*Contents*



*AS DnB NORD Banka*
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## REPORT OF THE SUPERVISORY COUNCIL AND THE MANAGEMENT BOARD

We are pleased to inform you on the results of DnB NORD Banka in 2008 proving that the strategy of the bank accepted by the Supervisory Council and executed by the Management Board has been successful in continuing further stable development in the challenging economical situation of 2008.

The growth rate of assets of DnB NORD Banka in 2008 was 8% in comparison with the beginning of the year, amounting to LVL 1,93 billion. The amount of assets of DnB NORD group has reached LVL 2,19 billion.

Due to the macro economic situation the lending policy of the bank was grounded on rather conservative risk principles, and the loan portfolio of the bank has increased by 17% during 2008, amounting to LVL 1,69 billion.

We are gratified that, despite the unstable situation in global and local economies, the trust of inhabitants of Latvia in DnB NORD Banka has increased significantly. The growth of deposits attracted by DnB NORD Banka was the second highest in the banking sector in 2008, and the deposit portfolio reached LVL 440 millions in the end of 2008.

The number of customers of the bank increased significantly in 2008. One of the strategic plans of DnB NORD Banka in 2008 was to expand its operations in the corporate and SME segments, and the number of customers – legal entities – increased by 21% in the reporting period. A steadily increasing number of customers – private individuals – chose DnB NORD Banka as their bank for opening a deposit, taking out a loan, making investment in funds, making transfers or for receiving other financial services. The number of customers – private individuals – increased by 13,9 thousand or 8 % in 2008 in comparison with the beginning of the year.

DnB NORD Banka earned a net profit of LVL 6,2 million in 2008, and it is proposed to capitalize the profit.

The Corporate Governance Report of AS DnB NORD Banka, which is prepared in accordance with the requirements of Article 56.[2] of the Financial Instruments Market Law, is publicly available in electronic form on the website of AS DnB NORD Banka on the Internet (www.dnbnord.lv).

Evaluating highly the market position, innovations introduced, staff professionalism, the company's balance sheet, changes of capital and reserves, introduction of new products and securities emissions, as well as transactions made within 12 months of DnB NORD Banka, the international financial magazine "Euromoney" rewarded DnB NORD Banka as the best bank in Latvia in 2008. We are proud that this prestigious business edition has valued highly DnB NORD Banka's successful development strategy as well as the professional and inspired work of the bank's employees.

In November 2008 the corner stone of the new building of DnB NORD Banka was laid. The new office building of the bank - one of the most technologically developed and most state-of-the-art office buildings in Riga, combining both high-quality architecture and energy-efficiency - will be completed in summer 2010.

According to the strategy of the bank, the operations of DnB NORD Banka were expanded in 2008 – SME servicing centers were opened all over Latvia, Private banking centre was founded in Riga. Several new products were elaborated, and intense job at the development of group account servicing was successfully begun.

As a result of a prudent risk policy the risk position of the bank remained stable and compares favorably with the average in the banking sector of Latvia. Proactive intense job with the existing loan portfolio was begun in 2008, and the risk mitigation will be important in 2009 as well.

In the end of 2008 DnB NORD Banka acquired the remaining 25% of the shares of IPAS DnB NORD Fondi from life insurance company „Seesam Life Insurance SE" thus becoming the only owner of the company. Further development of investment banking services will be important in 2009 as well.

**REPORT OF THE SUPERVISORY COUNCIL AND THE MANAGEMENT BOARD** (continued)

Taking into account the situation in global financial markets we can say that, compared with similar ones, the performance of pension plans managed by the investment management company DnB NORD Fondi has been one of the best in the sector. The second subsidiary of DnB NORD Banka – DnB NORD Līzings – has continued working as well, servicing both private individuals and legal entities.

In 2009 the bank will continue working as a universal bank with three main target directions – a bank for private individuals, a bank for large, middle-sized and small companies as well as a bank offering the main investment banking services.

Thomas Buerkle

Chairman of the
Supervisory Council

Andris Ozolins

CEO, Chairman of the
Management Board

Riga

20 March 2009

***The Supervisory Council and the Management Board of the Bank***

***The Supervisory Council***

| *Name* | *Institution* | *Position* | *Date of appointment* |
|---|---|---|---|
| Sven Herlyn | Bank DnB NORD A/S | Chairman of the Supervisory Council | 14 September 2005* |
| Torstein Hagen | Bank DnB NORD A/S | Vice Chairman of the Supervisory Council | 6 June 2007** |
| Dr. Juergen Allerkamp | Norddeutsche Landesbank Girozentrale | Member of the Supervisory Council | 20 July 2000 |
| Dr. Juris Binde | Latvijas Mobilais Telefons SIA | Member of the Supervisory Council | 21 March 2002 |
| Jarle Mortensen | DnB NOR Bank ASA | Member of the Supervisory Council | 27 March 2007 |
| Baiba Anda Rubess | StatoilHydro Azerbaijan | Member of the Supervisory Council | 21 March 2002 |
| Tony Samuelsen | DnB NOR Bank ASA | Member of the Supervisory Council | 26 March 2008 |

* From 20 July 2000 till 4 October 2004 Sven Herlyn was a member of the Supervisory Council; from 4 October 2004 till 14 September 2005 Sven Herlyn was the Vice Chairman of the Supervisory Council
** From 26 March 2006 till 6 June 2007 Torstein Hagen was a member of the Supervisory Council

*The following members of the Supervisory Council have resigned during the reporting year:*

| *Name* | *Institution* | *Position* | *Date of resignation* |
|---|---|---|---|
| Pal Skoe | DnB NOR Bank ASA | Member of the Supervisory Council | 26 March 2008 |
| Dr. Stephan-Andreas Kaulvers | Bremer Landesbank Kreditanstalt Oldenburg Girozentrale | Member of the Supervisory Council | 31 December 2008 |

***The Management Board***

| *Name* | *Position* | *Date of appointment* |
|---|---|---|
| Andris Ozolins | Chairman of the Management Board | 1 January 2004* |
| Gundars Andzans | Member of the Management Board | 16 May 2005 |
| Rudolf Karges | Member of the Management Board | 20 July 2000 |
| Ivars Kapitovics | Member of the Management Board | 10 August 2006 |
| Björn Poetzsch | Member of the Management Board | 1 May 2007 |

* From 29 March 2001 till 1 January 2004 Andris Ozolins was the Vice Chairman of the Management Board; from 10 September 1999 till 29 March 2001 Andris Ozolins was a member of the Management Board.

**STATEMENT OF RESPONSIBILITY OF THE MANAGEMENT BOARD**

The Management Board of AS DnB NORD Banka are responsible for the preparation of the financial statements of the Group and the Bank.

The financial statements on pages 7 to 70 are prepared in accordance with the source documents and present fairly the financial position of the Group and the Bank as at 31 December 2008 and the results of their operations and cash flows for the year ended 31 December 2008.

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

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

| Andris Ozolins<br>CEO, Chairman of the Management Board | Gundars Andzans<br>Member of the Management Board | Rudolf Karges<br>Member of the Management Board | Ivars Kapitovics<br>Member of the Management Board | Björn Poetzsch<br>Member of the Management Board |
|---|---|---|---|---|

Riga

20 March 2009

ERNST & YOUNG

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# INDEPENDENT AUDITORS' REPORT

To the shareholders of AS DnB Nord Banka

## Report on the Financial Statements

We have audited the accompanying consolidated financial statements of AS DnB Nord Banka and its subsidiaries (hereinafter – the Group) and the accompanying financial statements of AS DnB Nord Banka (hereinafter – the Bank) for the year ended 31 December 2008 (jointly "financial statements"), set out on pages 7 through 70 which comprise the balance sheet as at 31 December 2008, the statements of income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

*Management's Responsibility for the Financial Statements*

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

*Auditor's Responsibility*

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

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

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

*Opinion*

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

## Report on Compliance of the Management Report

Furthermore, we have read the Management Report for the year ended 31 December 2008 (included on pages 2 through 3 of the accompanying 2008 annual report) and have not noted any material inconsistencies between the financial information included in it and the financial statements for the year ended 31 December 2008.

## Report on Corporate Management Report

We have assured ourselves that the Bank has prepared the corporate management report for the year 2008 and verified information presented in the report according to the requirements listed in the section 56.1 first paragraph clauses 3, 4, 6, 8 and 9 and in the section 56.2 second paragraph clause 5 in the Law on Financial Instruments Market.

SIA Ernst & Young Baltic
Licence No. 17

Diāna Krišjāne
Chairperson of the board
Latvian Sworn Auditor
Certificate No. 124
Riga, 20 March 2009

***Income Statement for the year ended 31 December 2008***

| | Notes | 2008<br>Group<br>LVL'000 | 2007<br>(restated)<br>Group<br>LVL'000 | 2008<br>Bank<br>LVL'000 | 2007<br>(restated)<br>Bank<br>LVL'000 |
|---|---|---|---|---|---|
| Interest income | 5 | 133,426 | 98,500 | 120,483 | 89,652 |
| Interest expenses | 6 | (88,911) | (60,668) | (78,058) | (53,899) |
| **Net interest income** | | **44,515** | **37,832** | **42,425** | **35,753** |
| Fees and commission income | 7 | 12,537 | 9,892 | 13,337 | 11,441 |
| Fees and commission expenses | 8 | (4,782) | (3,570) | (4,781) | (3,761) |
| **Net fees and commissions** | | **7,755** | **6,322** | **8,556** | **7,680** |
| Net gain/ (loss) from operations with foreign currency, trading securities and derivative financial instruments | 9 | (457) | 4,494 | (507) | 4,371 |
| Other operating income | 10 | 7,485 | 7,382 | 1,457 | 1,022 |
| Dividends | | 1 | 1 | 601 | 501 |
| **Operating income** | | **59,299** | **56,031** | **52,532** | **49,327** |
| Personnel expenses | 11 | (12,085) | (10,504) | (11,139) | (9,839) |
| Other administrative expenses | 11 | (15,254) | (12,001) | (14,440) | (11,309) |
| Depreciation | | (7,193) | (6,632) | (2,242) | (1,680) |
| Other operating expenses | | (617) | (540) | (305) | (308) |
| Net allowances for impairment loss | 24 | (17,360) | (3,267) | (16,745) | (3,267) |
| **Profit before income tax** | | **6,790** | **23,087** | **7,661** | **22,924** |
| Corporate income tax | 12 | (2,302) | (3,210) | (1,989) | (3,090) |
| **Profit for the period from continuing operations** | | **4,488** | **19,877** | **5,672** | **19,834** |
| Gain/(loss) after tax for the period from a discontinued operations | 35 | 537 | (701) | 537 | (248) |
| **Profit for the period** | | **5,025** | **19,176** | **6,209** | **19,586** |
| **Attributable to:** | | | | | |
| Equity holders of the Bank | | 5,025 | 19,193 | 6,209 | 19,586 |
| Minority interests | | - | (17) | - | - |

The financial statements on pages 7 to 70 have been approved by the Supervisory Council and the Management Board of the Bank and signed on their behalf by:

| Thomas Buerkle | Andris Ozolins | Rudolf Karges |
|---|---|---|
| Chairman of the Supervisory Council | Chairman of the Management Board | Member of the Management Board |

Riga,
20 March 2009

***The accompanying notes are an integral part of these financial statements.***

***Balance Sheet as at 31 December 2008***

| **Assets** | **Notes** | **2008 Group LVL'000** | **2007 (restated) Group LVL'000** | **2008 Bank LVL'000** | **2007 (restated) Bank LVL'000** |
|---|---|---|---|---|---|
| Cash and balances with central banks | 14 | 89,328 | 119,551 | 89,328 | 119,552 |
| Due from other credit institutions (demand) | 15 | 3,303 | 14,892 | 2,902 | 14,892 |
| Derivatives | 19 | 5,593 | 4,050 | 5,593 | 4,050 |
| Financial assets designated at fair value through profit or loss | 17 | 119,995 | 44,861 | 119,995 | 44,861 |
| *-- Debt securities and other fixed income securities* | | *119,641* | *44,791* | *119,641* | *44,791* |
| *-- Investment funds* | | *354* | *70* | *354* | *70* |
| Financial assets available-for-sale | | 10 | 10 | 10 | 10 |
| Loans and advances | | 1,923,023 | 1,642,424 | 1,695,999 | 1,468,331 |
| *-- Due from other credit institutions (term)* | 15 | *6,104* | *26,062* | *6,104* | *26,062* |
| *-- Loans to customers* | 16 | *1,916,919* | *1,616,362* | *1,689,895* | *1,442,269* |
| Non-current assets and disposal groups classified as held for sale | 35 | | 184,131 | | 130,054 |
| Accrued income and deferred expenses | 22 | 773 | 1,199 | 659 | 1,053 |
| Fixed assets | 21 | 28,996 | 32,454 | 7,233 | 7,523 |
| Intangible assets | 20 | 1,214 | 1,057 | 809 | 817 |
| Investments in the share capital of related companies | 18 | - | - | 987 | 710 |
| Corporate income tax | | 2,058 | - | 2,058 | - |
| Other assets | 23 | 15,769 | 11,326 | 7,101 | 4,229 |
| **Total assets** | | **2,190,062** | **2,055,955** | **1,932,674** | **1,796,082** |

The financial statements on pages 7 to 70 have been approved by the Supervisory Council and the Management Board of the Bank and signed on their behalf by:

| | | |
|---|---|---|
| Thomas Buerkle | Andris Ozolins | Rudolf Karges |
| Chairman of the Supervisory Council | Chairman of the Management Board | Member of the Management Board |

*Riga,*
*20 March 2009*

***The accompanying notes are an integral part of these financial statements.***

***Balance Sheet as at 31 December 2008*** *(continued)*

| Liabilities | Notes | 2008 Group LVL'000 | 2007 (restated) Group LVL'000 | 2008 Bank LVL'000 | 2007 (restated) Bank LVL'000 |
|---|---|---|---|---|---|
| Liabilities to credit institutions on demand | 25 | 7,703 | 37,929 | 7,703 | 37,929 |
| Derivatives | 19 | 13,817 | 3,255 | 13,817 | 3,255 |
| Financial liabilities at amortised cost: | | 1,971,861 | 1,633,487 | 1,717,461 | 1,435,638 |
| *-- Due to credit institutions (term)* | 25 | *1,534,105* | *1,290,031* | *1,277,632* | *1,088,529* |
| *-- Deposits from customers and other financial liabilities* | 26 | *437,756* | *343,456* | *439,829* | *347,109* |
| Accrued expenses and deferred income | 27 | 1,292 | 2,236 | 1,275 | 2,053 |
| Deferred tax liability | 12 | 1,158 | 784 | 542 | 481 |
| Income tax liability | | 14 | 891 | 14 | 891 |
| Liabilities related to disposal groups classified as held for sale | 35 | - | 188,420 | - | 130,302 |
| Other liabilities | 29 | 4,937 | 5,178 | 1,759 | 1,723 |
| Subordinated loan | 28 | 40,860 | 40,776 | 40,860 | 40,776 |
| **Total liabilities** | | **2,041,642** | **1,912,956** | **1,783,431** | **1,653,048** |
| | | | | | |
| **Shareholders` equity** | | | | | |
| Share capital | 30 | 99,161 | 99,161 | 99,161 | 99,161 |
| Share premium | | 48,994 | 48,994 | 48,994 | 48,994 |
| Reserve capital | | 214 | 214 | 214 | 214 |
| Revaluation reserve | | 133 | 133 | 133 | 133 |
| Accumulated result | | (82) | (5,542) | 741 | (5,468) |
| **Total shareholders' equity attributable to the shareholders of the Bank** | | **148,420** | **142,960** | **149,243** | **143,034** |
| Minority interests | | - | 39 | - | - |
| **Total shareholders` equity** | | **148,420** | **142,999** | **149,243** | **143,034** |
| | | | | | |
| **Total liabilities and shareholders` equity** | | **2,190,062** | **2,055,955** | **1,932,674** | **1,796,082** |

The financial statements on pages 7 to 70 have been approved by the Supervisory Council and the Management Board of the Bank and signed on their behalf by:

| Thomas Buerkle | Andris Ozolins | Rudolf Karges |
|---|---|---|
| Chairman of the Supervisory Council | Chairman of the Management Board | Member of the Management Board |

Riga,
20 March 2009

***The accompanying notes are an integral part of these financial statements***

*Consolidated Statement of Changes in Shareholders' Equity for the year ended 31 December 2008*

| | Attributable to equity holders | | | | | | |
|---|---|---|---|---|---|---|---|
| | Share capital LVL'000 | Share premium LVL'000 | Reserve capital* LVL'000 | Revaluation reserve LVL'000 | Accumulated result LVL'000 | Minority interest LVL'000 | Total LVL'000 |
| **At 31 December 2006** | **56,961** | **48,994** | **214** | **133** | **(24,767)** | **38** | **81,573** |
| Increase of share capital | 42,200 | | | | | | **42,200** |
| Minority share of IPAS DnB NORD Fondi on the date of acquisition | | | | | | 18 | **18** |
| Cash flow hedge impact | | | | | 32 | | **32** |
| Profit for the year | | | | | 19,193 | 17 | **19,176** |
| **At 31 December 2007** | **99,161** | **48,994** | **214** | **133** | **(5,542)** | **39** | **142,999** |
| Full acquisition of the IPAS DnB NORD Fondi | | | | | (66) | (39) | **(105)** |
| Retained loss decrease after DnB NORD Liising shares sale | | | | | 493 | | **493** |
| Cash flow hedge impact | | | | | 8 | | **8** |
| Profit for the year | | | | | 5,025 | | **5,025** |
| **At 31 December 2008** | **99,161** | **48,994** | **214** | **133** | **(82)** | **-** | **148,420** |

*Statement of Changes in Shareholders' Equity of the Bank for the year ended 31 December 2008*

| | Share capital LVL'000 | Share premium LVL'000 | Reserve capital* LVL'000 | Revaluation reserve LVL'000 | Accumulated result LVL'000 | Total LVL'000 |
|---|---|---|---|---|---|---|
| **At 31 December 2006** | **56,961** | **48,994** | **214** | **133** | **(25,054)** | **81,248** |
| Increase of share capital | 42,200 | - | - | - | - | **42,200** |
| Profit for the year | - | - | - | - | 19,586 | **19,586** |
| **At 31 December 2007** | **99,161** | **48,994** | **214** | **133** | **(5,468)** | **143,034** |
| Profit for the year | - | - | - | - | 6,209 | **6,209** |
| **At 31 December 2008** | **99,161** | **48,994** | **214** | **133** | **741** | **149,243** |

* The reserve has been formed as a result of shares issues before 1998 according to previously existing requirements of legislation.

