574**
Tangible assets	2 289	-	-	-	**2 289**
Goodwill and other intangible assets	808	-	-	-	**808**
Other assets	796	99	73	186	**1 154**
Total assets	**144 659**	**144 858**	**192 766**	**19 997**	**502 280**
Liabilities and equity					
Due to the central bank and other banks	29 284	1 113	45 892	78	76 367
Derivative financial instruments	5 621	-	-	-	**5 621**
Customer deposits	82 105	121 809	136 338	11 370	**351 622**
Subordinated debt	1 750	25	7 197	-	**8 972**
Debt securities in issue	-	-	2 314	-	**2 314**
Current tax liabilities	-	-	-	-	**-**
Deferred tax liabilities	557	-	-	-	**557**
Other liabilities	1 607	450	251	235	**2 543**
Total liabilities	**120 924**	**123 397**	**191 992**	**11 683**	**447 996**
Share capital and reserves	54 284	-	-	-	**54 284**
Total liabilities and equity	**175 208**	**123 397**	**191 992**	**11 683**	**502 280**
Net balance sheet long/(short) position	**(30 549)**	**21 461**	**774**	**8 314**	
Spot foreign-exchange contracts long/(short) position	(232)	(3 186)	1 207	2 211	
Swap foreign-exchange contracts long/(short) position	32 360	(11 836)	(12 589)	(7 935)	
Forward foreign-exchange contracts long/(short) position	380	(7 425)	8 112	(1 067)	
Net open long/(short) currency position	**1 959**	**(986)**	**(2 496)**	**1 523**	
Currency open position in % from capital as of 31/12/2008		**1.70**	**4.30**		
As at December 31, 2007 - Bank					
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 December 31, 2008, the Bank's open position was 7.23 % of the tier 1 and tier 2 of the share capital (2007: 4.14%).

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 2008 were stronger (15 % and 7% accordingly).

The table below indicates the currencies to which the Bank had significant exposure at December 31, 2008 and at December 31, 2007 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.

	31.12.2008		31.12.2007	
Currency	**Change in currency rate**	**Effect on income statement**	**Change in currency rate**	**Effect on income statement**
	%	**LVL`000**	**%**	**LVL`000**
USD	+15	(148)	+ 10	40
EUR	+10	(25)	+ 1	5

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 Managing 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 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 tables present income and profit and certain asset and liability information regarding the Group's business segments for the years ended December 31, 2008 and 2007:

As at December 31, 2008	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	25 344	43	1	(43)	**25 345**
Net fee and commission income	6 461	509	76	69	**7 115**
Dividend income	19	-	-	-	**19**
Net trading income	4 289	(1)	-	(1)	**4 287**
Other operating income	1 609	-	-	(87)	**1 522**
Other operating expense	(887)	(33)	-	-	**(920)**
Net operating income	**36 835**	**518**	**77**	**(62)**	**37 368**
Impairment losses on financial investments	(12 944)	-	-	-	**(12 944)**
Result					
Net operating profit before tax	**3 318**	**320**	**(108)**	**(49)**	**3 481**
Income tax					(836)
Profit for the year					**2 645**
Assets and liabilities					
Segment assets	503 996	535	60	(528)	**504 063**
Unallocated assets	1 629	-	-	-	**1 629**
Total assets	**505 625**	**535**	**60**	**(528)**	**505 692**
Segment liabilities	447 944	47	137	(100)	**448 028**
Unallocated liabilities	1 002	-	-	-	**1 002**
Total liabilities	**448 946**	**47**	**137**	**(100)**	**449 030**
Other segment information					
Capital expenditure					
Tangible assets	2 707	4	9	-	**2 720**
Intangible assets	720	8	17	-	**745**
Depreciation	905	2	2	-	**909**
Amortisation of other intangible assets	272	4	7	-	**283**

As at December 31, 2007	Banking finance operations LVL'000	Asset manage-ment 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**

Secondary segment information – geographical segments

Principally the Group operates in the Republic of Latvia. The following tables show the distribution of the Group's external net operating income and total assets by geographical segment, allocated based on the location, in which the transactions and assets are recorded, for the years ended December 31, 2008 and 2007:

	Latvia	Other countries	Adjustment on consolidation	Kopā
As at December 31, 2008	**LVL`000**	**LVL`000**	**LVL'000**	**LVL`000**
Revenue				
External operating income				
Net interest income	20 844	3 379	1 122	**25 345**
Net fee and commission income	7 061	52	2	**7 115**
Dividend income	19	-	-	**19**
Net trading income	4 323	(36)	-	**4 287**
Other operating income	1 452	70	-	**1 522**
Other operating expense	(919)	(1)	-	**(920)**
Net operating income	**32 780**	**3 464**	**1 124**	**37 368**
Impairment losses on financial investments	(12 818)	(126)	-	**(12 944)**
Total assets	474 024	31 668	-	**505 692**
Capital expenditure				
Tangible assets	2 635	85	-	**2 720**
Intangible assets	739	6	-	**745**

	Latvia	Other countries	Adjustment on consolidation	Kopā
As at December 31, 2007	**LVL`000**	**LVL`000**	**LVL'000**	**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		**4 287**
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)		**505 692**
Total assets	**598 312**	**21 451**	**(1 015)**	**618 748**
Capital expenditure				
Tangible assets	2 680	95	-	**2 775**
Intangible assets	646	7	-	**653**

5. NET INTEREST INCOME

	31.12.2008		31.12.2007	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Interest income	**46 909**	**43 454**	**34 855**	**33 335**
Loans and receivables to customers	36 729	32 072	25 925	24 439
Trading securities	2 160	2 160	4 793	4 793
Loans and receivables to banks	6 590	7 832	3 801	3 792
Available-for-sale securities	456	456	116	116
Held-to-maturity financial investments	771	771	-	-
Other	203	163	220	195
Interest expense	**21 564**	**21 621**	**17 545**	**17 564**
Deposits from banks	6 172	6 230	7 128	7 128
Customer deposits	13 516	13 515	6 918	6 937
Debt securities in issue	425	425	2 711	2 711
Payments in the Deposit Guarantee Fund	698	698	490	490
Subordinated debts	753	753	298	298
Net interest income	**25 345**	**21 833**	**17 310**	**15 771**

As at December 31, 2008, interest income accrued on impaired loans to customers amounted to LVL'000 895 (2007: LVL'000 69).