***The accompanying notes are an integral part of these financial statements.***

*Statement of Cash Flows for the year ended 31 December 2008*

| | 2008 Group LVL'000 | 2007 Group LVL'000 | 2008 Bank LVL'000 | 2007 Bank LVL'000 |
|---|---|---|---|---|
| **Cash flows from operating activities** | | | | |
| Profit before income tax and dividends | 6,473 | 22,402 | 7,762 | 22,691 |
| Depreciation and amortization of intangible and fixed assets | 7,197 | 6,702 | 1,172 | 1,708 |
| Increase/(decrease) in provisions for doubtful debts and off-balance sheet liabilities | 14,870 | 2,970 | 14,284 | 2,970 |
| Profit/(loss) from revaluation of securities, derivatives and loans | 4,071 | (594) | 4,071 | (594) |
| (Profit)/loss from sale of fixed and intangible assets | (664) | (664) | (664) | (664) |
| Dividends received | - | - | (600) | (500) |
| (Profit)/loss from foreign currency revaluation | 157 | (26) | 157 | (26) |
| **Cash flow from operating activities before changes in assets and liabilities** | **32,104** | **30,790** | **26,182** | **25,585** |
| (Increase)/Decrease in loans and advances to customers | (310,216) | (568,091) | (251,734) | (437,679) |
| (Increase)/Decrease in due from credit institutions | (3,858) | 37 | (3,858) | 37 |
| (Increase)/Decrease in derivatives | (10,058) | 1,095 | (10,058) | 1,095 |
| (Increase) in financial assets designated at fair value through profit and loss | (85,079) | (53,322) | (85,079) | (53,322) |
| Decrease in financial assets designated at fair value through profit and loss | 9,277 | 29,663 | 9,277 | 29,663 |
| Increase in due to credit institutions | 232,350 | 522,311 | 181,005 | 378,515 |
| (Increase)/Decrease in accrued income and deferred expenses | 514 | (1,895) | 480 | (1,805) |
| (Increase)/Decrease in other assets and accrued income | (3,216) | (8,144) | (4,914) | (1,237) |
| Increase/(Decrease) in clients deposits | 93,745 | 32,334 | 92,165 | 35,393 |
| Increase/(Decrease) in financial liabilities held for trading | 10,562 | 63 | 10,561 | 63 |
| Increase/(Decrease) in accrued expenses and deferred income | 944 | 4,463 | (778) | 3,851 |
| Increase/(Decrease) in other liabilities and accrued expense | (1924) | 2,141 | (567) | 909 |
| **Changes in cash and cash equivalents as a result of operating activities** | | | | |
| Corporate income tax paid | (1,974) | (1,928) | (2,369) | (1,928) |
| **Increase/decrease in cash and cash equivalents as a result of operating activities** | **(36,829)** | **(10,483)** | **(39,687)** | **(20,860)** |
| **Cash flows from investing activities** | | | | |
| (Acquisition) of fixed assets and intangible assets | (7,461) | (18,493) | (2,269) | (4,028) |
| Sale of fixed assets and intangible assets | 4,790 | 5,192 | 1,987 | 694 |
| (Acquisition) of participation in share capital of subsidiary and Business Unit | | | (30) | |
| Sale of participation in share capital of subsidiary and Business Unit | 502 | | | (72) |
| **Increase/decrease in cash and cash equivalents as a result of investment activities** | **(2,169)** | **(13,301)** | **(312)** | **(3,406)** |

***The accompanying notes are an integral part of these financial statements.***

***Statement of Cash Flows for the year ended 31 December 2008** (continued)*

| | Note | 2008 Group LVL'000 | 2007 Group LVL'000 | 2008 Bank LVL'000 | 2007 Bank LVL'000 |
|---|---|---|---|---|---|
| **Cash flows from financing activities** | | | | | |
| Increase of share capital | | | 42,218 | | 42,200 |
| Subordinated liabilities attracted/( interest paid) | | 84 | 5,148 | 84 | 5,148 |
| Dividends (paid)/received | | | | 600 | 500 |
| **Increase/decrease in cash and cash equivalents as a result of financing activities** | | **84** | **47,366** | **684** | **47,848** |
| **Net increase/decrease in cash and cash equivalents** | | **(38,914)** | **23,582** | **(39,315)** | **23,582** |
| Cash and cash equivalents at the beginning of the year | | 124,000 | 115,241 | 124,000 | 115,241 |
| (Profit)/loss of foreign currency revaluation | | (157) | | (157) | |
| **Cash and cash equivalents at the end of the year** | **14** | **84,929** | **138,823** | **84,528** | **138,823** |

| | 2008 Group LVL'000 | 2007 Group LVL'000 | 2008 Bank LVL'000 | 2007 Bank LVL'000 |
|---|---|---|---|---|
| Cash flow from interest received | 131,832 | 98,257 | 118,754 | 88,505 |
| Cash flow from interest paid | 87,902 | 55,439 | 77,332 | 27,861 |

***The accompanying notes are an integral part of these financial statements.***

*Notes to the Financial Statements*

## 1 INCORPORATION AND PRINCIPAL ACTIVITIES

AS DnB NORD Banka was established as Riga Commercial Bank on 26 June 1989. On 6 September 1991 it was incorporated in the Republic of Latvia as a joint stock company. The parent of the Bank is Bank DnB NORD A/S (Denmark) and the ultimate parent of the Bank is DnB NOR ASA (Norway).

The Group offers a wide range of financial services to enterprises and individuals.

These financial statements were authorised for issue by the Supervisory Council and the Management Board on 20 March 2008. In accordance with the Commercial Law of the Republic of Latvia, the shareholders' meeting has the right to make decision on approval of the financial statements.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these financial statements are set out below:

*a) Reporting Currency*

The accompanying financial statements are reported in thousands of lats (LVL`000), unless otherwise stated.

*b) Basis of Presentation*

These financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) as adopted in EU. The financial statements are prepared under the historical cost convention as modified by the revaluation of financial assets at fair value through profit or loss, derivative contracts and the Group's and Bank's buildings which are measured at fair value.

The preparation of financial statements in conformity with IFRS as adopted in EU requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of current events and actions, actual results ultimately may differ from those estimates.

These financial statements comprise of both, the financial statements of the parent company AS DnB NORD Banka and the consolidated statements.

*c) Consolidation*

Subsidiary undertakings in which the Bank, directly or indirectly, has the power to exercise control over financial and operating policies, have been consolidated.

Subsidiaries are consolidated from the date on which effective control is transferred to the Bank and are no longer consolidated from the date of disposal. All intercompany transactions, balances and unrealised surpluses and deficits on transactions between Group companies have been eliminated.

*d) Income and Expense Recognition*

Interest income and expense are recognised in the income statement for all instruments measured at amortised cost using the effective interest rate method. Interest income includes coupons earned on fixed income investment securities.

When loans become doubtful of collection, they are written down to their recoverable amounts and interest income is thereafter recognised based on the effective interest rate that was used to discount the future cash flows for the purpose of measuring the recoverable amount.

Commissions received or incurred in respect of financial assets or liabilities not at fair value through profit or loss are deferred and recognized as an adjustment to the effective interest rate on the asset or liability. Other commissions and fees are credited and/ or charged to the income statement as earned/ incurred.

*Notes to the Financial Statements (continued)*

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

*e) Foreign Currency Translation*

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

The principal rates of exchange (LVL to 1 foreign currency unit) set by the Bank of Latvia and used in the preparation of the Group's and the Bank's balance sheets were as follows:

| Reporting date | USD | EUR |
|---|---|---|
| As at 31 December 2008 | 0.495 | 0.702804 |
| As at 31 December 2007 | 0.484 | 0.702804 |

f) *Corporate income tax*

Corporate income tax for the reporting period is included in the financial statements based on the management's calculations prepared in accordance with Latvian Republic tax legislation.

Deferred tax is provided in full, using the liability method, on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. The deferred tax liability is calculated using the tax rates that have been enacted or substantially enacted by the balance sheet date and that are expected to apply when the temporary differences reverse. The principal temporary differences arise from different fixed asset depreciation rates, as well as tax losses carried forward. Where an overall deferred taxation asset arises, it is only recognised in the financial statements to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

*g) Cash and Cash Equivalents*

For purposes of the cash flow statements cash and cash equivalents comprise cash balances, balances due from the Central Banks, due from other credit institutions with original maturity up to 3 months and insignificant risk, less balances on demand due to other credit institutions.

*h) Loans and receivables and allowances for loan impairment*

Balances due from banks and loans and advances to customers are accounted for as loans and receivables and are carried at amortised cost. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in active markets. All loans and advances are recognised in the balance sheet when cash is advanced to borrowers. For the purposes of these financial statements, finance lease receivables are included in loans and advances to non-banking customers.

A credit risk allowances for loan impairment is established if there is objective evidence that the Group or the Bank will not be able to collect all amounts due. The amount of the allowances is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows, including amounts recoverable from guarantees and collateral, discounted at the original effective interest rate of the loans.

The Group and the Bank first assess whether objective evidence of impairment exists individually for significant loans. Loans that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment. If the Group and the Bank determines that no objective evidence of impairment exists for an individually assessed loan, it is included in a group of loans with similar credit risk characteristics and collectively assessed for impairment. For the purposes of a collective evaluation of impairment loans are grouped on a basis of similar credit risk characteristics.

*Notes to the Financial Statements (continued)*

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

*h) Loans and receivables and allowances for loan impairment (continued)*

The Group and the Bank review their loan portfolios to assess impairment on a quarterly basis. In determining whether an impairment loss should be recorded in the income statement, the Group and the Bank make judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. Management uses estimates based on historical loss experience for assets with similar credit risk characteristics and current economic climate in which the borrowers operate. The methodology and assumptions used are reviewed regularly to reduce any differences between loss estimates and actual loss experience. Nevertheless, it is reasonably possible, based on existing knowledge, that outcomes within the next financial year that are different from assumptions could require a material adjustment to the carrying amount of the asset or liability affected.

When a loan is uncollectible, it is written off against the related allowances for impairments; subsequent recoveries are credited to the income statement.

Allowances for loan impairment are made in the currency of the related asset and are subject to revaluation at period end at the rate set by the Bank of Latvia. Foreign exchange rate differences arising from such revaluation are recorded in the income statement as additional allowances income from the recovery of existing allowances (if any). The corresponding result of revaluing the respective asset covered by the allowances for loan impairment is recorded as profit/ loss to foreign currency transactions.

*Collective impairments*

Collective impairments are made for four groups of products like mortgage loans, private loans (both of those groups are loans issued to private individuals secured with real estate collateral), SME loans and private car leasing with at least 1 day principal overdue. Approach is linked with overdue. Amount of impairments is calculated like expected losses based on probability of default (probability that loan which is delayed, for example, 20 days will came into default till remaining maturity), loss given default and correction factor.

*i) Leases - when the Group or the Bank is a lesser*

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific assets and the arrangement conveys a right to use the asset.

When assets are held subject to a finance lease, the present value of the lease payments is recognised as a receivable. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income. Lease income is recognised over the term of the lease using the net investment method, which reflects a constant periodic rate of return.

Leases where the Bank does not transfer substantially all the risk and benefits of ownership of the asset are classified as operating leases. The Bank leases out all of its investment properties as operating leases, thus generating rental income. Initial direct costs incurred in negotiating operating leases are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as rental income. Contingent rents are recognized as revenue in the period in which they are earned.

Assets under operating leases are recognised as fixed assets at historical cost net of accumulated depreciation. Depreciation is calculated on a straight-line basis to write off the cost of each asset to its residual value over the estimated useful life of fixed assets that is determined based on useful lives of similar assets of the Group and the Bank. Rentals receivable under operating leases are credited to the income statement on a straight-line basis over the lease term.

If a sale and leaseback transaction results in an operating lease and the sales price is above fair value of the asset sold, the excess over fair value is deferred and amortised over the period for which the asset is expected to be used.

***Notes to the Financial Statements** (continued)*

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

*j) Financial assets at fair value through profit or loss*

A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Financial assets are designated at fair value through profit or loss when:

- doing so significantly reduces measurement inconsistencies that would arise from measuring assets and liabilities or recognising gains and losses on them on different bases; or
- a group of financial assets are managed and evaluated on a fair value basis in accordance with a documented risk management policy and reported to key management personnel on that basis, and information about the group is provided internally on that basis to the entity's key management personnel.

Financial assets at fair value through profit or loss are measured at fair value based on quoted bid prices. In the absence of the active market, the fair value of financial assets at fair value through profit or loss is derived from the value of an instrument that is substantially the same or from discounted cash flow models. Gains and losses arising from changes in the fair value of financial assets are recognised in the income statement.

Interest earned whilst holding financial assets at fair value through profit or loss is recorded as interest income.

All regular way purchases and sales of financial assets at fair value through profit or loss are recognised at trade date, which is the date that the Group and the Bank commits to purchase or sell the asset.

*k) Subsidiaries*

Investments in subsidiaries in the Bank's financial statements are accounted for under the cost method.

The Bank recognises income from investment only to the extent that the Bank receives dividends from the accumulated profit of the subsidiaries arising after the date of acquisition.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given plus costs directly attributable to the acquisition. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill.

*l) Property and Equipment*

All property and equipment are recorded at cost or valuation less accumulated depreciation.

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

Depreciation is provided using the straight-line method to write off the cost or revaluated amount of each asset to their residual value over the estimated useful life of the asset. The following depreciation rates have been applied:

| *Category* | *Annual Rate* |
|---|---:|
| Buildings | 1% |
| Office equipment | 20% - 25% |
| Vehicles | 20% |

Maintenance and repair costs are charged to the income statement as incurred. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

Leasehold improvements are capitalised and depreciated over the shorter of their useful life and remaining lease contract period on a straight-line basis.

***Notes to the Financial Statements*** *(continued)*

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

*l) Property and Equipment (continued)*

*Revaluation reserve*

The fair value of land and buildings is determined from market-based evidence by appraisal that is normally undertaken by professionally qualified values. The fair value of items of plant and equipment is their market value determined by appraisal.

The frequency of revaluations depends upon the changes in fair values of the items of property, plant and equipment being revalued. When the fair value of a revalued asset differs materially from its carrying amount, a further revaluation is required.

If an item of property, plant and equipment is revalued, the entire class of property, plant and equipment to which that asset belongs shall be revalued.

*m) Non-current assets as held for sale*

The Bank classify a non-current asset as held for sale if its carrying amount will be recovered principally through a sale transaction.

For the sale to be highly probable, the Bank commits the appropriate level of management to sell the asset, and an active program to locate a buyer. The Bank actively market asset for sale at a price that is reasonable in relation to its current fair value. The Bank expects that the sale will completed within one year from the date of classification.

*n) Intangible assets*

Acquired computer software licences are recognised as intangible assets on the basis of the costs incurred to acquire and bring to use the software. These costs are amortised on the basis of their expected useful lives, not exceeding five years.

*o) Recognition and Derecognation of Financial Assets*

Purchases and sales of trading securities and investment securities that require delivery within the time frame established by regulation or market convention ("regular way" purchases and sales), are recognised at settlement date, which is the date, when the asset is delivered or given to the Group or the Bank. Any change in the fair value of the asset during the period between the purchase date and the settlement date is recognised in the income statement or in equity reserve. Otherwise such transactions are treated as derivative instruments until settlement.

*p) Derivative financial instruments*

Derivative financial instruments including foreign exchange contracts and interest rate swaps are initially recognised at cost and subsequently are re-measured at their fair value. Fair values are obtained from quoted market prices and discounted cash flow models as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

Changes in the fair value of derivatives are reported in the income statement.

The fair values of financial instruments that are not quoted on active markets are determined using valuation techniques (for example, models). Models use only observable data, however areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect reported fair value of financial instruments.

*Notes to the Financial Statements (continued)*

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

*q) Hedge accounting principles*

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

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

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

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

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

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

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

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

*r) Financial liabilities carried at amortised cost*

Financial liabilities carried at amortised cost are mainly amounts due to customers and due to banks. These are recognised initially at cost, being their issue proceeds (fair value of consideration received) net of transaction costs incurred. Financial liabilities are subsequently stated at amortised cost and any difference between net proceeds and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

*s) Employee benefits*

The Group and the Bank pay social security contributions for state pension insurance and to the state funded pension scheme in accordance with Latvian legislation. State funded pension scheme is a defined contribution plan under which the Group and the Bank pay fixed contributions determined by the law and they will have no legal or constructive obligations to pay further contributions if the state pension insurance system or state funded pension scheme are not able to settle their liabilities to employees. The social security contributions are recognised as an expense on an accrual basis and are included within staff costs.

The provision for employee holiday pay is estimated for the Group's and the Bank's personnel based on the total number of holidays earned but not taken and average salary of employees including social security expense.

*Notes to the Financial Statements (continued)*

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

*t) Off-balance sheet items*

In the ordinary course of business, the Group and the Bank have been involved with off-balance sheet financial instruments consisting of commitments to extend loans and advances, financial guarantees and commercial letters of credit. Such financial instruments are recorded in the financial statements when they are funded or related fees are incurred or received.

*u) Fair values of financial assets and liabilities*

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Fair values of financial assets or liabilities, including derivative financial instruments, in active markets are based on quoted market prices. If the market for a financial asset or liability is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include the use of discounted cash flow analysis and recent comparative transactions as appropriate, and may require the application of management's judgement and estimates. Where in the opinion of the management, the fair values of financial assets and liabilities differ materially from their book values such fair values are separately disclosed in the notes to the accounts.

*v) Off-setting financial instruments*

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the assets and settle the liability simultaneously.

*w) Provisions*

Provisions are recognised when the Group and the Bank have a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. These provisions relate to the guarantees issued and other off balance sheet items. The assessment of provisions requires the application of management's judgement and estimates, as to the probability of an outflow of resources, the probability of recovery of resources from corresponding sources including security or collateral or insurance arrangements where appropriate, and the amounts and timings of such outflows and recoveries, if any.

*x) Financial Guarantees*

The Group measures issued financial guarantees initially at their fair value, which is normally evidenced by the amount of fees received. This amount is then amortised on a straight-line basis over the life of the guarantee. At each balance sheet date, the guarantees are measured at the higher of (i) the unamortised balance of the amount at initial recognition and (ii) the best estimate of expenditure required to settle the commitment at balance sheet date.

*y) Trust Activities*

Funds managed or held in custody by the Group and the Bank on behalf of individuals, trusts and other institutions are not regarded as assets of the Group and the Bank and, therefore, are not included in the balance sheet.

*Notes to the Financial Statements (continued)*

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

*z) Critical accounting estimates and judgements*

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Such estimates and assumptions are outlined below:

- Impairment losses of loans and advances. The Group reviews its loan portfolio to assess impairment on a regular basis as described in Note 2(h). The Group uses stress tests to determine possible impact of changes in variables used in estimation of the provisions for impairment losses on the financial result. If 3% of loans become non-performing loans and cause 15% expected losses for secured part of credit portfolio and 50% expected losses for unsecured part of credit portfolio, additional provisions required would be LVL 5,5 million.

- Fair values of financial assets:
  Where the fair values of financial assets and financial liabilities recorded on the balance sheet cannot be derived from active markets, they are determined using a variety of valuation techniques that include use of mathematical models. The input of these models is taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. For fair value of financial assets and liabilities see Notes 34.

- Deferred assets:
  Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgment is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

  Future events may occur which will cause the assumptions used in arriving at the estimates to change. The effect of any changes in estimates will be recorded in the financial statements, when determinable.

*aa) Restatement*

The Bank had disposed its investment in one of the subsidiary and branch both operating in Estonia, which classified as discontinued operations and represented separate geographical segment of operations. As a result the comparative figures for 31 December 2007 had been restated as following:

*Notes to the Financial Statements (continued)*

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

| | **31/12/2007 (comparative) figures, Group** | | | **31/12/2007 (comparative) figures, Bank** | | |
|---|---|---|---|---|---|---|
| **Balance sheet** | As reported | Restate-ments | Restated | As reported | Restate-ments | Restated |
| **Assets** | | | | | | |
| Cash and balances with central banks | 134,374 | (14,823) | 119,551 | 134,374 | (14,821) | 119,552 |
| Due from other credit institutions (demand) | 16,758 | (1,866) | 14,892 | 16,758 | (1,866) | 14,892 |
| Loans | 1,810,535 | (164,942) | 1,645,593 | 1,583,103 | (113,090) | 1,470,013 |
| Accrued income and deferred expenses | 1,286 | (87) | 1,199 | 1,140 | (87) | 1,053 |
| Fixed assets | 32,943 | (489) | 32,454 | 7,625 | (102) | 7,523 |
| Intangible assets | 1,129 | (72) | 1,057 | 889 | (72) | 817 |
| Other assets | 13,178 | (1,852) | 11,326 | 4,244 | (16) | 4,229 |
| Non-current assets and disposal groups classified as held for sale | - | 184,131 | - | - | 130,054 | - |
| **Total** | **2,010,203** | **-** | **1,826,072** | **1,748,133** | **-** | **1,618,079** |
| **Liabilities** | | | | | | |
| Financial liabilities at amortised cost | 1,820,805 | (187,318) | 1,633,487 | 1,565,804 | (130,166) | 1,435,638 |
| Accrued expenses and deferred income | 4,761 | (232) | 4,529 | 3,828 | (93) | 3,735 |
| Other liabilities | 6,924 | (870) | 6,054 | 1,766 | (43) | 1,723 |
| Liabilities related to disposal groups classified as held for sale | - | 188,420 | - | - | 130,302 | - |
| **Total** | **1,832,490** | **-** | **1,644,070** | **1,571,398** | **-** | **1,441,096** |
| **Income statement** | | | | | | |
| Interest income | 105,155 | 6,655 | 98,500 | 95,061 | 5,409 | 89,652 |
| Interest expenses | (65,919) | (5,251) | (60,668) | (58,259) | (4,360) | (53,899) |
| **Net interest income** | 39,236 | 1,404 | 37,832 | 36,802 | 1,049 | 35,753 |
| Fees and commission income | 10,436 | 544 | 9,892 | 11,642 | 201 | 11,441 |
| Fees and commission expenses | (3,814) | (2,44) | (3,570) | (3,802) | (41) | (3,761) |
| **Net fees and commissions** | 6,622 | 300 | 6,322 | 7,840 | 160 | 7,680 |
| Net gain from operations with foreign currency, trading securities and derivative financial instruments | 4,558 | 64 | 4,494 | 4,443 | 72 | 4,371 |
| Other operating income | 7,400 | 18 | 7,382 | 1,040 | 18 | 1,022 |
| Dividends | 1 | - | 1 | 501 | - | 501 |
| **Operating income** | 57,817 | 1,786 | 56,031 | 50,626 | 1,299 | 49,327 |
| Salaries and related social expense | (11,681) | (1,177) | (10,504) | (10,464) | (625) | (9,839) |
| Other administrative expenses | (13,025) | (1,024) | (12,001) | (11,989) | (680) | (11,309) |
| Depreciation | (6,701) | (69) | (6,632) | (1,707) | (27) | (1,680) |
| Other operating expenses | (547) | (7) | (540) | (313) | (5) | (308) |
| Net allowances for impairment loss | (3,462) | (195) | (3,267) | (3,462) | (195) | (3,267) |
| **Profit/Loss before income tax** | 22,401 | (686) | 23,087 | 2,2691 | (233) | 22,924 |
| Corporate income tax | (3,225) | (15) | (3,210) | (3,105) | (15) | (3,090) |
| **Profit/Loss after tax for the period from a discontinued operations** | **19,176** | **(701)** | **19,877** | **19,586** | **(248)** | **19,834** |

The changes in the figures did not affect the net profit for the reporting period.

*Notes to the Financial Statements (continued)*

## 3 ADOPTION OF NEW OR REVISED STANDARDS AND INTERPRETATIONS AND NEW ACCOUNTING PRONOUNCEMENTS

**Adoption of new and/or changed IFRS and IFRIC interpretations**

The Group has adopted the following new and amended IFRS and IFRIC interpretations during the year:

- Amendments to IAS 39 *Financial Instruments: Recognition and Measurement* and IFRS 7 *Financial Instruments: Disclosures* – Reclassification of Financial Assets;
- IFRIC 11 *IFRS 2 – Group and Treasury Share Transactions.*

The principal effects of these changes are as follows:

**Amendments to IAS 39 and IFRS 7 – Reclassification of Financial Assets**
Through these amendments the IASB implemented additional options for reclassification of certain financial instruments categorised as held-for-trading or available-for-sale under specified circumstances. Related disclosures were added to IFRS 7. The Group did not have financial instruments caught by these amendments.

**IFRIC 11 *IFRS 2 – Group and Treasury Share Transactions***
The interpretation provides guidance on classification of transactions as equity-settled or as cash-settled and also gives guidance on how to account for share-based payment arrangements that involve two or more entities within the same group in the individual financial statements of each group entity. The Group has not issued instruments caught by this interpretation.

**Standards issued but not yet effective**

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

**Amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards* and IAS 27 *Consolidated and Separate Financial Statements*** (effective for financial years beginning on or after 1 January 2009 once adopted by the EU).
The amendment to IFRS 1 allows an entity to determine the 'cost' of investments in subsidiaries, jointly controlled entities or associates in its opening IFRS financial statements in accordance with IAS 27 or using a deemed cost. The amendment to IAS 27 requires all dividends from a subsidiary, jointly controlled entity or associate to be recognised in the income statement in the separate financial statements. The new requirements affect only the parent's separate financial statements and do not have an impact on the consolidated financial statements.

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

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

*Notes to the Financial Statements (continued)*

## 3 ADOPTION OF NEW OR REVISED STANDARDS AND INTERPRETATIONS AND NEW ACCOUNTING PRONOUNCEMENTS (continued)

**Amendments to IFRS 3 *Business Combinations* and IAS 27 *Consolidated and Separate Financial Statements*** (effective for financial years beginning on or after 1 July 2009 once adopted by the EU).
Revised IFRS 3 (IFRS 3R) introduces a number of changes in the accounting for business combinations that will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results. IAS 27R requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as an equity transaction. Therefore, such transactions will no longer give rise to goodwill, nor will it give rise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. Other consequential amendments were made to IAS 7 *Statement of Cash Flows*, IAS 12 *Income Taxes*, IAS 21 *The Effects of Changes in Foreign Exchange Rates*, IAS 28 *Investment in Associates* and IAS 31 *Interests in Joint Ventures*. In accordance with the transitional requirements of these amendments, the Group will adopt them as a prospective change. Accordingly, assets and liabilities arising from business combinations prior to the date of application of the revised standards will not be restated.

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

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

**Amendment to IAS 23 *Borrowing Costs*** (effective for annual periods beginning on or after 1 January 2009).
The revised standard eliminates the option of expensing all borrowing costs and requires borrowing costs to be capitalised if they are directly attributable to the acquisition, construction or production of a qualifying asset. In accordance with the transitional requirements of the Standard, the Group will adopt this as a prospective change. Accordingly, borrowing costs will be capitalised on qualifying assets with a commencement date after 1 January 2009. No changes will be made for borrowing costs incurred to this date that have been expensed.

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

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

*Notes to the Financial Statements (continued)*

## 3 ADOPTION OF NEW OR REVISED STANDARDS AND INTERPRETATIONS AND NEW ACCOUNTING PRONOUNCEMENTS (continued)

***Improvements to IFRS***

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

- *IFRS 7 Financial Instruments: Disclosures.* Removal of the reference to 'total interest income' as a component of finance costs.
- *IAS 1 Presentation of Financial Statements.* Assets and liabilities classified as held for trading in accordance with IAS 39 are not automatically classified as current in the balance sheet.
- *IAS 8 Accounting Policies, Change in Accounting Estimates and Errors.* Clarification that only implementation guidance that is an integral part of an IFRS is mandatory when selecting accounting policies.
- *IAS 10 Events after the Reporting Period.* Clarification that dividends declared after the end of the reporting period are not obligations.
- *IAS 16 Property, Plant and Equipment.* Items of property, plant and equipment held for rental that are routinely sold in the ordinary course of business after rental, are transferred to inventory when rental ceases and they are held for sale. Also, replaced the term "net selling price" with "fair value less costs to sell".
- *IAS 18 Revenue.* Replacement of the term 'direct costs' with 'transaction costs' as defined in IAS 39.
- *IAS 19 Employee Benefits.* Revised the definition of 'past service costs', 'return on plan assets' and 'short term' and 'other long-term' employee benefits. Amendments to plans that result in a reduction in benefits related to future services are accounted for as curtailment.
- *IAS 20 Accounting for Government Grants and Disclosures of Government Assistance.* Loans granted in the future with no or low interest rates will not be exempt from the requirement to impute interest. The difference between the amount received and the discounted amount is accounted for as government grant. Also, revised various terms used to be consistent with other IFRS.
- *IAS 23 Borrowing Costs.* The definition of borrowing costs is revised to consolidate the two types of items that are considered components of 'borrowing costs' into one – the interest expense calculated using the effective interest rate method calculated in accordance with IAS 39.
- *IAS 27 Consolidated and Separate Financial Statements.* When a parent entity accounts for a subsidiary at fair value in accordance with IAS 39 in its separate financial statements, this treatment continues when the subsidiary is subsequently classified as held for sale.
- *IAS 28 Investment in Associates.* If an associate is accounted for at fair value in accordance with IAS 39, only the requirement of IAS 28 to disclose the nature and extent of any significant restrictions on the ability of the associate to transfer funds to the entity in the form of cash or repayment of loans applies. In addition, an investment in an associate is a single asset for the purpose of conducting the impairment test. Therefore, any impairment is not separately allocated to the goodwill included in the investment balance.
- *IAS 29 Financial Reporting in Hyperinflationary Economies.* Revised the reference to the exception to measure assets and liabilities at historical cost, such that it notes property, plant and equipment as being an example, rather than implying that it is a definitive list. Also, revised various terms used to be consistent with other IFRS.
- *IAS 31 Interest in Joint ventures:* If a joint venture is accounted for at fair value, in accordance with IAS 39, only the requirements of IAS 31 to disclose the commitments of the venturer and the joint venture, as well as summary financial information about the assets, liabilities, income and expense will apply.

The Group expects that the adoption of the pronouncements listed above will not have a significant impact on the Group's financial statements in the period of initial application, except for IAS 1 *Presentation of Financial Statements – Revised.*

*IAS 1 Presentation of Financial Statements – Revised*

This standard sets out new requirements on the presentation of the statement of changes in equity and introduces a new statement of comprehensive income that combines all items of income and expense recognized in profit or loss together with "other comprehensive income" and requires a separate disclosure of all items reclassified from other comprehensive income to profit and loss as well as disclosure of the income tax relating to each component of other comprehensive income. Also, requirements related to the presentation of the financial statements in a case of their retrospective restatement are amended and new terminology, replacing "balance sheet" with "statement of financial position" and "cash flow statement" with "statement of cash flows", although the titles are not obligatory, is introduced.

*Notes to the Financial Statements (continued)*

## 4 FINANCIAL RISK MANAGEMENT

*a) Credit risk and concentration risk*

The Group and the Bank bears an exposure to credit risk that is defined as the risk of losses due to failure on the part of the counterparties of the Group and the Bank to meet their payment obligations. The credit risk appetite of the Group and the Bank has been defined in the credit strategy of the Group and the Bank.

The credit strategy of the Group and the Bank provides the fixed limits of exposure ranges with regards to a single borrower, a group of interrelated borrowers, countries (regions) and industries. The Group has defined the concentration risk as any single (direct and/or indirect) exposure or group of exposures with the potential to produce losses large enough to threaten the health of the Group and the Bank or its ability to maintain its core business. Thus, management of the concentration risk has been ensured as well.

For regular monitoring of the concentration risk level the Group applies its internal methodology that is based on the use of standardized Herfindahl-Hirshmann Index and observes such concentration risk areas as individual and related parties concentration, industries concentration, product groups concentration and concentration of currencies.

According to the strategy, the Group and the Bank continuously increases risk–sensitiveness of its credit risk management system by the implementing appropriate tools.

Thus, together with traditional credit risk assessment tools the usage of the Regional DnB NOR Group rating tool has been continued for the credit risk assessment of legal entities - corporate and small and medium sized companies. A financial indicator model is the main driver for assigning the final rating, while adjustments based on qualitative factors are limited and are closely monitored by the credit risk analysts, who do not benefit from the credit decisions.