6. NET FEE AND COMMISSION INCOME

	31.12.2008		31.12.2007	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Fee and commission income	**8 887**	**8 407**	**7 035**	**6 751**
Account services and money transfer fees	3 939	3 943	3 996	3 993
Payment cards	1 173	1 173	1 005	1 005
Asset management fees	633	287	614	394
Cash withdrawal	478	478	391	391
Brokerage services on securities	565	504	381	381
Commission for public utility payments	1 700	1 700	312	312
Commission on letters of credit and collection	108	108	91	91
Other	291	214	245	184
Fee and commission expense	**1 772**	**1 739**	**1 585**	**1 542**
Payment cards	925	925	705	705
Services of correspondent banks	450	450	415	409
Securities purchase and brokerage services	243	243	351	314
Other	154	121	114	114
Net fee and commission income	**7 115**	**6 668**	**5 450**	**5 209**

7. NET TRADING INCOME

	31.12.2008		31.12.2007	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Profit/(loss) from trading financial assets, net	**(3 117)**	**(3 117)**	**(4 238)**	**(4 238)**
Bonds and other fixed income securities	***(2 774)***	***(2 774)***	***(4 450)***	***(4 450)***
Net trading profit/(loss)	(1 313)	(1 313)	(2 808)	(2 808)
Fair value adjustment	(1 461)	(1 461)	(1 642)	(1 642)
Shares and other non- fixed income securities	***(343)***	***(343)***	***212***	***212***
Net trading profit/(loss)	(90)	(90)	264	264
Fair value adjustment	(253)	(253)	(52)	(52)
Profit/(loss) from derivative instruments and foreign exchanges trading, net	**11 719**	**11 714**	**6 703**	**6 700**
Net trading profit/(loss)	9 768	9 763	6 464	6 461
Fair value adjustment	1 951	1 951	239	239
Profit/(loss) from revaluation of open position, net	**(3 686)**	**(3 645)**	**(1 602)**	**(1 622)**
Net trading income	**4 916**	**4 952**	**863**	**840**

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

	31.12.2008		31.12.2007	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Profit/(loss) from financial assets designated at FV through PL, net	**(582)**	**(582)**	**56**	**56**
Net realised profit/(loss)	(289)	(289)	-	-
Fair value adjustment	(293)	(293)	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	**(582)**	**(582)**	**55**	**55**

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

	2008		2007	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Bonds and other fixed income securities	(47)	(47)	-	-
Shares and other non-fixed income securities	-	-	-	-
Total	**(47)**	**(47)**	**-**	**-**

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

10. OTHER OPERATING INCOME

	2008		2007	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Change in fair value of investment property (Note 24)	108	108	1 589	1 589
Penalties	864	797	305	305
Rent of investment property	431	431	241	241
Rent of premises	109	109	95	103
Other	10	113	53	119
Total	**1 522**	**1 558**	**2 283**	**2 357**

11. ADMINISTRATIVE EXPENSES

	2008		2007	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Personnel expenses	**11 186**	**9 951**	**8 002**	**7 620**
Personnel remuneration	8 529	7 657	6 194	5 892
Supervisory Council and Management Board remuneration	671	492	392	360
Social security contributions	1 986	1 802	1 416	1 368
Other expenses	**8 565**	**8 343**	**7 371**	**7 209**
Professional services	1 698	1 627	1 274	1 201
Rent	1 568	1 481	1 198	1 184
Computer repair and communications	1 060	1 139	1 006	991
VAT	698	697	649	649
Public utilities and maintenance	594	582	628	623
Advertising	802	798	512	510
Rebranding	-	-	317	317
Write-off of leasehold improvement	161	161	315	315
Donations	232	232	292	292
Business trip	267	262	223	221
Security	240	234	173	168
Stationery and miscellaneous	213	204	158	151
Real estate tax	81	81	35	35
Other administrative expenses	951	845	591	552
Total	**19 751**	**18 294**	**15 373**	**14 829**

During the 2008 the average number of employees by the Group and the Bank was 882 (including 9 Supervisory Council and 16 Management Board members) and 822 (including 6 Supervisory Council and 5 Management Board members), respectively.

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

12. CORPORATE INCOME TAX

a) Components of corporate income tax

	2008		2007	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Corporate income tax expense for the year	661	166	1 332	1 152
Change in deferred tax liability	175	111	382	339
Total	**836**	**277**	**1 714**	**1 491**

b) Reconciliation of accounting profit to tax charge

	2008		2007	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Profit before taxation	**3 481**	**1 297**	**7 929**	**6 876**
*Expected corporate income tax **	*744*	*195*	*1 260*	*1 031*
Tax effect of:				
(Untaxed income)/non-deductible expense	574	564	875	881
Sponsorship	(23)	(23)	(177)	(177)
Tax exemptions	(459)	(459)	(244)	(244)
Total	**836**	**277**	**1 714**	**1 491**

* 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:

	2008		2007	
	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	-
Deferred tax asset at the year end	**-**	**-**	**-**	**-**
Deferred tax liability at the beginning of year	478	446	107	107
Deferred tax liability increase for the year	175	111	370	339
Foreign exchange	-	-	1	-
Deferred tax liability at the year end	**653**	**557**	**478**	**446**

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

	2008		2007	
Group	Deferred tax asset LVL'000	Deferred tax liability LVL'000	Deferred tax asset LVL'000	Deferred tax liability LVL'000
Loans to customers	-	(94)	-	(26)
Accruals for vacations	39	-	35	-
Revaluation of available-for-sale financial assets*	-	(178)	-	(69)
Depreciation and amortisation	-	(169)	-	(177)
Change in fair value of investment property	-	(253)	-	(238)
Other assets	-	-	1	-
Other liabilities	2	-	-	(4)
Tax loss carry-forwards	-	-	-	-
Total mutual off setting of asset/(liability)	**41**	**(694)**	**36**	**(514)**
Total non-mutual off setting of asset/(liability)	**-**	**-**	**-**	**-**
Net deferred tax asset/(liability)	**-**	**(653)**	**-**	**(478)**

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

Bank	2008 Deferred tax assets LVL'000	2008 Deferred tax liability LVL'000	2007 Deferred tax assets LVL'000	2007 Deferred tax liability LVL'000
Accruals for vacations	39	-	33	-
Revaluation of available-for-sale financial assets	-	(178)	-	(69)
Depreciation and amortisation	-	(165)	-	(172)
Change in fair value of investment property	-	(253)	-	(238)
Total mutual off setting of asset/(liability)	**39**	**(596)**	**33**	**(479)**
Net deferred tax asset/(liability)	**-**	**(557)**	**-**	**(446)**

13. CASH AND BALANCES WITH THE CENTRAL BANK

	31.12.2008		31.12.2007	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Cash	5 366	5 366	8 205	8 205
Due from the central bank	53 255	53 255	33 952	33 952
Total	**58 621**	**58 621**	**42 157**	**42 157**

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 December 31, 2008 and 2007 the amount of the statutory reserve of the Bank was LVL'000 21 334 and LVL'000 33 588, respectively.

14. LOANS TO AND RECEIVABLES FROM BANKS

	31.12.2008		31.12.2007	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Demand placements with:	**32 298**	**31 743**	**40 485**	**40 380**
other countries banks	15 294	14 739	23 762	23 658
OECD countries banks	14 645	14 645	16 697	16 697
the Republic of Latvia banks	2 359	2 359	26	25
Loans to and receivables from:	**10 149**	**8 998**	**148 602**	**148 539**
Banks of the OECD countries	172	172	135 019	135 019
Banks of other countries	8 591	7 440	12 548	12 548
Banks of the Republic of Latvia	1 386	1 386	1 035	972
Total	**42 447**	**40 741**	**189 087**	**188 919**

Bank's average interest rates are: USD 7.62%, EUR 9.34%.

15. TRADING FINANCIAL ASSETS

	31.12.2008		31.12.2007	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Trading bonds and other fixed income securities	**9 076**	**9 076**	**37 030**	**37 030**
Other country bonds	8 153	8 153	36 077	36 077
OECD country bonds	923	923	953	953
Trading shares and other non-fixed income securities	**182**	**182**	**870**	**870**
Other country shares	182	182	870	870
Total	**9 258**	**9 258**	**37 900**	**37 900**

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

	31.12.2008		31.12.2007	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Fund participations	**465**	**465**	**1 454**	**1 454**
Latvian funds	465	465	1 454	1 454

As at December 31, 2008, 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).

17. DERIVATIVE FINANCIAL INSTRUMENTS

The table below presents the fair value of the Group's and Bank's derivatives held for trading. Derivatives financial instruments are recorded as assets or liabilities, together with their notional amounts. The notional amounts 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 end of the year.

	31.12.2008			31.12.2007		
	Assets LVL'000	Liabilities LVL'000	Notional amount LVL'000	Assets LVL'000	Liabilities LVL'000	Notional amount LVL'000
Swaps	6 675	4 286	854 059	3 802	3 320	776 995
Spot	778	746	232 698	900	948	389 098
Forwards	209	589	48 902	569	706	29 620
Options	28	-	633	68	-	745
Total	**7 690**	**5 621**	**1 136 292**	**5 339**	**4 974**	**1 196 458**

18. LOANS TO AND RECEIVABLES FROM CUSTOMERS

	31.12.2008		31.12.2007	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Net loans to:	**321 595**	**299 165**	**320 318**	**317 290**
Private companies	246 733	237 991	230 830	237 711
Individuals	84 884	71 030	90 703	80 698
Allowance for impairment losses (Note 19)	(10 022)	(9 856)	(1 215)	(1 119)
Receivables from:	**4 572**	**22 509**	**4 144**	**4 144**
Finance companies	4 572	22 509	4 144	4 144
Total loans to and receivables from customers, net	**326 167**	**321 674**	**324 462**	**321 434**
Geographical segmentation of loans and receivables				
Net loans to:	**321 595**	**299 165**	**320 318**	**317 290**
Residents of Latvia	197 520	179 998	202 595	202 595
Residents of the other countries	126 764	121 690	109 763	106 639
Residents of OECD countries	7 333	7 333	9 175	9 175
Allowance for impairment losses (Note 19)	(10 022)	(9 856)	(1 215)	(1 119)
Receivables from:	**4 572**	**22 509**	**4 144**	**4 144**
Residents of OECD countries	4 568	4 568	4 139	4 139
Residents of the other countries	-	-	3	3
Residents of Latvia	4	17 941	2	2
Total loans to and receivables from customers	**326 167**	**321 674**	**324 462**	**321 434**

	31.12.2008		31.12.2007	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Analysis of loans by type				
Industrial loans	82 689	81 679	91 613	91 613
Mortgage loans	82 970	63 216	65 367	60 078
Commercial loans	79 056	86 645	63 822	71 418
Consumer loans	35 905	31 598	40 161	34 826
Reverse Repo transactions	18 030	18 030	39 814	39 814
Credit card balances	10 056	10 056	8 956	8 956
Finance leases	8 864	3 916	4 788	4 788
Factoring loans	388	388	1 864	1 864
Other	3 637	3 637	3 933	3 933
Net loans to customers	**321 595**	**299 165**	**320 318**	**317 290**

The Group has received securities at fair value LVL'000 21 161 (at December 31, 2007: LVL'000 41 015) as collateral for reverse repo deals and the Group is permitted to sell or repledge them. As at December 31, 2008 they have not been sold or repledged (at December 31, 2007: LVL'000 nil).

Bank's average interest rates are: LVL 18.04%, USD 7.30%, EUR 8.40%.

Finance leases	31.12.2008		31.12.2007	
	Group	Bank	Group	Bank
	LVL'000	LVL'000	LVL'000	LVL'000
Gross investments	**10 263**	**4 600**	**5 903**	**5 903**
Within 1 year	1 249	1 177	1 180	1 180
From 1 year to 5 years	5 844	3 248	3 695	3 695
More than 5 years	3 170	175	1 028	1 028
Unearned income	**1 399**	**684**	**1 115**	**1 115**
Within 1 year	247	245	424	424
From 1 year to 5 years	797	437	640	640
More than 5 years	355	2	51	51
Present value of minimum lease payments	**8 864**	**3 916**	**4 788**	**4 788**
Within 1 year	1 002	932	756	756
From 1 year to 5 years	5 047	2 811	3 055	3 055
More than 5 years	2 815	173	977	977

19. IMPAIRMENT LOSSES ON 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 financial assets.

Group	At December 31, 2007 LVL`000	Increase in allowance LVL`000	Written off LVL`000	Released from allowance LVL`000	Foreign exchange LVL`000	At December 31, 2008 LVL`000
Industrial loans	32	2 169	(138)	-	-	2 063
Commercial loans	36	778	(506)	(36)	-	272
Consumer loans	737	3 722	(273)	(249)	1	3 938
Credit cards	364	1 142	(434)	(67)	-	1 005
Finance leasing	30	14	(30)	-	-	14
Factoring	-	15	(15)	-	-	-
Mortgage loans	16	3 755	(1 904)	(16)	-	1 851
Reverse repo	-	883	-	-	(4)	879
Provisions for held-to-maturity financial investments	-	885	-	-	-	885
Other provisions	-	7	-	-	1	8
Total	**1 215**	**13 370**	**(3 300)**	**(368)**	**(2)**	**10 915**

Group At December 31, 2008	**Individual impairment**	**Collective impairment**	**Total**	**Gross amount of financial assets, individually determined to be impaired, before deducting any individually assessed impairment allowance**
	LVL`000	**LVL`000**	**LVL`000**	**LVL`000**
Industrial loans	2 063	-	**2 063**	**9 980**
Commercial loans	272	-	**272**	**2 138**
Consumer loans	3 415	523	**3 938**	**4 655**
Credit cards	893	112	**1 005**	**1 276**
Finance leasing	14	-	**14**	**65**
Mortgage loans	1 851	-	**1 851**	**10 707**
Reverse repo	879	-	**879**	**3 072**
Provisions for held-to-maturity financial investments	885	-	**885**	**12 326**
Other provisions	8	-	**8**	**8**
Total	**10 280**	**635**	**10 915**	**44 227**

Group	**At December 31, 2006**	**Increase in allowance**	**Written off**	**Released from allowance**	**Foreign exchange**	**At December 31, 2007**
	LVL`000	**LVL`000**	**LVL`000**	**LVL`000**	**LVL`000**	**LVL`000**
Industrial loans	41	-	-	(9)	-	**32**
Commercial loans	21	31	-	(17)	1	**36**
Consumer loans	12	796	(69)	(4)	2	**737**
Credit cards	40	598	(251)	(23)	-	**364**
Finance leasing	77	9	(31)	(25)	-	**30**
Mortgage loans	-	15	-	-	1	**16**
Total	**191**	**1 449**	**(351)**	**(78)**	**4**	**1 215**

Group At December 31, 2007	**Individual impairment**	**Collective impairment**	**Total**	**Gross amount of financial assets, individually determined to be impaired, before deducting any individually assessed impairment allowance**
	LVL`000	**LVL`000**	**LVL`000**	**LVL`000**
Industrial loans	32	-	**32**	**32**
Commercial loans	4	32	**36**	**6**
Consumer loans	454	283	**737**	**454**
Credit cards	30	-	**30**	**30**
Finance leasing	335	29	**364**	**335**
Mortgage loans	-	16	**16**	**-**
Total	**855**	**360**	**1 215**	**857**

Group	2008 LVL'000	2007 LVL'000
Result from allowance for impairment losses	**(12 944)**	**(1 183)**
Increase in allowance	(13 370)	(1 449)
Released from allowance (loans)	368	78
Recovery of previously written-off assets	58	188

The following table presents an analysis of the change in allowance account for impairment. The Bank's attributes the allowance for impairment losses completely to the financial investments.