For credit risk management purposes an unified Master scale is used to reflect the risk of counterparts or sub-portfolios. The Master scale is organized in ten risk classes:

| Risk class | Risk category |
|---|---|
| 1 | Low Risk |
| 2 | |
| 3 | |
| 4 | |
| 5 | Medium Risk |
| 6 | |
| 7 | |
| 8 | High Risk |
| 9 | |
| 10 | |

To follow the bank's credit policy to maintain a low to moderate risk profile, the calibration level of the financial indicator model was increased in 2008 to reflect the economical downturn and to strengthen the risk evaluation process.

There are several other internal scoring models for assessing the credit risk associated with retail customers, being developed internally during 2008 and starting to implement for everyday use.

The Group and the Bank monitors the compliance of respective activities with its credit risk policy on on–going basis. The credit risk policy is subject for annual or more frequent review. Inter alia, the changes of the credit policy can be initiated according to the stress testing results or changes in the economic environment.

*Notes to the Financial Statements (continued)*

**4 FINANCIAL RISK MANAGEMENT** (continued)

*b) Currency risk*

Within common business conditions the Group and the Bank bears an exposure to the consequences of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. Currency risk is the risk that the Group and the Bank incurs losses as a result of unfavourable changes in foreign exchange rates. For the assessment of this risk open FX positions are used.

The Group and the Bank follows very conservative currency risk management policy. Currency risk is at low level due to insignificant volumes of open positions in foreign currencies. The Group's and the Bank's exposure to foreign currency exchange rate risk is summarised in Note 38. Due to the insignificant open position in foreign currencies the Group and the Bank is not materially sensitive to exchange rate fluctuations.

Notwithstanding the continuously low level of currency risk the Bank regularly runs and analyses respective stress tests, which are based on the DnB NORD Group-wide methodology.

*c) Interest rate risk in the banking book*

Within common business conditions the Group and the Bank takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest rate risk is the risk that the Group and the Bank incurs losses as a consequence of unfavourable changes in interest rates. For assessment and management of this risk sensitivity to changes in interest rates is calculated and limited. Such risks are monitored on a rolling basis and are subject to annual or more frequent review.

The Bank restricts interest rate risk using limits, set by Group Asset and Liabilities Management Committee. Limits are defined for every currency book in total and for every currency book particular time bucket. At the end of 2008 the Group and the Bank complied with defined limits. According to the defined interest rate risk limits the maximum losses risk is LVL 1,93 million (impact on profit before tax), if interest rates in all currencies change by 1%.

For the estimation of the impact of adverse market conditions on net equity of the Bank (stress-testing), the Bank utilizes three scenarios corresponding to standard, possible and worst case interest rates curves movements for major currencies (LVL, EUR and USD). The possible scenario assumptions are summarized in the table below:

| | LVL | EUR | USD |
|---|---|---|---|
| Upwards shift in interest rates (bps p.a.) | 300 | 50 | 50 |

In case of possible scenario, the net equity would change by LVL 0,77 million.

The table below allocates the Group's positions as at 31 December 2008:

| | Net position (LVL) LVL'000 | Net position (USD) LVL'000 | Net position (EUR) LVL'000 |
|---|---|---|---|
| Up to 3 months | (236,577) | (13,528) | 72,548 |
| 3 - 6 months | 41,763 | 7,627 | (74,942) |
| 6 - 12 months | 23,308 | 1,442 | (4,445) |
| 1- 5 years | (19,546) | (3,298) | (9,892) |
| Over 5 years | 85 | 14 | 89 |
| **Total** | (190,967) | (7,743) | (16,642) |

*Notes to the Financial Statements (continued)*

4 **FINANCIAL RISK MANAGEMENT** (continued)

The table below allocates the Group's positions as at 31 December 2007:

| | Net position (LVL) LVL'000 | Net position (USD) LVL'000 | Net position (EUR) LVL'000 |
|---|---|---|---|
| Up to 3 months | (202,336) | (10,624) | (10,716) |
| 3 - 6 months | 45,652 | 6,081 | (22,391) |
| 6 - 12 months | 4,693 | (411) | 18,558 |
| 1- 5 years | (13,010) | (542) | (15,574) |
| Over 5 years | (3,090) | 2 | (2,182) |
| **Total** | (168,091) | (5,494) | (32,305) |

The table below allocates the Bank's positions as at 31 December 2008:

| | Net position (LVL) LVL'000 | Net position (USD) LVL'000 | Net position (EUR) LVL'000 |
|---|---|---|---|
| Up to 3 months | (234,476) | (11,838) | 34,332 |
| 3 - 6 months | 41,823 | 7,632 | (73,311) |
| 6 - 12 months | 23,587 | 1,453 | (634) |
| 1- 5 years | (19,317) | (3,242) | 10,104 |
| Over 5 years | 85 | 14 | 131 |
| **Total** | (188,298) | (5,981) | (29,378) |

The table below allocates the Bank's positions as at 31 December 2007:

| | Net position (LVL) LVL'000 | Net position (USD) LVL'000 | Net position (EUR) LVL'000 |
|---|---|---|---|
| Up to 3 months | (196,613) | (9,839) | (60,255) |
| 3 - 6 months | 45,706 | 6,082 | 4,410 |
| 6 - 12 months | 4,758 | (409) | 20,621 |
| 1- 5 years | (12,920) | (532) | 3,877 |
| Over 5 years | (3,090) | 9 | (447) |
| **Total** | (136,319) | (4,689) | (31,794) |

*Notes to the Financial Statements (continued)*

## 4 FINANCIAL RISK MANAGEMENT (continued)

*d) Liquidity risk*

Liquidity risk means the risk that the Bank is unable to meet its financial obligations in time or the risk to incur losses due to the sudden decrease in financial resources (eg. the financial crisis situations may result in the run on the bank and delay of incoming payments) as well as due to increase in price of the new resources designed for refinancing. The consequence of liquidity risk occurrence may be the failure to meet obligations to repay depositors and fulfil loan commitments. Liquidity risk is controlled on an overall DnB NORD Group level and restricted by liquidity ratio, set by the Financial and Capital Market Commission and the limits set by the ALCO of DnB NORD Group.

Note 37 analyses assets and liabilities of the Group and the Bank into relevant maturity groupings based on the remaining period at balance sheet date to the contractual maturity date. The Group's and the Bank's liabilities on demand exceed assets with similar duration, however, the Group's and the Bank's liquidity ratio, calculated using the methodology approved by the FCMC, is 39% (2007: 42%). The FCMC requires that the liquidity ratio should not be less than 30%.

Liquidity risk management process in the Group is divided into the long-term (1 year) risk management and short-term (up to 1 month) risk management. The aim of short-term liquidity is to meet the daily need for funds, to ensure the compliance with the reserve and liquidity requirements set by the Financial and Capital Market Commission as well as the compliance with the internal liquidity limits. Short-term liquidity is maintained through daily monitoring of the liquidity status, day-to day funding. Long-term liquidity risk is managed by analysing the predicted future cash flows taking into account the deposit and loan portfolio growth as well as the possible refinancing sources.

For the purpose of the liquidity risk assessment the liquidity gap, taking into account the maturity and the refinance ratio, are analysed. The liquidity risk is restricted by imposing the internal limits on liquidity gap and refinance ratio. These limits are subject to daily monitoring and regular reporting to the management bodies of the Group.

Liquidity gap is calculated by looking at the Banks' net refinancing situation within one week and one month applying a "business as usual" approach. Liquid assets and short term liabilities are included for liquidity gap calculation for respective terms (1 week and 1 month).

*e) Market risk*

Market risk – is the risk that the Group and the Bank incur losses as a consequence of changes of market variables (interest rates (see Note 4 (c), foreign exchange rates (see Note 4 (b)). Methodology and limits of market risk assessment and management are approved by DnB NORD Group ALCO.

*Notes to the Financial Statements (continued)*

## 5 INTEREST INCOME

| | 2008<br>Group<br>LVL'000 | 2007 (restated)<br>Group<br>LVL'000 | 2008<br>Bank<br>LVL'000 | 2007 (restated)<br>Bank<br>LVL'000 |
|---|---|---|---|---|
| Interest income: | | | | |
| - interest on financial assets measured at amortised cost: | 125,113 | 101,809 | 111,960 | 91,392 |
| - interest on loans and receivables to customers | 119,601 | 90,723 | 106,658 | 81,875 |
| - interest on balances due from credit institutions and central banks | 4,940 | 3,601 | 4,940 | 3,601 |
| - interest on financial assets at fair value through profit or loss: | 8,885 | 4,176 | 8,885 | 4,176 |
| - interest on derivatives | 4,940 | 1,781 | 4,940 | 1,781 |
| - interest on held for trading financial assets | 3,945 | 2,395 | 3,945 | 2,395 |
| **Total interest income** | **133,426** | **98,500** | **120,483** | **89,652** |
| **Interest income recognised on impaired assets** | 216 | 31 | 216 | 31 |

## 6 INTEREST EXPENSES

| | 2008<br>Group<br>LVL'000 | 2007 (restated)<br>Group<br>LVL'000 | 2008<br>Bank<br>LVL'000 | 2007 (restated)<br>Bank<br>LVL'000 |
|---|---|---|---|---|
| Interest expense: | | | | |
| - interest on financial liabilities measured at amortised cost: | 88,911 | 65,919 | 78,058 | 58,259 |
| - interest on deposits from customers | 14,116 | 8,730 | 14,139 | 8,738 |
| - interest on balances due to credit institutions and central banks | 71,938 | 49,481 | 61,062 | 42,704 |
| - interest on subordinated liabilities | 2,183 | 1,883 | 2,183 | 1,883 |
| - interest on other financial liabilities | 674 | 574 | 674 | 574 |
| **Total interest expense** | 88,911 | 60,668 | 78,058 | 53,899 |
| **Net interest income** | **44,515** | **37,832** | **42,425** | **35,753** |

## 7 FEE AND COMMISSION INCOME

| | 2008<br>Group<br>LVL'000 | 2007 (restated)<br>Group<br>LVL'000 | 2008<br>Bank<br>LVL'000 | 2007 (restated)<br>Bank<br>LVL'000 |
|---|---|---|---|---|
| Credit card service | 5,316 | 4,065 | 5,316 | 4,065 |
| Commissions on loans | 3,315 | 2,531 | 2,193 | 2,359 |
| Money transfers | 1,550 | 1,553 | 1,550 | 1,553 |
| Client service | 919 | 443 | 717 | 401 |
| Guarantees | 399 | 288 | 2,523 | 2,051 |
| Trade finance | 369 | 245 | 369 | 245 |
| Cash operations | 346 | 400 | 346 | 400 |
| Investments products | 78 | 202 | 78 | 202 |
| Other | 245 | 165 | 245 | 165 |
| | **12,537** | **9,892** | **13,337** | **11,441** |

*Notes to the Financial Statements (continued)*

## 8 FEE AND COMMISSION EXPENSES

| | 2008 Group LVL'000 | 2007 (restated) Group LVL'000 | 2008 Bank LVL'000 | 2007 (restated) Bank LVL'000 |
|---|---|---|---|---|
| Credit cards service | 2,509 | 2,062 | 2,509 | 2,062 |
| Loans monitoring expense | 795 | 522 | 795 | 522 |
| Commissions on loans | 188 | 23 | 189 | 121 |
| Cash operations | 449 | 393 | 449 | 393 |
| Money transfers | 375 | 347 | 375 | 347 |
| Guarantees | 180 | - | 180 | 104 |
| Client service | 108 | 77 | 108 | 77 |
| Other | 178 | 146 | 176 | 135 |
| | **4,782** | **3,570** | **4,781** | **3,761** |

## 9 NET TRADING INCOME

| | 2008 Group LVL'000 | 2007 (restated) Group LVL'000 | 2008 Bank LVL'000 | 2007 (restated) Bank LVL'000 |
|---|---|---|---|---|
| Gain from operations with foreign currencies | 4,009 | 4,004 | 4,016 | 3,892 |
| Gain (loss) from trading with financial assets at fair value through profit or loss | (298) | (105) | (298) | (105) |
| Loss from revaluation of financial assets at fair value through profit or loss | (2,520) | (475) | (2,520) | (475) |
| Gain /(loss) from foreign currency revaluation | (100) | (26) | (157) | (37) |
| Gain/ (loss) from derivatives revaluation | (1,548) | 1,096 | (1,548) | 1,096 |
| | **(457)** | **4,494** | **(507)** | **4,371** |

## 10 OTHER OPERATING INCOME

| | 2008 Group LVL'000 | 2007 (restated) Group LVL'000 | 2008 Bank LVL'000 | 2007 (restated) Bank LVL'000 |
|---|---|---|---|---|
| Operating lease income | 6,044 | 6,299 | - | - |
| Profit from sale of property | 664 | 664 | 664 | 664 |
| Other operating income | 777 | 419 | 793 | 358 |
| | **7,485** | **7,382** | **1,457** | **1,022** |

*Notes to the Financial Statements (continued)*

## 11 ADMINISTRATIVE EXPENSES

| | 2008 Group LVL'000 | 2007 (restated) Group LVL'000 | 2008 Bank LVL'000 | 2007 (restated) Bank LVL'000 |
|---|---|---|---|---|
| Salary to Council | 42 | 40 | 42 | 40 |
| Salary to Board | 474 | 511 | 474 | 511 |
| Salary to employees | 9,178 | 8,029 | 8,415 | 7,506 |
| Social insurance contributions | 2,391 | 1,924 | 2,208 | 1,782 |
| **Total salaries and related expenses** | **12,085** | **10,504** | **11,139** | **9,839** |
| Advertising | 3,852 | 2,792 | 3,656 | 2,555 |
| Refurbishment and maintenance | 3,165 | 2,755 | 3,054 | 2,684 |
| Payments for management services to Group | 2,434 | - | 2,434 | - |
| Occupancy costs | 2,254 | 1,963 | 2,145 | 1,898 |
| Communications | 789 | 708 | 675 | 613 |
| Insurance | 464 | 358 | 431 | 345 |
| Training | 407 | 333 | 398 | 324 |
| Professional services | 293 | 145 | 222 | 126 |
| Business travel | 180 | 180 | 172 | 172 |
| External audit expenses | 126 | 67 | 98 | 44 |
| Other | 1,290 | 1,082 | 1,155 | 930 |
| **Total other administrative expenses** | **15,254** | **12,001** | **14,440** | **11,309** |
| **Total administrative expenses** | **27,339** | **22,505** | **25,579** | **21,148** |

The average number of staff employed by the Group in 2008 was 878 by the Bank was 800 (2007: 881; 779 respectively).

## 12 CORPORATE INCOME TAX

| | 2008 Group LVL'000 | 2007 (restated)* Group LVL'000 | 2008 Bank LVL'000 | 2007 (restated)* Bank LVL'000 |
|---|---|---|---|---|
| Corporate income tax for the year | 1,553 | 3,010 | 1,553 | 3,010 |
| Deferred tax | 749 | 200 | 436 | 80 |
| | **2,302** | **3,210** | **1,989** | **3,090** |

* The Group and the Bank did not use some of the tax losses carried forward to offset current year corporate income tax, as a result corporate income tax was increased by LVL 375 thousand and deferred corporate income tax expense decreased by the same amount.

Corporate income tax differs from the theoretically calculated tax amount, which would be applicable on profit before taxation at the 15% rate as stipulated by the law (see below):

| | 2008 Group LVL'000 | 2007 Group LVL'000 | 2008 Bank LVL'000 | 2007 Bank LVL'000 |
|---|---|---|---|---|
| **Profit before taxation** | **7,327** | **22,402** | **8,198** | **22,691** |
| Theoretically calculated tax at a tax rate of 15% | 1,099 | 3,360 | 1,230 | 3,404 |
| Undetectable revaluation of securities | 1,055 | - | 1,055 | - |
| Impairment for debtors | 300 | - | - | - |
| Other net expenses not deductible for tax purposes | 372 | 126 | 189 | (39) |
| Non-taxable income | (190) | (175) | (190) | (175) |
| Change in unrecognised deferred tax asset | (39) | - | - | - |
| Tax discount for donations | (295) | (85) | (295) | (85) |
| | **2,302** | **3,226** | **1,989** | **3,105** |

*Notes to the Financial Statements (continued)*

## 12 CORPORATE INCOME TAX (continued)

| | 2008 Group LVL'000 | 2007 Group LVL'000 | 2008 Bank LVL'000 | 2007 Bank LVL'000 |
|---|---|---|---|---|
| Deferred tax liability at the beginning of the year | 784 | 209 | 481 | 26 |
| Reclassification between income and deferred tax* | (375) | - | (375) | - |
| Deferred tax liability at the beginning of the year adjusted | 409 | 209 | 106 | 26 |
| Change in deferred tax asset during the year | 749 | 575 | 436 | 455 |
| Deferred tax at the end of the year | **1,158** | **784** | **542** | **481** |

* The Group and the Bank did not use some of the tax losses carried forward to offset current year corporate income tax, as a result deferred corporate income tax liability was decreased by LVL 375 thousand.