Bank	At December 31, 2007 LVL`000	Increase in allowance LVL`000	Written off LVL`000	Released from allowance LVL`000	Foreign exchange LVL`000	At December 31, 2008 LVL`000
Industrial loans	32	2 169	(138)	-	-	**2 063**
Commercial loans	4	778	(506)	(4)	-	**272**
Consumer loans	689	3 545	(203)	(246)	-	**3 785**
Credit cards	364	1 142	(434)	(67)	-	**1 005**
Finance leasing	30	1	(30)	-	-	**1**
Factoring	-	15	(15)	-	-	**-**
Mortgage loans	-	3 755	(1 904)	-	-	**1 851**
Reverse repo	-	883	-	-	(4)	**879**
Provisions for held-to-maturity financial investments	-	885	-	-	-	**885**
Other provisions	-	7	-	-	1	**8**
Total	**1 119**	**13 180**	**(3 230)**	**(317)**	**(3)**	**10 749**

Bank At December 31, 2008	Individual impairment LVL`000	Collective impairment LVL`000	Total LVL`000	Gross amount of financial assets, individually determined to be impaired, before deducting any individually assessed impairment allowance LVL`000
Industrial loans	2 063	-	**2 063**	**9 980**
Commercial loans	272	-	**272**	**2 138**
Consumer loans	3 415	370	**3 785**	**4 655**
Credit cards	893	112	**1 005**	**1 276**
Finance leasing	1	-	**1**	**36**
Factoring	-	-	**-**	**-**
Mortgage loans	1 851	-	**1 851**	**10 707**
Reverse repo	879	-	**879**	**3 072**
Provisions for held-to-maturity financial investments	885	-	**885**	**12 326**
Other provisions	8	-	**8**	**8**
Total	**10 267**	**482**	**10 749**	**44 198**

Bank	At December 31, 2006	Increase in allowance	Written off	Released from allowance	Foreign exchange	At December 31, 2007
	LVL`000	LVL`000	LVL`000	LVL`000	LVL`000	LVL`000
Industrial loans	41	-	-	(9)	-	**32**
Commercial loans	21	1	-	(17)	(1)	**4**
Consumer loans	7	754	(68)	(4)	-	**689**
Credit cards	40	598	(251)	(23)	-	**364**
Finance leasing	77	9	(31)	(25)	-	**30**
Total	**186**	**1 362**	**(350)**	**(78)**	**(1)**	**1 119**

Bank At December 31, 2007	Individual impairment	Collective impairment	Total	Gross amount of financial assets, individually determined to be impaired, before deducting any individually assessed impairment allowance
	LVL`000	LVL`000	LVL`000	LVL`000
Industrial loans	32	-	**32**	**32**
Commercial loans	4	-	**4**	**6**
Consumer loans	454	235	**689**	**454**
Credit cards	335	29	**364**	**335**
Finance leasing	30	-	**30**	**30**
Factoring	-	-	**-**	**-**
Total	**855**	**264**	**1 119**	**857**

Bank	2008	2007
	LVL'000	LVL'000
Result from allowance for impairment losses	**(12 805)**	**(1 096)**
Increase in allowance	(13 180)	(1 362)
Released from allowance (loans)	317	78
Recovery of previously written-off assets	58	188

20. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	31.12.2008		31.12.2007	
	Group	Bank	Group	Bank
	LVL'000	LVL'000	LVL'000	LVL'000
Bonds and other fixed income securities	**27 650**	**27 650**	**971**	**971**
Latvian bonds	27 144	27 144	488	488
OECD country bonds	12	12	-	-
Other country bonds	494	494	483	483
Shares and other non-fixed income securities	**10 919**	**10 919**	**8 267**	**8 267**
EU country funds	10 919	10 919	8 267	8 267
Total	**38 569**	**38 569**	**9 238**	**9 238**

As of December 31, 2008 JSC Norvik Bank has investments into multi-fund company Norvik Malta SICAV Plc in the amount of 10.9 m LVL (31.12.2007: 8.3 m LVL). Norvik Malta SICAV PLC is a collective investment scheme established as a multi fund company with variable share capital. The Bank's shares are without voting rights. 99.9% of voting rights are held by the consultant to the Bank and 0.1% of voting rights are held by investment management company JSC „Norvik ieguldījumu pārvaldes sabiedrība". Norvik Malta SICAV PLC as a fund is not consolidated as the Bank believes that it does not have power to govern the financial and operating policies of the funds so as to obtain benefits from its activities.

As of December 31, 2008 the Bank's investments in these funds were allocated as follows: 6.5 m LVL in investment properties (31.12.2007: 4.6 m LVL), 1.6 m LVL in loans and advances to customers (31.12.2007: nil), 1.8 m LVL in available for sale securities (31.12.2007: 1.3 m LVL), 0.9 m LVL in cash and due from credit institutions (31.12.2007: 2.3 m LVL) and 0.1 m LVL in other assets (31.12.2007: 0.1 m LVL).

21. HELD-TO-MATURITY FINANCIAL INVESTMENTS

The Bank has made reclassification of debt securities from held for trading portfolio to HTM portfolio based on amendment to the IAS 39, issued in October 2008, permitting such reclassification for non-derivative financial assets subject to meeting specified criteria.

The Bank's decision on holding some securities till maturity and their respective reclassification from trading portfolio was mainly caused by continuous market deterioration in 2H 08 that formed extraordinary rare market circumstances when slumping prices and low liquidity substantially limited trading possibilities. The Bank believes that absence of deals or deals priced at very distressed level due to unprecedented market disturbance triggered by collapse of the world's biggest investments banks, led to the situation when securities were traded at quick sell prices that did not reflect actual fair value.

In the Bank's opinion, these market circumstances are exceptional and affect the Bank's initial intention in respect of said securities. The Bank has no plans to sell these securities in the near future but has an intention and ability to hold the reclassified financial assets until maturity.

Reclassification was made at the fair value of the respective financial asset at the date of reclassification. The actual date of reclassification is October 30, 2008; the effective date is July 28, 2008. The fair value at the date of reclassification become the new cost or amortised cost of the financial asset. All financial instruments purchased during the period of July 28, 2008 until October 30, 2008 have been considered as Held-to-maturity financial instruments from their purchase date.

	LVL'000
Value of reclassified Finansial instruments held for trading at 30 October, 2008	12 007
Losses, reversed due to reclassification	1 231
Interest income from reclassification	132
Held-to-maturity financial instrument's book value at 30 October, 2008	**13 370**

The effective rate of reclassified financial instrument is from 9 to 52%. If reclassification has not been made, then during the period from October 30, 2008 until December 31, 2008 the negative revaluation result would be LVL'000 4 821.

Issuers of Held-to-maturity financial instruments are residents of other countries.

Reclassified financial instruments' book value and impairment are shown in Note 19. Reclassified financial instruments' fair value at December 31, 2008 is shown in Note 37.

22. INVESTMENT IN SUBSIDIARIES

As at December 31, 2008 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
AS "NORVIK Ieguldījumu pārvaldes sabiedrība"	Latvia, Riga, 21 E.Birznieka-Upīša str.	Finance	755	830	94.95	488	266
AS "NORVIK Universal Credit Organization"	Armenia, Yerevan, 41 Khanjyan str.	Finance	2 109	1 944	100	5 215	-
„NORVIK Līzings"SIA	Latvia, Riga, 21 E.Birznieka-Upīša str.	Finance	700	700	100	262	-
"NORVIK TECHNOLOGY" SIA	Latvia, Riga, 21 E.Birznieka-Upīša str.	IT service	100	100	100	41	-
				3 574			

In February 2008, the Bank established a 100% owned subsidiary - "NORVIK TECHNOLOGY" Ltd Latvia. The principal activity of the "NORVIK TECHNOLOGY" Ltd is development of IT technologies for the Bank and associated companies of the Group.

In February 2008, the Bank has increased the capital of "NORVIK LĪZINGS" SIA (Latvia) by LVL `000 500, as result of which the capital of this subsidiary company now amounts to LVL`000 700.

23. GOODWILL AND OTHER INTANGIBLE ASSETS

	31.12.2008		31.12.2007	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Goodwill	266	-	266	-
Other intangible assets	711	778	645	592
Prepayments for intangible assets	34	30	8	8
Net book value of other intangible assets	**1 011**	**808**	**919**	**600**

The following table shows the changes in the Group's and Bank's intangible assets for the years ended December 31, 2008 and December 31, 2007:

Group LVL `000	Goodwill	Other intangible assets	Prepayments for other intangible assets	Total
Historical cost				
At December 31, 2007	**266**	**1 261**	**8**	**1 535**
Additions	-	350	122	472
Disposals	-	(29)	(96)	(125)
At December 31, 2008	**266**	**1 582**	**34**	**1 882**
Amortization				
At December 31, 2007	**-**	**616**	**-**	**616**
Charge	-	283	-	283
Disposals	-	(28)	-	(28)
At December 31, 2008	**-**	**871**	**-**	**871**
Net book value				
At December 31, 2007	**266**	**645**	**8**	**919**
At December 31, 2008	**266**	**711**	**34**	**1 011**

Group LVL `000	Goodwill	Other intangible assets	Prepayments for other intangible assets	Total
Historical cost				
At December 31, 2006	**266**	**953**	**1**	**1 220**
Additions	-	394	102	496
Disposals	-	(86)	(95)	(181)
At December 31, 2007	**266**	**1 261**	**8**	**1 535**
Amortization				
At December 31, 2006	**-**	**511**	**-**	**511**
Charge	-	191	-	191
Disposals	-	(86)	-	(86)
At December 31, 2007	**-**	**616**	**-**	**616**
Net book value				
At December 31, 2006	**266**	**442**	**1**	**709**
At December 31, 2007	**266**	**645**	**8**	**919**

Goodwill acquired through business combination with indefinite lives have been allocated for impairment testing to one 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 December 31, 2007	**1 204**	**8**	**1 212**
Additions	441	118	559
Disposals	(29)	(96)	(125)
At December 31, 2008	**1 616**	**30**	**1 646**
Amortization			
At December 31, 2007	**612**	**-**	**612**
Charge	254	-	254
Disposals	(28)	-	(28)
At December 31, 2008	**838**	**-**	**838**
Net book value			
At December 31, 2007	**592**	**8**	**600**
At December 31, 2008	**778**	**30**	**808**

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

24. INVESTMENT PROPERTY

The following table shows the movement in the Group's and Bank's investment property for the period ended December 31, 2008:

LVL`000	**Building**
As at December 31, 2006	**-**
Reclassification	2 615
Net change in fair value	1 589
Additions	20
As at December 31, 2007	**4 224**
Reclassification	-
Net change in fair value	108
Additions	35
As at December 31, 2008	**4 367**

Investment property is stated at fair value, which has been determined based 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 these types of investment properties, at December 19, 2008. The fair value represents the amount at 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 2008. 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'000 432, at the same time the related property maintenance expense and real estate tax was LVL'000 121.

25. TANGIBLE FIXED ASSETS

	31.12.2008		**31.12.2007**	
	Group LVL'000	**Bank LVL'000**	**Group LVL'000**	**Bank LVL'000**
Lands and buildings	660	660	941	941
Vehicles	583	230	296	240
Office equipment and other fixed assets	1 375	1 297	1 293	1 239
Prepayments for tangible fixed assets	32	32	3	3
Leasehold improvements	70	70	242	242
Net book value of tangible fixed assets	**2 720**	**2 289**	**2 775**	**2 665**

The following table shows the changes in the Bank's tangible fixed assets for the year ended December 31, 2008:

LVL'000	Land and Buildings	Vehicles	Office equipment and other fixed assets	Prepayments for tangible fixed assets	Leasehold improvements	Total
Historical cost						
At December 31, 2007	**2 980**	**350**	**3 535**	**3**	**242**	**7 110**
Additions	-	34	610	326	-	**970**
Reclassification	-	-	-	-	-	**-**
Disposals	-	(7)	(193)	(297)	(172)	**(669)**
At December 31, 2008	**2 980**	**377**	**3 952**	**32**	**70**	**7 411**
Depreciation						
At December 31, 2007	**2 039**	**110**	**2 296**	**-**	**-**	**4 445**
Charge	281	42	552	-	-	**875**
Disposals	-	(5)	(193)	-	-	**(198)**
At December 31, 2008	**2 320**	**147**	**2 655**	**-**	**-**	**5 122**
Net book value						
At December 31, 2007	**941**	**240**	**1 239**	**3**	**242**	**2 665**
At December 31, 2008	**660**	**230**	**1 297**	**32**	**70**	**2 289**
Fair value	**4 108**	**-**	**-**	**-**	**-**	**-**

LVL'000	Land and Buildings	Vehicles	Office equipment and other fixed assets	Prepayments for tangible fixed assets	Leasehold improvements	Total
Historical cost						
At December 31, 2006	**4 912**	**338**	**3 175**	**199**	**568**	**9 192**
Additions	59	38	571	489	543	**1 700**
Reclassification (Note 24)	(1 991)	-	-	(81)	(543)	**(2 615)**
Disposals	-	(26)	(211)	(604)	(326)	**(1 167)**
At December 31, 2007	**2 980**	**350**	**3 535**	**3**	**242**	**7 110**
Depreciation						
At December 31, 2006	**1 758**	**100**	**2 030**	**-**	**-**	**3 888**
Charge	281	36	465	-	-	**782**
Disposals	-	(26)	(199)	-	-	**(225)**
At December 31, 2007	**2 039**	**110**	**2 296**	**-**	**-**	**4 445**
Net book value						
At December 31, 2006	**3 154**	**238**	**1 145**	**199**	**568**	**5 304**
At December 31, 2007	**941**	**240**	**1 239**	**3**	**242**	**2 665**
Fair value	**4 860**	**-**	**-**	**-**	**-**	**-**

26. OTHER ASSETS

	31.12.2008		31.12.2007	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Deferred expenses	302	300	341	305
Accrued income	237	217	195	149
VAT	229	183	152	152
Cards transactions	86	86	89	89
Other debtors	453	368	416	390
Total	**1 307**	**1 154**	**1 193**	**1 085**

27. MANAGED TRUST ASSETS AND LIABILITIES

	31.12.2008		31.12.2007	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Managed trust assets	**29 956**	**29 956**	**43 157**	**43 157**
Debt securities	14 388	14 388	22 122	22 122
Loans	10 893	10 893	15 282	15 282
Shares and other securities with non-fixed income	560	560	1 348	1 348
Due from credit institutions	569	569	557	557
Other	3 546	3 546	3 848	3 848
Managed trust liabilities	**29 956**	**29 956**	**43 157**	**43 157**
Private companies	29 741	29 741	42 322	42 322
Individuals	215	215	835	835

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.