Deferred tax has been calculated from the following temporary differences between assets and liabilities values for financial and tax purposes:

| | 2008 Group LVL'000 | 2007 Group LVL'000 | 2008 Bank LVL'000 | 2007 Bank LVL'000 |
|---|---|---|---|---|
| Gross deferred income tax liability: | | | | |
| Temporary difference on fixed assets depreciation | 2,323 | 2,252 | 660 | 752 |
| Gross deferred income tax asset: | | | | |
| Temporary difference on accruals for unused annual leave and bonuses | (113) | (168) | (107) | (161) |
| Other temporary differences | (11) | (110) | (11) | (110) |
| Tax loss carried forward | (1,041) | (1,190) | - | - |
| **Net deferred tax liability** | **1,158** | **784** | **542** | **481** |

As at 31 December 2008 tax losses of the Group constituted LVL 7,114 thousand. In accordance with the law "On Corporate Income Tax" tax losses can be carried forward and set off against taxable income during the subsequent five years.

| | Group Tax losses LVL'000 | Expiry term |
|---|---|---|
| Tax losses of 2005 | 38,693 | 2010 |
| Tax losses of 2006 | 4,490,496 | 2011 |
| Tax losses of 2007 | 2,585,211 | 2012 |
| | **7,114,400** | |

## 13 EARNINGS PER SHARE

Basic earnings per share are calculated by dividing the net profit attributable to equity holders of the Bank by the weighted average number of ordinary shares in issue during the year.

| | 2008 Group LVL'000 | 2007 Group LVL'000 |
|---|---|---|
| Profit attributable to equity holders of the Bank | 5,025 | 19,193 |
| Weighted average number of ordinary shares in issue | 99,160,900 | 78,688,964 |
| Basic earnings per share (expressed in LVL per share) | **0,051** | **0,244** |
| Diluted earnings per share (expressed in LVL per share) | **0,051** | **0,244** |

*Notes to the Financial Statements (continued)*

## 14 CASH AND CASH EQUIVALENTS

| | 2008 Group LVL'000 | 2007 (restated) Group LVL'000 | 2008 Bank LVL'000 | 2007 (restated) Bank LVL'000 |
|---|---|---|---|---|
| Cash | 17,068 | 15,388 | 17,068 | 15,388 |
| Balances on demand with the Central Banks | 72,260 | 104,163 | 72,260 | 104,164 |
| **Total cash and balances on demand with Central Banks** | 89,328 | 119,551 | 89,328 | 119,552 |
| Balances due from other credit institutions with the original maturity less than 3 months | 3,304 | 42,378 | 2,903 | 42,378 |
| Balances on demand due to other credit institutions | (7,703) | (37,929) | (7,703) | (37,929) |
| **Total cash and cash equivalents** | **84,929** | **124,000** | **84,528** | **124,001** |

The correspondent account with the Bank of Latvia reflects the balance of the Bank's correspondent account, on which interest is paid in the amount of the compulsory reserve requirement.

The Bank is required to comply with minimum reserve requirements set by the Bank of Latvia . This requires the Bank's monthly average LVL balance on its correspondent account with the Bank of Latvia to exceed a specified minimum during the maintenance period of requirements.

The Bank was in compliance with the reserve requirement during the reporting period.

## 15 DUE FROM OTHER CREDIT INSTITUTIONS

| | 2008 Group LVL'000 | 2007 Group LVL'000 | 2008 Bank LVL'000 | 2007 Bank LVL'000 |
|---|---|---|---|---|
| Demand deposits | | | | |
| Republic of Latvia credit institutions | 569 | 6,436 | 168 | 6,436 |
| OECD credit institutions | 2,631 | 5,114 | 2,631 | 5,114 |
| Non-OECD credit institutions | 103 | 3,342 | 103 | 3,342 |
| **Total demand deposits** | **3,303** | **14,892** | **2,902** | **14,892** |
| Term deposits | | | | |
| Republic of Latvia credit institutions | - | 25,562 | - | 25,562 |
| OECD credit institutions | 464 | 500 | 464 | 500 |
| Non-OECD credit institutions | 5,640 | - | 5,640 | |
| **Total term deposits** | **6,104** | **26,062** | **6,104** | **26,062** |
| **Total** | **9,407** | **40,954** | **9,006** | **40,954** |

The effective interest rate on balances due from other credit institutions as at 31 December 2008 was 2,95 % (2007: 2,52 %).

*Notes to the Financial Statements (continued)*

## 16 LOANS AND ADVANCES TO CUSTOMERS

### (a) Analysis of loans by original maturity

| | 2008 Group LVL'000 | 2007 Group LVL'000 | 2008 Bank LVL'000 | 2007 Bank LVL'000 |
|---|---|---|---|---|
| Less than a year | 259,420 | 239,784 | 201,591 | 179,747 |
| More than a year | 1,676,843 | 1,381,780 | 1,506,536 | 1,267,287 |
| Accrued income | 8,331 | 6,280 | 7,688 | 5,841 |
| | **1,944,594** | **1,627,844** | **1,715,815** | **1,452,875** |
| Less: provisions for loan impairment losses | (26,181) | (11,310) | (24,455) | (10,434) |
| Less: provisions for unpaid interest | (1,494) | (172) | (1,465) | (172) |
| **Total** | **1,916,919** | **1,616,362** | **1,689,895** | **1,442,269** |

Loan portfolio includes loans secured by the Republic of Latvia Government guarantees of Ls 2 218 thousand. The effective interest rate on loans as at 31 December 2008 was 6,36 % (2007: 6,51%).

### (b) Analysis of loans by client type

| | 2008 Group LVL'000 | 2007 Group LVL'000 | 2008 Bank LVL'000 | 2007 Bank LVL'000 |
|---|---|---|---|---|
| Individuals | 1,002,662 | 860,614 | 951,898 | 830,152 |
| Private companies | 895,652 | 721,568 | 717,816 | 577,467 |
| Management/employees | 13,889 | 11,833 | 12,630 | 10,941 |
| Local government | 15,085 | 13,256 | 15,085 | 13,067 |
| Public companies | 8,975 | 14,293 | 8,975 | 8,906 |
| Finance institutions | - | - | 1,723 | 6,501 |
| Accrued income | 8,331 | 6,280 | 7,688 | 5,841 |
| | **1,944,594** | **1,627,844** | **1,715,815** | **1,452,875** |
| Less: provisions for loan impairment losses | (26,181) | (11,310) | (24,455) | (10,434) |
| Less: provisions for unpaid interest | (1,494) | (172) | (1,465) | (172) |
| **Total** | **1,916,919** | **1,616,362** | **1,689,895** | **1,442,269** |

### (c) Analysis of loans by industry

| | 2008 Group LVL'000 | 2007 Group LVL'000 | 2008 Bank LVL'000 | 2007 Bank LVL'000 |
|---|---|---|---|---|
| Individuals | 991,939 | 854,632 | 939,788 | 824,171 |
| Management of real estate | 254,241 | 224,421 | 257,080 | 223,536 |
| Manufacturing | 129,726 | 116,213 | 101,873 | 74,938 |
| Trade | 176,280 | 143,511 | 140,027 | 122,908 |
| Other | 138,291 | 117,209 | 99,343 | 88,123 |
| Transport | 85,449 | 64,680 | 70,330 | 36,124 |
| Construction | 37,622 | 32,589 | 20,259 | 16,342 |
| Agriculture | 25,950 | 16,130 | 21,296 | 9,605 |
| Management/employees | 13,889 | 11,839 | 12,630 | 10,947 |
| Non-profit and religious organizations | 1,205 | 704 | 1,117 | 704 |
| **Total loans to residents** | **1,854,592** | **1,581,928** | **1,663,743** | **1,407,398** |
| Loans issued to non-residents | 81,671 | 39,636 | 44,384 | 39,636 |
| Accrued income | 8,331 | 6,280 | 7,688 | 5,841 |
| | **1,944,594** | **1,627,844** | **1,715,815** | **1,452,875** |
| Less: provisions for loan impairment losses | (26,181) | (11,310) | (24,455) | (10,434) |
| Less: provisions for unpaid interest | (1,494) | (172) | (1,465) | (172) |
| **Total** | **1,916,919** | **1,616,362** | **1,689,895** | **1,442,269** |

*Notes to the Financial Statements (continued)*

## 16 LOANS AND ADVANCES TO CUSTOMERS (continued)

### (d) Analysis of loans by countries

| | 2008 Group LVL'000 | 2007 Group LVL'000 | 2008 Bank LVL'000 | 2007 Bank LVL'000 |
|---|---|---|---|---|
| Latvia | 1,856,367 | 1,581,928 | 1,663,743 | 1,407,398 |
| Denmark | 35,562 | 11 | 50 | 11 |
| Estonia | 16,292 | 13,675 | 16,292 | 13,675 |
| United Kingdom | 8,780 | 6,840 | 8,780 | 6,840 |
| Lithuania | 4,682 | 1,989 | 4,682 | 1,989 |
| Hong Kong | 4,446 | 6,029 | 4,446 | 6,029 |
| Virgin Islands (British) | 3,944 | 2,791 | 3,944 | 2,791 |
| Netherlands | 2,091 | 2,302 | 2,091 | 2,302 |
| Belize | 1,123 | 58 | 1,123 | 58 |
| Russia | 747 | 636 | 747 | 636 |
| Germany | 704 | 3,183 | 704 | 3,183 |
| Ireland | 540 | 554 | 540 | 554 |
| France | 230 | 236 | 230 | 236 |
| USA | 225 | 249 | 225 | 249 |
| Norway | 174 | 184 | 174 | 184 |
| Sweden | 105 | 105 | 105 | 105 |
| Switzerland | 81 | 83 | 81 | 83 |
| Uzbekistan | 75 | 84 | 75 | 84 |
| Iceland | 48 | 49 | 48 | 49 |
| Armenia | 32 | 32 | 32 | 32 |
| Italy | 10 | - | 10 | - |
| Kazakhstan | 5 | 3 | 5 | 3 |
| Austria | - | 543 | - | 543 |
| Accrued interest | 8,331 | 6,280 | 7,688 | 5,841 |
| **Total** | **1,944,594** | **1,627,844** | **1,715,815** | **1,452,875** |
| Less: provisions for loan impairment losses | (26,181) | (11,310) | (24,455) | (10,434) |
| Less: provisions for unpaid interest | (1,494) | (172) | (1,465) | (172) |
| **Total** | **1,916,919** | **1,616,362** | **1,689,895** | **1,442,269** |

*Notes to the Financial Statements (continued)*

## 16 LOANS AND ADVANCES TO CUSTOMERS (continued)

### (e) Gross investment in finance lease

| | 2008 Group LVL'000 | 2007 Group LVL'000 | 2008 Bank LVL'000 | 2007 Bank LVL'000 |
|---|---|---|---|---|
| Not later than 1 year | 65,081 | 43,158 | 83 | 173 |
| 1 – 5 years | 137,013 | 116,708 | 1 | 10 |
| More than 5 years | 8,346 | 9,717 | - | - |
| **Total gross finance lease receivables** | **210,440** | **169,583** | **84** | **183** |

**Unearned future interest income from investments in finance lease**

| | 2008 Group LVL'000 | 2007 Group LVL'000 | 2008 Bank LVL'000 | 2007 Bank LVL'000 |
|---|---|---|---|---|
| Not later than 1 year | 11,187 | 2,244 | 34 | 19 |
| 1 – 5 years | 16,517 | 6,319 | 1 | - |
| More than 5 years | 531 | 356 | - | - |
| **Total unearned future interest income** | **28,235** | **8,919** | **35** | **19** |

**Net investment in finance lease**

| | 2008 Group LVL'000 | 2007 Group LVL'000 | 2008 Bank LVL'000 | 2007 Bank LVL'000 |
|---|---|---|---|---|
| Not later than 1 year | 53,894 | 40,914 | 49 | 154 |
| 1 – 5 years | 120,496 | 110,389 | - | 10 |
| More than 5 years | 7,815 | 9,361 | - | - |
| **Total net investment in finance lease** | **182,205** | **160,664** | **49** | **164** |

### (f) The following table provides the division of loans and advances to customers by quality:

| | 2008 Group LVL'000 | 2007 Group LVL'000 | 2008 Bank LVL'000 | 2007 Bank LVL'000 |
|---|---|---|---|---|
| Neither past due nor impaired | 1,654,509 | 1,519,628 | 1,450,202 | 1,362,245 |
| Past due but not impaired | 197,347 | 90,017 | 175,243 | 73,746 |
| Impaired | 84,407 | 11,919 | 82,682 | 11,043 |
| Accrued interest | 8,331 | 6,280 | 7,688 | 5,841 |
| Total gross loans and advances to customers | **1,944,594** | **1,627,844** | **1,715,815** | **1,452,875** |
| Less allowances for loan impairment | (21,866) | (6,134) | (20,140) | (5,258) |
| Less allowances for homogenous groups of loans | (4,315) | (5,176) | (4,315) | (5,176) |
| Less unpaid interest | (1,494) | (172) | (1,465) | (172) |
| **Total net loans and advances to customers** | **1,916,919** | **1,616,362** | **1,689,895** | **1,442,269** |

*Notes to the Financial Statements (continued)*

## 16 LOANS AND ADVANCES TO CUSTOMERS (continued)

**(g) The following table provides the division of loans and advances to customers neither past due nor impaired:**

| Grades | Risk classes | 2008 Group LVL'000 | 2007 Group LVL'000 | 2008 Bank LVL'000 | 2007 Bank LVL'000 |
|---|---|---|---|---|---|
| **Corporate** | **Low** | 68,333 | 234,886 | 73,644 | 237,355 |
| (all legal entities with turnover | **Medium** | 392,005 | 271,689 | 392,005 | 271,689 |
| more than 500 thous.LVL) | **High** | 87,049 | 6,872 | 87,049 | 6,872 |
| | Not rated | - | - | - | - |
| **SME** | **Low** | 12,722 | 13,659 | 12,722 | 13,659 |
| | **Medium** | 28,536 | 18,201 | 28,536 | 18,201 |
| | **High** | 32,768 | 4,815 | 32,768 | 4,815 |
| | Not rated | 176,626 | 192,341 | 5,497 | 32,489 |
| **Private individuals** | | 856,470 | 777,165 | 817,981 | 777,165 |
| | **Total** | **1,654,509** | **1,519,628** | **1,450,202** | **1,362,245** |

| | 2008 Group LVL'000 | 2007 Group LVL'000 | 2008 Bank LVL'000 | 2007 Bank LVL'000 |
|---|---|---|---|---|
| Commercial | 249,044 | 185,974 | 196,064 | 162,974 |
| Mortgage loans* | 796,454 | 754,470 | 796,454 | 754,470 |
| Leasing | 151,958 | 135,859 | 49 | 183 |
| Other | 457,053 | 443,325 | 457,635 | 444,618 |
| **Total** | **1,654,509** | **1,519,628** | **1,450,202** | **1,362,245** |

*Loans issued to private individuals secured with real estate collateral

**Loans with prolonged maturity during year 2008**

| **Prolonged loans** | |
|---|---|
| Credit lines | 117,296 |
| Mortgage loans | 17,259 |
| Other | 62,814 |
| **Total** | 197,369 |

*Notes to the Financial Statements (continued)*

16 LOANS AND ADVANCES TO CUSTOMERS (continued)

**(h) The following table provides the division of loans and advances to customers past due but not impaired of Group and Bank:**

| | 2008 Group LVL'000 | 2007 Group LVL'000 | 2008 Bank LVL'000 | 2007 Bank LVL'000 |
|---|---|---|---|---|
| **Commercial loans** | | | | |
| Past due up to 30 days | 36,328 | 4,752 | 32,514 | 4,752 |
| Past due 31-60 days | 12,155 | 3,917 | 12,155 | 3,917 |
| Past due 61-90 days | 4,423 | 5,338 | 4,423 | 5,338 |
| Past due over 90 days | 7,609 | 1,601 | 7,609 | 1,601 |
| **Total** | **60,515** | **15,608** | **56,701** | **15,607** |
| **Mortgage loans** (issued to private individuals secured with real estate collateral) | | | | |
| Past due up to 30 days | 62,793 | 39,969 | 62,793 | 39,969 |
| Past due 31-60 days | 21,535 | 10,255 | 21,535 | 10,255 |
| Past due 61-90 days | 8,010 | 3,641 | 8,010 | 3,641 |
| Past due over 90 days | 22,530 | 1,964 | 22,530 | 1,964 |
| **Total** | **114,868** | **55,829** | **114,868** | **55,829** |
| **Leasing** | | | | |
| Past due up to 30 days | 8,148 | 9,179 | 74 | 169 |
| Past due 31-60 days | 3,607 | 1,435 | 61 | 57 |
| Past due 61-90 days | 2,183 | 1,001 | 10 | 29 |
| Past due over 90 days | 4,515 | 4,942 | 18 | 32 |
| **Total** | **18,453** | **16,557** | **164** | **287** |
| **Other** | | | | |
| Past due up to 30 days | 1,107 | 906 | 1,107 | 906 |
| Past due 31-60 days | 338 | 295 | 338 | 295 |
| Past due 61-90 days | 218 | 142 | 218 | 142 |
| Past due over 90 days | 1,848 | 680 | 1,848 | 681 |
| **Total** | **3,511** | **2,023** | **3,511** | **2,023** |
| Past due up to 30 days* | 108,376 | 54,806 | 96,488 | 45,795 |
| Past due 31-60 days | 37,635 | 15,902 | 34,089 | 14,523 |
| Past due 61-90 days | 14,834 | 10,122 | 12,661 | 9,150 |
| Past due over 90 days | 36,502 | 9,187 | 32,005 | 4,278 |
| **Total** | 197,347 | 90,017 | 175,243 | 73,746 |
| **Total gross loans and advances to customers past due but not impaired** | 197,347 | 90,017 | 175,243 | 73,746 |
| **Fair value of collateral**** | 274,796 | 137,973 | 274,796 | 137,973 |

*Substantial part of overdue is technical because of repayment day few days before reporting date especially for leasing and mortgage loans. Bank is using very conservative approach in restructure and prolongation of loans as well.