28. DUE TO THE CENTRAL BANK AND OTHER BANKS

	31.12.2008		31.12.2007	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Demand deposits	**25 483**	**25 483**	**4 848**	**4 848**
Banks registered in Latvia	24 467	24 467	2 199	2 199
Banks registered in other countries	270	270	2 165	2 165
Banks registered in OECD countries	746	746	484	484
Term deposits	**52 060**	**50 884**	**87 458**	**87 458**
Banks registered in OECD countries	45 108	45 108	80 763	80 763
Banks registered in other countries	1 176	-	4 578	4 578
Banks registered in Latvia	5 776	5 776	2 117	2 117
Total	**77 543**	**76 367**	**92 306**	**92 306**

Bank's average interest rate for EUR is 6.7%.

29. CUSTOMER DEPOSITS

	31.12.2008		31.12.2007	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Current accounts	**145 819**	**145 931**	**147 695**	**147 789**
Private companies	128 356	128 474	130 226	130 320
Individuals	17 031	17 025	16 989	16 989
Public organizations	175	175	281	281
Government companies	230	230	147	147
Local government	27	27	52	52
Fixed-term deposits	**204 899**	**205 691**	**299 681**	**300 053**
Private companies	100 488	101 273	223 718	224 090
Individuals	91 653	91 660	69 824	69 824
Government companies	12 723	12 723	6 000	6 000
Public organizations	35	35	139	139
Total	**350 718**	**351 622**	**447 376**	**447 842**
Geographical segmentation of customer deposits				
Current accounts	**145 819**	**145 931**	**147 695**	**147 789**
Residents of the other countries	87 046	87 046	85 562	85 562
Residents of Latvia	35 039	35 151	32 359	32 453
Residents of OECD countries	23 734	23 734	29 774	29 774
Fixed-term deposits	**204 899**	**205 691**	**299 681**	**300 053**
Residents of OECD countries	5 063	5 063	137 215	137 215
Residents of the other countries	91 047	91 047	83 235	83 235
Residents of Latvia	108 789	109 581	79 231	79 603
Total	**350 718**	**351 622**	**447 376**	**447 842**

Bank's average interest rates are: LVL 9.44%, USD 3.73%, EUR is 3.00%.

30. SUBORDINATED DEBT

As at December 31, 2008 and 2007 the Bank's depositors with more than 10% of the subordinated debt amount were as follows:

	Maturity	Interest rate (%)	Currency	31.12.2008 LVL'000	31.12.2007 LVL'000
"Straumborg Ehf." (Iceland)	2013	9	EUR	5 722	5 252
"Ice-Balt Invest Ehf." (Iceland)	2013	9	EUR	949	949
Other persons	2009-2013	6-10	LVL, USD,EUR	2 301	2 301
Total				**8 972**	**8 502**

31. DEBT SECURITIES IN ISSUE

	31.12.2008.				31.12.2007.			
	Nominal EUR`000	Effective interest rate, %	Group LVL'000	Bank LVL'000	Nominal EUR`000	Effective interest rate, %	Group LVL'000	Bank LVL'000
Corporate bills	3 370	7.87	2 314	2 314	810 000	16.33	5 870	5 870
Total	**3 370**	**7.87**	**2 314**	**2 314**	**810 000**	**16.33**	**5 870**	**5 870**

Corporate bills with a nominal value of EUR`000 3 370 mature on April 20, 2009.

32. OTHER LIABILITIES

	31.12.2008		31.12.2007	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Payments collected on behalf of communal utilities providers	332	332	954	954
Accrued expenses	1 036	1 036	588	568
Cards transactions	15	15	457	457
Accruals for vacations	307	261	221	221
Suspense amounts	157	157	214	214
Deferred income	49	49	37	37
Other	964	693	677	503
Total	**2 860**	**2 543**	**3 148**	**2 954**

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 end of the year.

33. SHARE CAPITAL

	31.12.2008		31.12.2007	
	Skaits'000	LVL'000	Skaits'000	LVL'000
Registered and paid – in share capital	**40 500**	**40 500**	**40 500**	**40 500**

As at December 31, 2008 and 2007, Bank's shareholders were as follows:

	31.12.2008			31.12.2007		
	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	20 705 879	51.13	**20 706**
J. Šapurovs	8 007 091	19.77	8 007	8 007 091	19.77	**8 007**
A. Svirčenkovs	8 007 089	19.77	8 007	8 007 089	19.77	**8 007**
Other (individually less than 10%)	3 779 869	9.33	3 780	3 779 869	9.33	**3 780**
Total	**40 499 928**	**100.00**	**40 500**	**40 499 928**	**100.00**	**40 500**

34. 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 December 31, 2008 and 2007 there is no difference between basic and diluted earnings per share calculation.

	Group 31.12.2008	Group 31.12.2007
Net profit (LVL'000)	2 643	6 217
Weighted average number of ordinary shares	40 500	26 500
Earnings per share (LVL)	**0.07**	**0.23**

35. CASH AND CASH EQUIVALENTS

	31.12.2008		31.12.2007	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Cash and balances due on demand from the Bank of Latvia	58 621	58 621	42 157	42 157
Balances due from other banks with original maturity of 3 months or less	35 836	34 130	177 633	177 465
Total	**94 457**	**92 751**	**219 790**	**219 622**

36. COMMITMENTS AND CONTINGENCIES

	31.12.2008		31.12.2007	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Contingent liabilities	**4 218**	**5 275**	**4 087**	**4 680**
Guarantees	4 169	5 226	4 039	4 632
Other	49	49	48	48
Commitments	**13 597**	**13 405**	**41 498**	**41 905**
Unused credit lines	12 935	12 743	40 945	41 352
Letters of credit	662	662	553	553
Total off-balance sheet items, gross	**17 815**	**18 680**	**45 585**	**46 585**

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 for 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.

37. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

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

Group	31.12.2008			31.12.2007		
	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	58 621	58 621	-	42 157	42 157	-
Loans and receivables to banks	42 447	42 987	540	189 087	189 461	374
Trading financial assets	9 258	9 258	-	37 900	37 900	-
Financial assets designated at fair value through profit or loss	465	465	-			
Derivative financial instruments	7 690	7 690	-	5 339	5 339	-
Loans to customer and receivables	326 167	336 062	9 895	324 462	330 902	6 440
Available-for-sale financial assets	38 569	38 569	-	9 238	9 238	-
Held-to-maturity financial assets	11 441	7 309	(4 132)			
Financial liabilities						
Due to the central bank and other banks	77 543	77 921	(378)	92 306	92 750	(444)
Derivative financial instruments	5 621	5 621	-	4 974	4 974	-
Customer deposits	350 718	351 240	(522)	447 376	448 431	(1 055)
Subordinated debt	8 972	8 972	-	8 502	8 502	-
Debt securities in issue	2 314	2 343	(29)	5 870	5 899	(29)
Total difference			**5 374**			**5 286**

Bank	31.12.2008			31.12.2007		
	Carrying value LVL'000	Fair value LVL'000	Difference LVL'000	Carrying value LVL'000	Fair value LVL'000	Difference LVL'000
Financial assets	58 621	58 621		42 157	42 157	-
Cash and balances with the central bank	40 741	41 281	540	188 919	189 293	374
Loans and receivables to banks	9 258	9 258	-	37 900	37 900	-
Trading financial assets	465	465		1 454	1 454	-
Financial assets designated at fair value through profit or loss	7 690	7 690	-	5 339	5 339	-
Derivative financial instruments	321 674	331 569	9 895	321 434	327 874	6 440
Loans to customer and receivables	38 569	38 569	-	9 238	9 238	-
Available-for-sale financial assets	11 441	7 309	(4 132)	-	-	-
Financial liabilities						
Due to the central bank and other banks	76 367	76 745	(378)	92 306	92 750	(444)
Derivative financial instruments	5 621	5 621	-	4 974	4 974	-
Customer deposits	351 622	352 144	(522)	447 842	448 897	(1 055)
Subordinated debt	8 972	8 972	-	8 502	8 502	-
Debt securities in issue	2 314	2 343	(29)	5 870	5 899	(29)
Total difference			**5 374**			**5 286**

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 amortized 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.

– No future loan losses, adjustments related to future probable loan restructurisation, early repayment considered.

38. FINANCIAL INSTRUMENTS RECORDED AT FAIR VALUE

The following table shows an analysis of the Group's and 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 involves the use of non-market observable inputs.

As at December 31, 2008 - Group	**Quoted market**	**Valuation techniques – market observable inputs**	**Valuation techniques – non-market observable inputs**	**Total**
	LVL'000	**LVL'000**	**LVL'000**	**LVL'000**
Financial assets	**36 442**	**8 621**	**10 919**	**55 982**
Trading financial assets	9 258	-	-	9 258
Financial assets designated at fair value through profit or loss	-	465	-	465
Derivative financial instruments	28	7 662	-	7 690
Available-for-sale financial assets	27 156	494	10 919	38 569
Financial liabilities	**-**	**5 621**	**-**	**5 621**
Derivatives financial instruments	-	5 621	-	5 621

As at December 31, 2007 - Group	**Quoted market**	**Valuation techniques – market observable inputs**	**Valuation techniques – non-market observable inputs**	**Total**
	LVL'000	**LVL'000**	**LVL'000**	**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**
Derivatives financial instruments	-	4 974	-	4 974

39. CAPITAL ADEQUACY CALCULATION

The Group's and Bank's capital adequacy ratio as of December 31, 2008 has been calculated as follows:

	Notional risk level, %	Group Exposure LVL'000	Group Risk weighted assets LVL'000	Bank Exposure LVL'000	Bank Risk weighted assets LVL'000
ASSETS					
Central governments or central banks	0%	80 345	-	80 345	-
Financial institutions	0%	494	-	494	-
	20%	38 639	7 728	36 933	7 387
	50%	3 760	1 880	3 760	1 880
	100%	15 600	15 600	15 600	15 600
Private companies and individuals	0%	10 037	-	10 037	-
	100%	267 170	267 170	248 279	248 279
Pool of retail exposure claims (MRD)	0%	5	-	5	-
	75%	29 758	22 318	29 758	22 318
Past due exposures	0%	1	-	1	-
	100%	1 065	1 065	1 051	1 051
	150%	5 901	8 851	5 836	8 754
Collective investment undertakings (CIU)	100%	10 919	10 919	10 919	10 919
Other items	0%	5 366	-	5 366	-
	20%	-	-	-	-
	100%	9 966	9 966	9 384	9 384
Total assets and risk weighted assets		**479 026**	**345 497**	**457 768**	**325 572**

OFF-BALANCE SHEET ITEMS	Notional risk level, %	Group Exposure LVL'000	Group Risk weighted assets LVL'000	Bank Exposure LVL'000	Bank Risk weighted assets LVL'000
Items with 0% adjustment	**0%**	**1 273**	**-**	**1 922**	**-**
Items with 50% adjustment	75%	4 332	1 624	4 332	1 624
Items with 50% adjustment	100%	8 996	4 498	8 129	4 065
Items with 50% adjustment	150%	43	32	43	32
Items with 100% adjustment	100%	2 833	2 833	2 833	2 833
Amounts that are not included in the calculation of the weighted risk value	0%	1 421	-	1 421	-
Total off-balance sheet items		**18 898**	**8 987**	**18 680**	**8 554**
Total assets and off-balance sheet items		**479 026**	**345 497**	**457 768**	**325 572**

	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	15 437	14 772
Minority interest	25	-
Revaluation reserve of available for sale financial assets	(2 015)	(2 015)
Retained earnings	1 446	1 020
Goodwill	(266)	-
Other intangible assets	(745)	(808)
Investment property revaluation (earnings)	(1 555)	(1 555)
Total tier 1	**52 834**	**51 921**
Tier 2		
Subordinated capital	5 445	5 445
45% from investment property revaluation earnings	700	700
Total tier 2	**6 145**	**6 145**
Pašu kapitāls	**58 979**	**58 066**
Summary		
Credit risk capital	28 359	26 730
Market risks capital requirement	1 372	1 369
Operational risk	3 012	3 012
Capital requirement covered by capital (total capital)	**26 236**	**26 955**
Capital adequacy rate as of 31.12.2008	**14.41%**	**14.93%**
Capital adequacy rate as of 31.12.2007	**14.13%**	**14.06%**
Minimal capital adequacy ratio (%) 2008 and 2007	**8.00%**	**8.00%**

40. 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 undertakings over which 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	31.12.2008 Total LVL'000	31.12.2007 Total LVL'000
Assets		**8 579**	**206**	**8 785**	**27 931**
Loans and receivables, net		**8 579**	**206**	**8 785**	**27 931**
Related undertakings and Individuals	7.03	8 424	127	**8 551**	**27 752**
Council and Board	7.77	24	75	**99**	**52**
Other senior executives	4.2	131	4	**135**	**127**
Liabilities		**10 759**	**-**	**10 759**	**16 884**
Deposits		**3 527**	**-**	**3 527**	**9 910**
Related undertakings and Individuals	1.41	2 590	-	**2 590**	**9 287**
Council and Board	3.02	931	-	**931**	**616**
Other senior executives	-	6	-	**6**	**7**
Subordinated debt		**7 232**	**-**	**7 232**	**6 974**
Related undertakings and Individuals	9.05	5 389	-	**5 389**	**5 131**
Council and Board	8.19	1 843	-	**1 843**	**1 843**