*Notes to the Financial Statements (continued)*

## 16 LOANS AND ADVANCES TO CUSTOMERS (continued)

**(i) The following table provides the division of Group's loans and advances to customers individually impaired:**

| Group | Commercial loans LVL'000 | Mortgage loans LVL'000 | Other loans LVL'000 | Leasing LVL'000 | Total LVL'000 |
|---|---|---|---|---|---|
| **31 December 2008** | | | | | |
| Impaired loans | 56,993 | 25,311 | 718 | 1,385 | **84,407** |
| Fair value of collateral** | 55,458 | 51,932 | | - | **107,390** |
| **31 December 2007** | | | | | |
| Impaired loans | 5,181 | 5,208 | 496 | 1,034 | **11,919** |
| Fair value of collateral** | 5,786 | 7,312 | | - | **13,098** |

**The following table provides the division of Group's loans and advances to customers individually impaired:**

| Bank | Commercial loans LVL'000 | Mortgage loans LVL'000 | Other loans LVL'000 | Leasing LVL'000 | Total LVL'000 |
|---|---|---|---|---|---|
| **31 December 2008** | | | | | |
| Impaired loans | 56,407 | 25,311 | 718 | 246 | **82,682** |
| Fair value of collateral** | 55,458 | 51,932 | | - | **107,390** |
| **31 December 2007** | | | | | |
| Impaired loans | 5,181 | 5,208 | 496 | 158 | **11,043** |
| Fair value of collateral** | 5,786 | 7,312 | | - | **13,098** |

** Fair value of collateral at loan issuance

*Notes to the Financial Statements (continued)*

## 17 FINANCIAL ASSETS DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS

| **Financial assets designated at fair value through profit or loss** | **2008** | **2007** | **2008** | **2007** |
|---|---|---|---|---|
| | **Group LVL'000** | **Group LVL'000** | **Bank LVL'000** | **Bank LVL'000** |
| **Debt securities** | | | | |
| Latvian government securities | 68,415 | 6,551 | 68,415 | 6,551 |
| Latvian mortgage bonds | 1,329 | 1,332 | 1,329 | 1,332 |
| OECD financial institutions bonds | 49,897 | 36,908 | 49,897 | 36,908 |
| **Total debt securities** | **119,641** | **44,791** | **119,641** | **44,791** |
| **Investment funds** | | | | |
| DNB NORD Mērķa fonds | 354 | 70 | 354 | 70 |
| **Total investment funds** | **354** | **70** | **354** | **70** |
| **Total** | **119,995** | **44,861** | **119,995** | **44,861** |

| | | **2008** | | **2007** | |
|---|---|---|---|---|---|
| | **Moody's equivalent grades** | **LVL'000** | **%** | **LVL'000** | **%** |
| **High grade** | | | | | |
| Risk rating class 1 | **Aaa** | - | 0% | - | 0% |
| Risk rating class 2 | **Aa1-A3** | 61,750* | 52% | 44,791 | 99,8% |
| Risk rating class 3 | **Baa1-Baa2** | - | 0% | - | 0% |
| Risk rating class 4 | **Baa3** | 2,819 | 2% | - | 0% |
| Not rated | | 55,426** | 46% | 70 | 0,2% |
| **Total** | | **119,995** | **100%** | **44,861** | **100%** |

* Latvian Government 6,415
** Latvian Government T-bills 55,073

The effective interest rate on securities at fair value through profit or loss as at 31 December 2008 was 7,36 % (2007: 4,91 %).

The Bank is in accordance with IAS 39 using a mark-to-model approach for the measurement of fair value of its bond portfolio. IAS 39 stipulates that in the case of active markets the measurement of fair value has to be carried out by using market prices and other relevant information available for the financial instrument. In case of inactive markets the establishment of valuation techniques for fair value measurement is provided. Due to the continuing financial crisis the bank bond market and the market for Latvian government bonds were - among others - in 2008 partly not any longer functioning in the usual way and in many cases considered as being inactive.

The Bank is following a common approach of Group DnB NORD by using a cash-flow-based mark-to-model approach that firstly provides the proof of market intensity (active or inactive) and secondly measures the fair value on the basis of discounted cash flow model taking into account the probability of default of the issuer and other factors.

14.7% of the Bank's bond portfolio has been revaluated by using mark-to-model approach which has increased the value of bonds by LVL 3887,4 thou. compared to observable market prices.

*Notes to the Financial Statements (continued)*

## 18 INVESTMENTS IN SUBSIDIARY UNDERTAKINGS

The Bank's investments in subsidiaries are specified as follows:

| | Share capital | Bank's share | Investment value 2008 | Investment value 2007 |
|---|---|---|---|---|
| | LVL'000 | (%) | LVL'000 | LVL'000 |
| SIA DnB NORD Līzings | 300 | 100 | 300 | 200 |
| IPAS DnB NORD Fondi* | 420 | 100 | 667 | 315 |
| AS DnB NORD Liising** | | - | - | 175 |
| SIA Skanstes 12 | 20 | 100 | 20 | 20 |
| | **740** | 100 | **987** | **710** |

* Full acquisition of IPAS DnB NORD Fondi by the Bank in the 2008

** The Bank sold AS DnB NORD Liising in the 2008

## 19 DERIVATIVE FINANCIAL INSTRUMENTS

The Group and the Bank utilises the following derivative instruments:
**Currency forwards** represent commitments to purchase foreign and domestic currency.
**Currency and interest rate swaps** are commitments to exchange one set of cash flows for another. Swaps result in an economic exchange of currencies or interest rates.
Interest rate options are instruments that give the holder the rights but not the obligations to exchange periodically one set of interest rate cash flows for another.
Commodity options are instruments that give the holder the rights but not the obligations to purchase/sell commodity at a specified price. Commodity options are settled in cash.

The Group's and the Bank's credit risk represents the potential cost to replace the forward or swap contracts if counterparties fail to perform their obligation. To control the level of credit risk taken, the Group and the Bank assesses counterparties using the same techniques as for its lending activities.

The notional amounts of certain types of financial instruments provide a basis for comparison with instruments recognised on the balance sheet but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and do not indicate the Group's and the Bank's exposure to credit risks. The derivative instruments become favourable or unfavourable as a result of fluctuations in market interest rates or foreign exchange rates relative to their terms.

The notional amounts and fair values of derivative instruments held are set out in the following table:

| | 2008 | | | 2007 | | |
|---|---|---|---|---|---|---|
| | Contract / notional amount | Fair value Assets | Fair value Liabilities | Contract / notional amount | Fair value Assets | Fair value Liabilities |
| | LVL'000 | LVL'000 | LVL'000 | LVL'000 | LVL'000 | LVL'000 |
| Derivatives held for trading: | | | | | | |
| - currency swaps | 167,516 | 307 | 213 | 99,020 | 383 | 2 |
| - interest rate swaps | 229,912 | 3,995 | 8,091 | 468,840 | 3,596 | 3,244 |
| - forwards | 61,536 | 306 | 209 | 2,113 | 71 | 9 |
| - options | 59,018 | 985 | 834 | | - | - |
| Derivatives designated as fair value hedges | | | | | | |
| - interest rate swaps | 119,089 | - | 4,470 | | - | - |
| **Total** | | **5,593** | **13,817** | | **4,050** | **3,255** |

*Notes to the Financial Statements (continued)*

## 20 INTANGIBLE FIXED ASSETS

Movement table of intangible assets of the Group and the Bank for 2008 is as follows:

| | Licences and software Group LVL'000 | Goodwill Group LVL'000 | Total intangible assets Group LVL'000 | Licences and software Bank LVL'000 | Total intangible assets Bank LVL'000 |
|---|---|---|---|---|---|
| Historical cost | | | | | |
| 31 December 2007 | **2,175** | | **2,175** | **1,832** | **1,832** |
| Additions | 382 | 247 | 629 | 283 | 283 |
| Disposals and write-offs | (149) | | (149) | - | - |
| **31 December 2008** | **2,408** | **247** | **2,655** | **2,115** | **2,115** |
| Amortisation | | | | | |
| 31 December 2007 | **1,121** | | **1,121** | **1,015** | **1,015** |
| Amortisation for the period | 346 | | 346 | 291 | 291 |
| Disposals and write-offs | (26) | | (26) | - | - |
| **31 December 2008** | **1,441** | | **1,441** | **1,306** | **1,306** |
| **Net book value** | | | | | |
| **31 December 2007** | 1,057 | | 1,057 | 817 | 817 |
| **31 December 2008** | 967 | 247 | 1,214 | 809 | 809 |

Intangible assets include advance payments for acquired intangible assets as of 31 December 2008 in amount of LVL 50,3 thousand (2007: LVL 427 thousand).

Movement table of intangible assets of the Group and the Bank for 2007 is as follows:

| | Licences and software Group LVL'000 | Licences and software Bank LVL'000 |
|---|---|---|
| Historical cost | | |
| 31 December 2006 | **1,409** | **1,275** |
| Additions | 842 | 633 |
| Disposals and write-offs | (76) | (76) |
| **31 December 2007** | **2,175** | **1,832** |
| Amortisation | | |
| 31 December 2006 | **925** | **875** |
| Amortisation for the period | 197 | 144 |
| Disposals and write-offs | (4) | (4) |
| **31 December 2007** | **1,118** | **1,015** |
| **Net book value** | | |
| **31 December 2006** | **484** | **400** |
| **31 December 2007** | 1,057 | 817 |

*Notes to the Financial Statements (continued)*

## 21 PROPERTY AND EQUIPMENT

Movement table of property and equipment of the Group for 2008 is as follows:

| | Land and buildings LVL'000 | Construc-tion LVL'000 | Office equipment LVL'000 | Vehicles LVL'000 | Leasehold improve-ments LVL'000 | Opera-ting lease LVL'000 | Total LVL'000 |
|---|---|---|---|---|---|---|---|
| Historical cost or valuation | | | | | | | |
| 31 December 2007 | **968** | **-** | **8,818** | **359** | **2,410** | **31,263** | **43,818** |
| Additions | 2,539 | 2,128 | 1,352 | 35 | 302 | 477 | 6,833 |
| Disposals and write-offs | - | - | (995) | (55) | (92) | (6,224) | (7,366) |
| **31 December 2008** | **3,507** | **2,128** | **9,175** | **339** | **2,620** | **25,516** | **43,285** |
| Depreciation | | | | | | | |
| 31 December 2007 | **89** | **-** | **4,066** | **195** | **578** | **6,437** | **11,365** |
| Depreciation for the year | 9 | - | 1,643 | 63 | 279 | 4,853 | 6,847 |
| Disposals and write-offs | - | - | (1,151) | (48) | (42) | (2,685) | (3,926) |
| **31 December 2008** | **98** | **-** | **4,558** | **210** | **815** | **8,608** | **14,289** |
| **Net book value** | | | | | | | |
| **31 December 2007** | 879 | - | 4,752 | 164 | 1,832 | 24,827 | 32,454 |
| **31 December 2008** | 3,409 | 2,128 | 4,425 | 129 | 1,805 | 17,100 | 28,996 |

Movement table of property and equipment of the Bank for 2008 is as follows:

| | Land and buildings LVL'000 | Office equipment LVL'000 | Vehicles LVL'000 | Leasehold improvements LVL'000 | Total LVL'000 |
|---|---|---|---|---|---|
| Historical cost or valuation | | | | | |
| 31 December 2007 | **968** | **8,647** | **359** | **2,410** | **12,384** |
| Additions | 82 | 1,321 | 35 | 302 | 1,740 |
| Disposals and write-offs | - | (956) | (55) | (92) | (1,103) |
| **31 December 2008** | **1,050** | **9,012** | **339** | **2,620** | **13,021** |
| Depreciation | | | | | |
| 31 December 2007 | **89** | **3,999** | **195** | **578** | **4,861** |
| Depreciation for the year | 9 | 1,600 | 63 | 279 | 1,951 |
| Disposals and write-offs | - | (934) | (48) | (42) | (1,024) |
| **31 December 2008** | **98** | **4,665** | **210** | **815** | **5,788** |
| **Net book value** | | | | | |
| **31 December 2007** | 879 | 4,648 | 164 | 1,832 | 7,523 |
| **31 December 2008** | 952 | 4,347 | 129 | 1,805 | 7,233 |

Fixed assets include advance payments for acquired fixed assets and construction in progress as of 31 December 2008 in amount of LVL 5,6 thousand (2007: LVL 5 thousand).

*Notes to the Financial Statements (continued)*

**21 PROPERTY AND EQUIPMENT** (continued)

Movement table of property and equipment of the Group for 2007 is as follows:

| | Land and buildings LVL'000 | Office equipment LVL'000 | Vehicles LVL'000 | Leasehold improvements LVL'000 | Operating lease LVL'000 | Total LVL'000 |
|---|---|---|---|---|---|---|
| Historical cost or valuation | | | | | | |
| 31 December 2006 | **961** | **6,695** | **343** | **1,937** | **23,686** | **33,622** |
| Additions | 27 | 2,940 | 342 | 473 | 13,869 | 17,651 |
| Disposals and write-offs | (20) | (778) | (326) | - | (6,227) | (7,351) |
| Reclassification | - | (46) | - | - | 46 | - |
| **31 December 2007** | **968** | **8,811** | **359** | **2,410** | **31,374** | **43,922** |
| Depreciation | | | | | | |
| 31 December 2006 | **82** | **3,430** | **170** | **361** | **3,253** | **7,296** |
| Depreciation for the year | 9 | 1,311 | 86 | 217 | 4,882 | 6,505 |
| Disposals and write-offs | (2) | (661) | (61) | - | (1,609) | (2,333) |
| Reclassification | - | (21) | - | - | 21 | - |
| **31 December 2007** | **89** | **4,059** | **195** | **578** | **6,547** | **11,468** |
| **Net book value** | | | | | | |
| **31 December 2006** | **879** | **3,265** | **173** | **1,576** | **20,433** | **26,326** |
| **31 December 2007** | **879** | **4,752** | **164** | **1,832** | **24,827** | **32,454** |

Movement table of property and equipment of the Bank for 2007 is as follows:

| | Land and buildings LVL'000 | Office equipment LVL'000 | Vehicles LVL'000 | Leasehold improvements LVL'000 | Total LVL'000 |
|---|---|---|---|---|---|
| Historical cost or valuation | | | | | |
| 31 December 2006 | **961** | **6,591** | **343** | **1,937** | **9,832** |
| Additions | 27 | 2,834 | 61 | 473 | 3,395 |
| Disposals and write-offs | (20) | (778) | (45) | - | (843) |
| **31 December 2007** | **968** | **8,647** | **359** | **2,410** | **12,384** |
| Depreciation | | | | | |
| 31 December 2006 | **82** | **3,396** | **170** | **361** | **4,009** |
| Depreciation for the year | 9 | 1,243 | 67 | 217 | 1,536 |
| Disposals and write-offs | (2) | (640) | (42) | - | (684) |
| **31 December 2007** | **89** | **3,999** | **195** | **578** | **4,861** |
| **Net book value** | | | | | |
| **31 December 2006** | **879** | **3,195** | **173** | **1,576** | **5,823** |
| **31 December 2007** | **879** | **4,648** | **164** | **1,832** | **7,523** |

If buildings would be recorded at cost their value would be as follows:

| | 2008 Bank LVL'000 | 2007 Bank LVL'000 |
|---|---|---|
| Cost | 917 | 836 |
| Accumulated deprecation | (85) | (78) |
| Net book value | **832** | **758** |

*Notes to the Financial Statements (continued)*

## 21 PROPERTY AND EQUIPMENT (continued)

**Minimum lease payments receivable under operating leases**

| | 2008 Group LVL'000 | 2007 Group LVL'000 |
|---|---|---|
| Not later than 1 year | 4,304 | 3,768 |
| Later than 1 year and not later than 5 years | 5,594 | 8,738 |
| Later than 5 years | 60 | 929 |
| **Total** | **9,958** | **13,435** |

## 22 DEFERRED EXPENSES AND ACCRUED INCOME

| | 2008 Group LVL'000 | 2007 Group LVL'000 | 2008 Bank LVL'000 | 2007 Bank LVL'000 |
|---|---|---|---|---|
| Accrued income | 56 | 48 | 27 | 35 |
| Deferred expenses | 717 | 1,151 | 632 | 1,018 |
| | 773 | **1,199** | **659** | **1,053** |