Bank	Average interest rate %	Amount LVL'000	Off-balance sheet items LVL'000	31.12.2008 Total LVL'000	31.12.2007 Total LVL'000
Assets		**56 638**	**1 938**	**58 576**	**48 576**
Loans and receivables, net		**56 638**	**1 938**	**58 576**	**48 576**
Related undertakings and Individuals	7.03	8 424	127	**8 551**	**27 752**
Subsidiaries	4.56	48 181	1 732	**49 913**	**20 750**
Council and Board	7.77	24	75	**99**	**53**
Other senior executives	7.04	9	4	**13**	**21**
Liabilities		**11 632**	**-**	**11 632**	**17 322**
Deposits		**4 400**	**-**	**4 400**	**10 348**
Related undertakings and Individuals	1.41	2 590	-	**2 590**	**9 287**
Subsidiaries	8.96	873	-	**873**	**438**
Council and Board	3.02	931	-	**931**	**616**
Other senior executives	-	6	-	**6**	**7**
Subordinated debt		**7 232**	**-**	**7 232**	**6 974**
Related undertakings and Individuals	9.05	5 389	-	**5 389**	**5 131**
Council and Board	8.19	1 843	-	**1 843**	**1 843**

As at December 31, 2008, the amount of the Bank's exposure transactions with related parties is LVL`000 2 332 or 3.7% 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 present income and expense resulting from above-mentioned related parties transactions:

	31.12.2008		31.12.2007	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Interest income	929	2 202	438	1 221
Interest expense	(710)	(767)	(384)	(403)
Net interest income	**219**	**1 435**	**54**	**818**

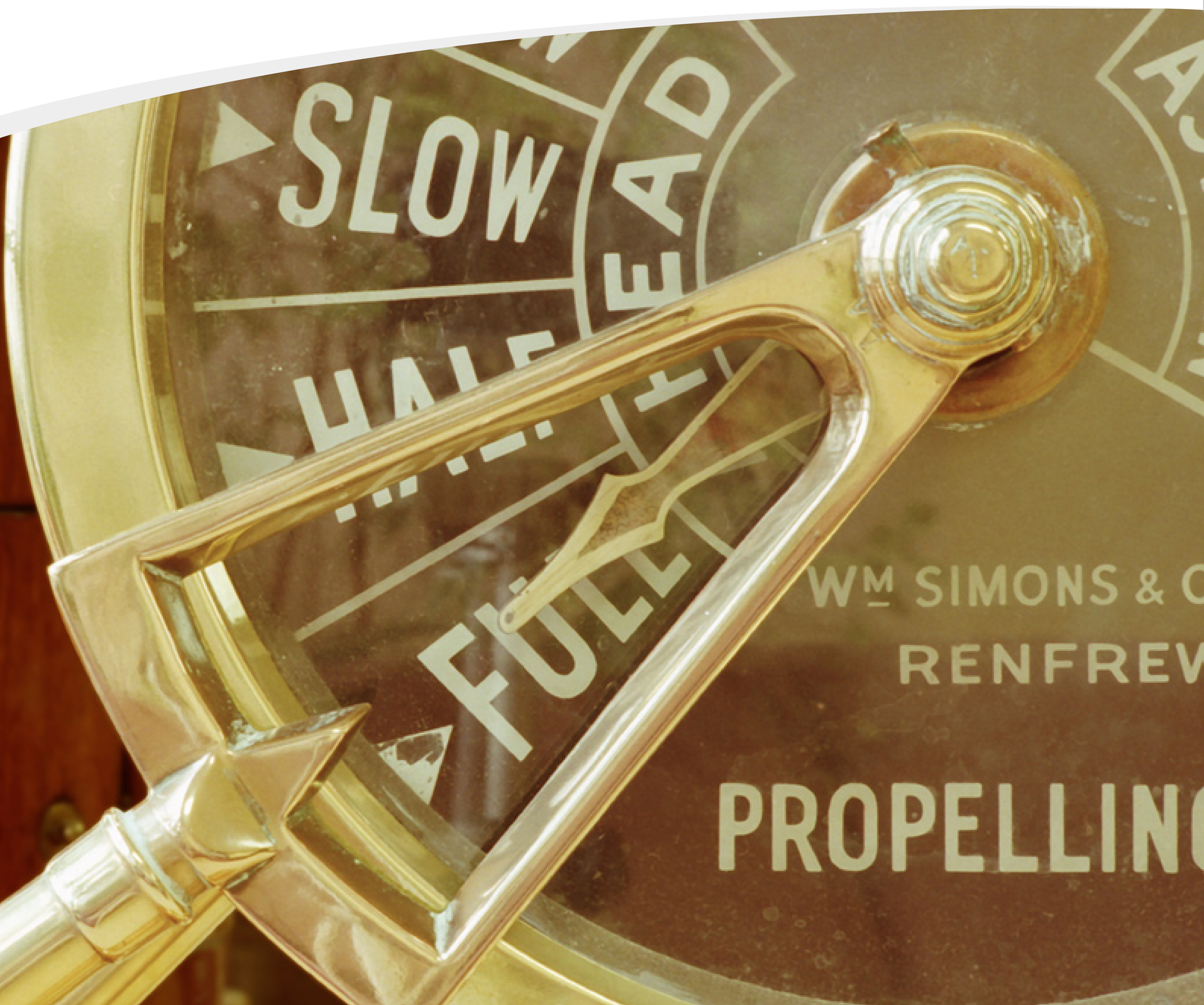
41. SUBSEQUENT EVENTS

In January 2009, it was decided to increase the share capital by issuing 1 000 000 new voting shares with nominal value of 1 LVL each.

In January 2009, it was decided to establish a 75% owned subsidiary company "NORVIK Alternative Investments" Ltd. (Latvia) with the share capital of LVL`000 135.

In February 2009, it was decided to establish a 100% owned subsidiary company "LEGAL CONSULTING" Ltd. (Latvia) with the share capital of LVL`000 2.

INDEPENDENT AUDITOR'S REPORT



To the shareholders of AS "Norvik Banka":

Report on the financial statements

We have audited the accompanying financial statements (pages 7 to 66) of AS "Norvik Banka" (further "the Bank") and the consolidated financial statements of AS "Norvik Banka" and its subsidiaries (further "the Group"), which comprise the Bank's and the Group's balance sheet as at 31 December 2008, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the financial statements

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

Auditor's responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above give a true and fair view of the financial position of the Bank and the Group as of 31 December 2008, and 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.

Emphasis of matter

Without qualifying our opinion, we draw attention to Note 2 (2) to the financial statements which provides information about significant accounting judgments and estimates, current economic conditions and management's response to these conditions.

Report on other legal and regulatory requirements

Report on the management report

We have read the management report for the year ended 31 December 2008, which is presented on pages 3-4, and we have not identified any material discrepancies between the historical financial information presented in these reports and the financial statements for the year ended 31 December 2008.

Report on corporate management information

We have read the information on corporate governance presented in the management report on pages 3-4 and verified that the information is consistent with the requirements listed in section 56.1 first paragraph clauses 3, 4, 6, 8 and 9 and in section 56.2 second paragraph clause 5 in the Law on Financial Instruments Market.

Deloitte Audits Latvia SIA

License No. 43

Hendrik Kramer
Authorised representative

Inguna Stasa
Sworn Auditor
Certificate No. 145

Riga, Latvia
25 March 2009