## 23 OTHER ASSETS

| | 2008 Group LVL'000 | 2007 Group LVL'000 | 2008 Bank LVL'000 | 2007 Bank LVL'000 |
|---|---|---|---|---|
| Foreclosed properties | 4,320 | 14 | 361 | 14 |
| Office items | 589 | 148 | 589 | 148 |
| Prepayments and overpaid taxes | 1,889 | 42 | 130 | 42 |
| Credit card claims | 2,055 | 2,796 | 2,055 | 2,796 |
| Short term debts | 2,683 | 6,363 | 173 | 409 |
| Unsettled spot and forward foreign currency deals (net) | 2,830 | - | 2,830 | - |
| Other | 1,403 | 1,963 | 963 | 820 |
| | **15,769** | **11,326** | **7,101** | **4,229** |

*Notes to the Financial Statements (continued)*

## 24 PROVISIONS FOR IMPAIRMENT LOSSES

| **Group allowance for impairment losses and other assets** | **Loans** LVL'000 | **Unpaid interest** LVL'000 | **Total** LVL'000 |
|---|---|---|---|
| **31 December 2006** | 8,500 | | 8,500 |
| Fully provided for and written off | (481) | - | (481) |
| Charge to income statement: | | | |
| - individual loans and assets | 4,494 | 208 | 4,702 |
| - homogenous groups of loans | 1,360 | - | 1,360 |
| Released during the year | (2,403) | - | (2,403) |
| Provisions related to business unit sale (Eesti filiaal): | | | |
| - individual loans and assets | (122) | (37) | (159) |
| - homogenous groups of loans | (37) | - | (37) |
| **31 December 2007** | 11,311 | 171 | 11,482 |
| Fully provided for and written off | (1,251) | - | (1,251) |
| Charge to income statement: | | | |
| - individual loans and assets | 18,216 | 2,454 | 20,670 |
| - homogenous groups of loans | (861) | - | (861) |
| Released during the year | (1,235) | (1,114) | (2,349) |
| **31 December 2008** | 26,180 | 1,512 | 27,692 |

| **Bank provisions for impairment losses and other assets** | **Loans** LVL'000 | **Unpaid interest** LVL'000 | **Off-balance sheet liabilities** LVL'000 | **Total** LVL'000 |
|---|---|---|---|---|
| **31 December 2006** | 8,500 | | - | 8,500 |
| Fully provided for and written off | (481) | - | - | (481) |
| Charge to income statement: | | | | |
| - individual loans and assets | 3,617 | 208 | 877 | 4,702 |
| - homogenous groups of loans | 1,360 | - | - | 1,360 |
| Released during the year | (2,403) | - | - | (2,403) |
| Provisions related to business unit sale (Eesti filiaal): | | | | |
| - individual loans and assets | (122) | (37) | - | (159) |
| - homogenous groups of loans | (37) | - | - | (37) |
| **31 December 2007** | 10,434 | 171 | 877 | 11,482 |
| Fully provided for and written off | (1,251) | (18) | - | (1,269) |
| Charge to income statement: | | | | |
| - individual loans and assets | 17,368 | 2,425 | 262 | 20,055 |
| - homogenous groups of loans | (861) | - | - | (861) |
| Released during the year | (1,235) | (1,114) | - | (2,349) |
| **31 December 2008** | 24,455 | 1,465 | 1,139 | 27,059 |

Income statement item "Net allowances for impairment loss" also includes recovered loans and other assets that were written-off in previous periods in amount of LVL 100 thousand .

*Notes to the Financial Statements (continued)*

## 25 DUE TO OTHER CREDIT INSTITUTIONS

| Demand deposits | 2008 Group LVL'000 | 2007 Group LVL'000 | 2008 Bank LVL'000 | 2007 Bank LVL'000 |
|---|---|---|---|---|
| Republic of Latvia credit institutions | 5,976 | 33,696 | 5,976 | 33,696 |
| OECD credit institutions | 879 | 309 | 879 | 309 |
| Non-OECD credit institutions | 848 | 3,924 | 848 | 3,924 |
| **Total demand deposits** | **7,703** | **37,929** | **7,703** | **37,929** |
| **Term deposits** | | | | |
| Republic of Latvia credit institutions | 20,137 | 3,479 | 20,137 | 3,479 |
| OECD credit institutions | 1,498,624 | 1,286,061 | 1,242,151 | 1,084,665 |
| Non-OECD credit institutions | 15,344 | 491 | 15,344 | 385 |
| **Total term deposits** | **1,534,105** | **1,290,031** | **1,277,632** | **1,088,529** |
| **Total deposits** | **1,541,808** | **1,327,960** | **1,285,335** | **1,126,458** |

## 26 DUE TO CUSTOMERS

**Analysis of deposits by maturity and client type**

| | 2008 Group LVL'000 | 2007 Group LVL'000 | 2008 Bank LVL'000 | 2007 Bank LVL'000 |
|---|---|---|---|---|
| **Demand deposits** | | | | |
| Private companies | 91,337 | 56,935 | 93,410 | 60,588 |
| Individuals | 59,093 | 64,442 | 59,093 | 64,442 |
| State institutions | 6,196 | 3,781 | 6,196 | 3,781 |
| Funds in transit | 8,522 | 7,985 | 8,522 | 7,985 |
| Non-residents non-OECD | 4,029 | 11,770 | 4,029 | 11,770 |
| Non-residents OECD | 2,788 | 4,056 | 2,788 | 4,056 |
| **Total demand deposits** | **171,965** | **148,969** | **174,038** | **152,622** |
| **Term deposit accounts** | | | | |
| Individuals | 150,998 | 105,986 | 150,998 | 105,986 |
| Private companies | 85,191 | 54,376 | 85,191 | 54,376 |
| State institutions | 7,187 | 14,984 | 7,187 | 14,984 |
| Non-residents non-OECD | 13,699 | 7,801 | 13,699 | 7,801 |
| Non-residents OECD | 5,766 | 9,473 | 5,766 | 9,473 |
| Accrued interest | 2,950 | 1,867 | 2,950 | 1,867 |
| **Total term deposits** | **265,793** | **194,487** | **265,791** | **194,487** |
| **Total deposits and transit funds** | **437,756** | **343,456** | **439,829** | **347,109** |

## 27 DEFERRED INCOME AND ACCRUED EXPENSES

| | 2008 Group LVL'000 | 2007 Group LVL'000 | 2008 Bank LVL'000 | 2007 Bank LVL'000 |
|---|---|---|---|---|
| Accrued expenses | 537 | 958 | 522 | 775 |
| Other deferred income | 684 | 543 | 682 | 543 |
| Deferred income from sale of office building | 71 | 735 | 71 | 735 |
| | **1,292** | **2,236** | **1,275** | **2,053** |

**Notes to the Financial Statements** *(continued)*

## 28 SUBORDINATED LOAN

The Bank has signed two loan agreements with NORD/LB Hanover (Germany). As at 31 December 2008 the Bank had received a loan of EUR 14 million repayable on 15 January 2014 with interest rate 6 months EURIBOR plus 0,61% and a loan of EUR 13 million repayable on 15 September 2015 with interest rate 6 months EURIBOR plus 0,6%.

The Bank has signed three loan agreements with Bank DnB NORD A/S (Denmark). As at 31 December 2008 the Bank had received a loan of EUR 16 million repayable on 15 August 2016 with interest rate 6 months EURIBOR plus 0,6%, a loan of EUR 7 million repayable on 24 November 2016 with interest rate 6 months EURIBOR plus 0,6% and a loan of EUR 7 million repayable on 27 February 2017 with interest rate 6 months EURIBOR plus 0,6%.

## 29 OTHER LIABILITIES

| | 2008 Group LVL'000 | 2007 Group LVL'000 | 2008 Bank LVL'000 | 2007 Bank LVL'000 |
|---|---|---|---|---|
| Dividends payable | - | 6 | - | 6 |
| Provisions for pending liabilities and payments | 577 | 663 | 441 | 654 |
| Provisions for off-balance sheet items | - | - | 1,139 | 876 |
| Factoring payables | 2,122 | - | - | - |
| Other short-term liabilities | 2,238 | 4,509 | 179 | 187 |
| | **4,937** | **5,178** | **1,759** | **1,723** |

## 30 SHARE CAPITAL

As at 31 December 2008, registered and fully paid-in share capital of the Bank amounting to Ls 99,161 thousand consists of 99,160,900 ordinary shares with voting rights with a par value of LVL 1 per share.
99.9% of the Bank's shares as at 31 December 2008 are owned by Bank DnB NORD A/S which is a joint venture owned by DnB NOR Bank ASA (51%) and the former majority shareholder Norddeutsche Landesbank Girozentrale (49%).

## 31 OFF-BALANCE SHEET ITEMS

| | 2008 Group LVL'000 | 2007 Group LVL'000 | 2008 Bank LVL'000 | 2007 Bank LVL'000 |
|---|---|---|---|---|
| **Memorandum items** | | | | |
| Contingent liabilities | | | | |
| *guarantees* | 29,159 | 29,724 | 250,050 | 288,244 |
| Commitments | | | | |
| *Loan issuing commitments* | 114,653 | 157,280 | 114,653 | 157,280 |
| *other liabilities* | 8,206 | 2,706 | 8,206 | 2,706 |
| *letters of credit* | 10,657 | 16,879 | 10,657 | 16,879 |

The Bank guarantees include the AS DnB NORD Banka guarantee for DnB NORD Līzings SIA in amount of LVL 220,891 thousand as at 31 December 2008.

The Bank has signed the agreement for the construction of new office amounted LVL 15,602 thousand.

*Notes to the Financial Statements (continued)*

## 32 MAXIMUM EXPOSURE TO CREDIT RISK BEFORE COLLATERAL HELD OR OTHER CREDIT ENHANCEMENTS

| | 2008 Group LVL'000 | 2007 Group LVL'000 | 2008 Bank LVL'000 | 2007 Bank LVL'000 |
|---|---|---|---|---|
| **Credit risk exposures relating to on-balance sheet assets are as follows:** | | | | |
| Balances due from banks | 9,407 | 40,954 | 9,006 | 40,954 |
| Loans and advances to customers | 1,916,474 | 1,619,531 | 1,692,457 | 1,443,951 |
| Securities designated at fair value through profit and loss | 119,995 | 44,861 | 119,995 | 44,861 |
| Derivative financial instruments | 5,593 | 4,050 | 5,593 | 4,050 |
| Other assets | 11,430 | 11,122 | 3,631 | 4,025 |
| **Credit risk exposures relating to off-balance sheet items are as follows:** | | | | |
| Contingent liabilities | 29,159 | 29,724 | 250,050 | 288,244 |
| Financial commitments | 10,657 | 16,879 | 10,657 | 16,879 |

## 33 RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions.

Related parties are defined as shareholders, members of the Supervisory Council and the Management Board, key management personnel, their close relatives and companies in which they have a controlling interest as well as associated companies.

A number of banking transactions are entered into with related parties in the normal course of business. These include loans, deposits, foreign currency transactions and financial instruments. These transactions were carried out on commercial terms and at market rates. The volumes of related party transactions, outstanding balances at the year end, and relating income and expense for the year are as follows:

| | 2008 Group LVL'000 | 2007 Group LVL'000 | 2008 Bank LVL'000 | 2007 Bank LVL'000 |
|---|---|---|---|---|
| Due from parent companies: | | | | |
| DnB NOR Bank ASA | 3,184 | 2,087 | 3,184 | 2,087 |
| Bank DnB NORD A/S | 226 | 178 | 226 | 178 |
| NORD/LB Group | 23,915 | 1,719 | 23,915 | 1,719 |
| Due from subsidiaries: | | | | |
| DnB NORD Līzings SIA | - | - | 1,723 | 6,501 |
| A/S DnB NORD Liising | - | - | - | 3,723 |
| SIA Skanstes 12 | - | - | 5,312 | 2,469 |
| Due from other related parties: | | | | |
| AB DnB NORD Bankas | 228 | 267 | 228 | 267 |
| DnB NORD Polska | 3 | 5 | 3 | 5 |
| Bank DnB NORD A/S Eesti filiaal | 5,652 | - | 5,652 | - |
| DnB NORD IT A/S | 607 | - | 607 | - |
| **Balances due from related parties** | **33,815** | **4,256** | **40,850** | **16,949** |

*Notes to the Financial Statements (continued)*

## 33 RELATED PARTY TRANSACTIONS (continued)

**Due to related parties**

| | 2008 Group LVL'000 | 2007 Group LVL'000 | 2008 Bank LVL'000 | 2007 Bank LVL'000 |
|---|---|---|---|---|
| Due to parent companies: | | | | |
| DnB NOR Bank ASA | 628,146 | 947,747 | 628,146 | 742,627 |
| Bank DnB NORD A/S | 56,900 | 74,923 | 21,708 | 21,503 |
| NORD/LB Group | 829,533 | 439,600 | 608,642 | 439,600 |
| Due to subsidiaries: | | | | |
| DnB NORD Līzings SIA | - | - | 1,862 | 781 |
| IPAS DnB NORD Fondi | - | - | 211 | 149 |
| SIA Skanstes 12 | - | - | - | 2,489 |
| Due to other related parties: | | | | |
| AB DnB NORD Bankas | 9,824 | 11,933 | 9,824 | 11,933 |
| DnB NORD Polska | - | - | - | - |
| Bank DnB NORD A/S Eesti filiaal | 6,368 | - | 6,368 | - |
| **Balances due to related parties** | **1,530,771** | **1,474,203** | **1,276,761** | **1,219,082** |

The Group's and Bank's income/expenses from transactions with related parties are analysed as follows:

| | 2008 Group LVL'000 | 2007 Group LVL'000 | 2008 Bank LVL'000 | 2007 Bank LVL'000 |
|---|---|---|---|---|
| Interest received for money market deposits/ loans | 4,860 | 8,066 | 2,229 | 1,749 |
| Income received from derivatives | 3,405 | 121 | 3,405 | 121 |
| Derivative revaluation result | - | 999 | - | 999 |
| Commission received | 220 | 119 | 2,391 | 1,935 |
| Income from shares AS DnB NORD Banka Liising sale and from business unit AS DnB NORD Banka Eesti filiaal sale | 537 | - | 537 | - |
| Other income | - | - | 15 | 3 |
| Interest paid on money market deposits/loans | (57,127) | (34,584) | (57,150) | (34,592) |
| Derivative revaluation result | (6,369) | - | (6,369) | - |
| Interest paid on subordinated loan | (2,183) | (1,883) | (2,183) | (1,883) |
| Commission paid | (30) | (20) | (30) | (20) |
| Other expenses | (1,701) | (1,618) | (1,701) | (1,618) |
| | **(58,388)** | **(28,800)** | **(58,856)** | **(33,306)** |

As at 31 December 2008 loans issued to key management personnel amounted to LVL 1,400 thousand (2007: LVL 1,570 thousand).

*Notes to the Financial Statements (continued)*

## 33 RELATED PARTY TRANSACTIONS (continued)

The Group`s and Bank`s income/expenses from transactions with parent companies DnB NORD ASA (Norway) and Bank DnB NORD A/S (Denmark) and NORD/LB group are analysed as follows:

| | 2008 Group LVL'000 | 2007 Group LVL'000 | 2008 Bank LVL'000 | 2007 Bank LVL'000 |
|---|---|---|---|---|
| Interest received for money market deposits/ loans | 4,587 | 8,066 | 424 | 398 |
| Income received from derivatives | 3,414 | 134 | 3,414 | 134 |
| Derivative revaluation result | | 902 | - | 902 |
| Commission received | 20 | 6 | 20 | 6 |
| Income from shares AS DnB NORD Banka Liising sale and from business unit AS DnB NORD Banka Eesti filiaal sale | 537 | - | 537 | - |
| Interest paid on money market deposits/loans | (56,443) | (34,361) | (56,443) | (34,361) |
| Derivative revaluation result | (6,373) | - | (6,373) | - |
| Interest paid on subordinated loan | (2,183) | (1,883) | (2,183) | (1,883) |
| Commission paid | (30) | (21) | (30) | (21) |
| Other expenses | (1,698) | (1,618) | (1,698) | (1,618) |
| | **(58,169)** | **(28,775)** | **(62,332)** | **(36,443)** |

*Notes to the Financial Statements (continued)*

## 34 FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

In respect of financial assets and liabilities held in the balance sheet at carrying values other than fair value, in the opinion of Management the fair value of those financial assets and liabilities do not differ materially from their carrying values.

| Group | | | 2008 | | |
|---|---|---|---|---|---|
| | Quoted market price LVL'000 | Valuation techniques – market observable inputs LVL'000 | Valuation techniques – market unobservable inputs LVL'000 | Total LVL'000 | Balance sheet LVL'000 |
| **Assets** | | | | | |
| Cash and balances with central banks | | 89,328 | | **89,328** | **89,328** |
| Due from other credit institutions (demand) | | 3,303 | | **3,303** | **3,303** |
| Derivatives | 5,593 | | | **5,593** | **5,593** |
| Financial assets designated at fair value through profit or loss | 102,102 | 17,539 | 354 | **119,995** | **119,995** |
| Financial assets available-for-sale | | 10 | | **10** | **10** |
| -- *Due from other credit institutions (term)* | | 6,104 | | **6,104** | **6,104** |
| Loans to customers | | | 1,889,143 | **1,889,143** | **1,916,919** |
| Other assets | | | 15,180 | **15,180** | **15,180** |
| **Total financial assets** | **107,695** | **116,284** | **1,904,677** | **2,128,656** | **2,156,432** |
| **Liabilities** | | | | | |
| Due to credit institutions | | 1,541,808 | | **1,541,808** | **1,541,808** |
| Derivatives | 13,817 | | | **13,817** | **13,817** |
| Deposits and other financial liabilities | | | 430,853 | **430,853** | **437,756** |
| Subordinated loan | | | 40,860 | **40,860** | **40,860** |
| Other liabilities | | | 4,854 | **4,854** | **4,854** |
| **Total financial liabilities** | **13,817** | **1,541,808** | **476,567** | **2,032,192** | **2,039,095** |

| Group | | | 2007 | | |
|---|---|---|---|---|---|
| | Quoted market price LVL'000 | Valuation techniques – market observable inputs LVL'000 | Valuation techniques – market unobservable inputs LVL'000 | Total LVL'000 | Balance sheet LVL'000 |
| **Assets** | | | | | |
| Cash and balances with central banks | | 119,551 | | **119,551** | **119,551** |
| Due from other credit institutions (demand) | | 40,512 | | **40,512** | **40,512** |
| Derivatives | | 4,050 | | **4,050** | **4,050** |
| Financial assets designated at fair value through profit or loss | 44,791 | - | 70 | **44,861** | **44,861** |
| Financial assets available-for-sale | | 10 | | **10** | **10** |
| -- *Due from other credit institutions (term)* | | 442 | | **442** | **442** |
| Loans to customers | | | 1,590,985 | **1,590,985** | **1,616,362** |
| Other assets | | | 11,178 | **11,178** | **11,178** |
| **Total financial assets** | **44,791** | **164,565** | **1,602,233** | **1,811,589** | **1,836,966** |
| **Liabilities** | | | | | |
| Due to credit institutions | | 1,327,960 | | **1,327,960** | **1,327,960** |
| Derivatives | 3,255 | | | **3,255** | **3,255** |
| Deposits and other financial liabilities | | | 341,580 | **341,580** | **343,456** |
| Subordinated loan | | | 40,776 | **40,776** | **40,776** |
| Other liabilities | | | 5,172 | **5,172** | **5,172** |
| **Total financial liabilities** | **3,255** | **1,327,960** | **387,528** | **1,718,743** | **1,720,619** |

*Notes to the Financial Statements* (continued)

## 34 FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES (continued)

**Bank**

| | 2008 | | | | |
|---|---|---|---|---|---|
| | **Quoted market price** | **Valuation techniques – market observable inputs** | **Valuation techniques – market unobservable inputs** | **Total** | **Balance sheet** |
| | **LVL'000** | **LVL'000** | **LVL'000** | **LVL'000** | **LVL'000** |
| **Assets** | | | | | |
| Cash and balances with central banks | | 89,328 | | **89,328** | **89,328** |
| Due from other credit institutions (demand) | | 2,902 | | **2,902** | **2,902** |
| Derivatives | 5,593 | | | **5,593** | **5,593** |
| Financial assets designated at fair value through profit or loss | 102,102 | 17,539* | 354 | **119,995** | **119,995** |
| Financial assets available-for-sale | | 10** | | **10** | **10** |
| -- *Due from other credit institutions (term)* | | 6,104 | | **6,104** | **6,104** |
| Loans to customers | | | 1,677,715*** | **1,677,715** | **1,689,895** |
| Other assets | | | 6,512 | **6,512** | **6,512** |
| **Total financial assets** | **107,695** | **115,883** | **1,685,689** | **1,909,267** | **1,921,447** |
| **Liabilities** | | | | | |
| Due to credit institutions | | 1,285,335 | | **1,285,335** | **1,285,335** |
| Derivatives | 13,817 | | | **13,817** | **13,817** |
| Deposits and other financial liabilities | | | 432,926 | **432,926** | **439,829** |
| Subordinated loan | | | 40,860 | **40,860** | **40,860** |
| Other liabilities | | | 620 | **620** | **620** |
| **Total financial liabilities** | **13,817** | **1,285,335** | **474,406** | **1,773,558** | **1,780,461** |

**Bank**

| | 2007 | | | | |
|---|---|---|---|---|---|
| | **Quoted market price** | **Valuation techniques – market observable inputs** | **Valuation techniques – market unobservable inputs** | **Total** | **Balance sheet** |
| | **LVL'000** | **LVL'000** | **LVL'000** | **LVL'000** | **LVL'000** |
| **Assets** | | | | | |
| Cash and balances with central banks | | 119,552 | | **119,552** | **119,552** |
| Due from other credit institutions (demand) | | 40,512 | | **40,512** | **40,512** |
| Derivatives | | 4,050 | | **4,050** | **4,050** |
| Financial assets designated at fair value through profit or loss | 44,791 | - | 70 | **44,861** | **44,861** |
| Financial assets available-for-sale | | 10 | | **10** | **10** |
| -- *Due from other credit institutions (term)* | | 442 | | **442** | **442** |
| Loans to customers | | | 1,416,550 | **1,416,550** | **1,442,269** |
| Other assets | | | 4,081 | **4,081** | **4,081** |
| **Total financial assets** | **44,791** | **164,566** | **1,420,701** | **1,630,058** | **1,655,777** |
| **Liabilities** | | | | | |
| Due to credit institutions | | 1,126,458 | | **1,126,458** | **1,126,458** |
| Derivatives | 3,255 | | | **3,255** | **3,255** |
| Due to customers and other financial liabilities | | | 345,233 | **345,233** | **347,109** |
| Subordinated liabilities | | | 40,776 | **40,776** | **40,776** |
| Other liabilities | | | 841 | **841** | **841** |
| **Total financial liabilities** | **3,255** | **1,126,458** | **386,850** | **1,516,563** | **1,518,439** |

*Notes to the Financial Statements (continued)*

## 34 FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES (continued)

In assessing the differences of fair value to carrying value, management has performed discounted cash flow analysis where financial assets and liabilities are at fixed rates of interest for fixed period. All items where interest rates are pegged to floating market interest rates have not been recalculated; the carrying value is considered equal to fair value.

* The Bank throughout the year and according to the policy has fair valued all instruments based on available market quotes. However, taking into account the negative impact of worldwide financial crisis, the Bank has utilized options offered by the Group and in accordance with IAS 39, to use alternative valuation techniques for instruments with inactive market. The model developed by Nord/LB firstly provides proof of market intensity (active or inactive) and secondly determines a present value on the basis of discounted cash flow model. The main principles are:
1) Each financial instrument is assigned to one of six pre-defined market intensity categories (3 categories correspond to active market and 3 to inactive)
2) The model assesses every single financial instrument on the basis of swap curve taking into account default probability (PDs and LGDs)
3) The theoretical price obtained is compared with the existing public price as published by relevant info providers. Depending on the discrepancy between theoretical and public price, the instrument is allocated to relevant category and the relevant valuation is applied.

** The category contains non-listed financial instruments for which relevant valuation is received from the issuer or originator (VISA and MasterCard shares, DnB Nord Target Fund open-end investment fund securities).

*** *Assets for which fair value approximates carrying value*

For financial asset and liabilities that are liquid or are having a short-term maturity, it is assumed that carrying amounts approximate to their fair value. This assumption is applied to demands deposits, saving accounts without a specific maturity and loans with variable rate that are reprised to the market rate on regular basis.

*Fixed rate loans*

The fair value of fixed rate loans carried at amortized cost is estimated by discounting at the prevailing market rates corresponding to the remaining maturity or reprising date of the loan and taking into account loan currency.

*Notes to the Financial Statements (continued)*

## 35 DISCONTINUED OPERATIONS

Within the framework of DnB NORD Group management optimization process on 31st January 2008 all business activities of AS DnB NORD Banka in Estonia, i.e. the Bank's branch AS DnB NORD Banka Eesti filiaal and subsidiary AS DnB NORD Liising Leasing Company were assigned to the Estonian branch of AS DnB NORD Banka holding company Bank DnB NORD A/S (Denmark) – Bank DnB NORD A/S Eesti filiaal. Investment in AS DnB NORD Liising Leasing Company had a cost of 175 thousand lats shown under caption Investments in the share capital of related companies. Bank's branch in Estonia was part of the Bank's operations, therefore it had no direct cost recognised in the balance sheet.

| | 2008<br>AS DnB NORD Banka Eesti filiaal<br>LVL'000 | 2007<br>AS DnB NORD Banka Eesti filiaal<br>LVL'000 | 2008<br>AS DnB NORD Banka Liising<br>LVL'000 | 2007<br>AS DnB NORD Banka Liising<br>LVL'000 |
|---|---|---|---|---|
| Interest income | | 5,409 | | 1,246 |
| Interest expenses | | (4,360) | | (891) |
| **Net interest income** | - | **1,049** | - | **355** |
| Fees and commission income | | 201 | | 343 |
| Fees and commission expenses | | (41) | | (203) |
| **Net fees and commissions** | - | **160** | - | **140** |
| Net gain from operations with foreign currency, trading securities and derivative financial instruments | | 72 | | (8) |
| Other operating income | | 18 | | - |
| **Operating income** | - | **1,299** | - | **487** |
| Administrative expenses | | (1,305) | | (896) |
| Depreciation | | (27) | | (42) |
| Other operating expenses | | (5) | | (2) |
| Net allowances for impairment loss | | (195) | | - |
| **Profit/Loss before tax from a discontinued operations** | - | **(233)** | - | **(453)** |
| Corporate income tax | | (15) | | - |
| **Profit/Loss after tax for the period from a discontinued operations** | - | (248) | - | (453) |
| **Profit of sale** | **209** | | **328** | |

*Notes to the Financial Statements (continued)*

## 35 DISCONTINUED OPERATIONS (continued)

| | 2007 Group LVL'000 | 2007 Bank LVL'000 |
|---|---|---|
| **Assets** | | |
| Cash and balances with central banks | 14,823 | 14,821 |
| Due from other credit institutions (demand) | 1,866 | 1,866 |
| Loans and advances | 168,665 | 113,090 |
| *-- Loans to customers* | *164,942* | *113,090* |
| Accrued income and deferred expenses | 87 | 87 |
| Fixed assets | 489 | 102 |
| Intangible assets | 72 | 72 |
| Other assets | 1,852 | 16 |
| **Total assets** | **184,131** | **130,054** |
| **Liabilities** | | |
| Financial liabilities at amortised cost: | 187,318 | 130,166 |
| *-- Due to credit institutions* | *181,698* | *124,546* |
| *-- Deposits from customers* | *5,618* | *5,618* |
| *-- Other financial liabilities* | *2* | *2* |
| Accrued expenses and deferred income | 232 | 93 |
| Other liabilities | 870 | 43 |
| **Total liabilities** | **188,420** | **130,302** |
| **Shareholders` equity** | | |
| Accumulated result | (741) | (248) |
| **Total shareholders` equity** | **(741)** | **(248)** |
| **Total liabilities and shareholders` equity** | **187,679** | **130,054** |

Figures for the Bank include data on Bank's branch, while for the Group it also includes data on the disposed subsidiary. Both of investments were sold before 31 December 2008, therefore the assets and liabilities classified as part of a disposal group held for sale are no longer included in the balance sheet.

## 36 CAPITAL ADEQUACY

The capital of DnB NORD Group is calculated and allocated for the risk coverage following the Regulations for calculating the minimum capital requirements for the Calculation of Capital Adequacy approved by the Financial and Capital Market Commission Board. The Group's objectives when managing capital are:

1) to comply with the capital requirements set by the Financial and Capital Market Commission as well as the higher target capital requirements set by major shareholder,
2) to safeguard the Bank's and the Group's ability to continue as a going concern so that it can provide returns for shareholders and benefits for other stakeholders,
3) to support the development of the Group's business with the help of the strong capital base.

Capital adequacy report is submitted to the supervising authority monthly in accordance with the Financial and Capital Market Commission requirements.

Additional capital need for credit, operational, market and liquidity risk is subject to the regular stress-testing.
The Group's regulatory capital is divided into two tiers:
1) Tier 1 capital consists of the ordinary shares, share premium, mandatory reserve, retained earnings of the previous financial year, the audited profit of current financial year, negative revaluation reserve of financial assets and less the intangible assets and part of investments to financial institutions,
2) Tier 2 capital consists of subordinated loans, other reserves.

*Notes to the Financial Statements* (continued)

## 36 CAPITAL ADEQUACY (continued)

The risk-weighted assets are measured by means of risk weights classified according to the nature of each assets and counterparty. A similar treatment with some adjustments is adopted for the off-balance sheet exposures.

In 2008 the Group's capital adequacy ratio is 11,16% and the Bank's – 11,02% (2007: 9,05%; 9,06%).

It should be noted that the capital ratios for the end of the year 2007 and 2008 cannot be compared reliably since the new capital requirements (Basel II) came into force from the 1 January, 2008 and from this date on the capital requirements are calculated following the new requirements.

The standardized approach is used for the regulatory capital requirements calculation for the credit, market and operational risks both at the Bank and the Group level. For credit risk capital requirement calculation the Bank uses the rating agency Moody's ratings for counterparty risk assessment.

| | **2008 Group LVL'000** | **2008 Bank LVL'000** |
|---|---|---|
| Total own funds for solvency purposes | **182,202** | **182,246** |
| Original own funds | 142,049 | 141,846 |
| Eligible Capital | 148,155 | 148,155 |
| Of which: Non-innovative instruments subject to limit | 148,155 | 148,155 |
| --Paid up capital | 99,161 | 99,161 |
| --Share premium | 48,994 | 48,994 |
| Eligible Reserves | (4,892) | (5,253) |
| -Reserves | (4,892) | (5,253) |
| Reserves (including valuation differences) | (4,892) | (5,253) |
| Income from current year when it is unaudited | 5,025 | 6,209 |
| Other deductions from Original Own Funds | (1,214) | (809) |
| -- Intangible assets | (1,214) | (809) |
| Additional own funds | 40,153 | 40,153 |
| Core Additional Own Funds | 93 | 93 |
| --Revaluation reserves | 93 | 93 |
| Supplementary Additional Own Funds | 40,060 | 40,060 |
| --Subordinated loan capital | 40,060 | 40,060 |
| Memorandum item: | | |
| Own Funds relevant for limits to large exposures when additional capital to cover market risks is not used AND for limits to qualifying participating interests | 182,202 | 182,246 |
| Total original own funds for general solvency purposes | 142,049 | 141,846 |
| Total additional own funds for general solvency purposes | 40,153 | 40,153 |
| Memorandum item: | | |
| Total own funds relevant for the limits of large exposures when additional capital to cover market risks is used | 182,202 | 182,246 |

*Notes to the Financial Statements (continued)*

## 36 CAPITAL ADEQUACY (continued)

| | 2008 Group LVL'000 | 2008 Bank LVL'000 |
|---|---|---|
| **Capital requirements** | **130,593** | **132,352** |
| Total capital requirements for credit, counterparty credit and dilution risks and free deaneries | 124,198 | 126,038 |
| Standardised approach (SA) | 124,198 | 126,038 |
| SA exposure classes excluding securitization positions | 124,198 | 126,038 |
| --Central governments or central banks | 112 | 107 |
| --Regional governments or local authorities | 617 | 617 |
| --Administrative bodies and non-commercial undertakings | 58 | 58 |
| --Institutions | 1,765 | 1,765 |
| --Corporate | 54,900 | 69,082 |
| --Retail | 42,960 | 33,972 |
| --Secured by real estate property | 13,419 | 13,419 |
| --Past due items | 5,327 | 5,327 |
| --Covered bonds | 53 | 53 |
| --Short-term claims on institutions and corporate | 53 | 53 |
| --Other items | 4,934 | 1,585 |
| Total capital requirements for position foreign Exchange and commodity risks | 326 | 246 |
| Position, foreign exchange and commodity risks under standardised approaches (SA) | 326 | 246 |
| -Foreign Exchange | 326 | 246 |
| Total capital requirements for operational risks (OpR ) | 6,068 | 6,068 |
| OpR Basic indicator approach (BIA) | 6,068 | 6,068 |
| **Memorandum items:** | | |
| Surplus / Deficit of own funds, before other and transitional capital requirements | 51,608 | 49,647 |
| Solvency ratio (%), before other and transitional capital requirements | 11,16% | 11% |
| Surplus/ Deficit of own funds | 51,608 | 49,647 |
| Solvency ratio (%) | 11,16% | 11,02% |
| Internal assessment Surplus / Deficit of capital | | |
| Internal assessment of capital | 182,202 | 182,246 |
| Internal assessment of capital needs | 158,895 | 161,444 |

After implementation of the ICAAP the Group started to calculate the internal capital for the risks not covered or not fully covered by the Pillar I capital.
The concentration risk is assessed for asset classes exposed to credit risk and is measured by the means of Hirschman–Herfindahl index. Besides the imposed limits on lending the Group calculates the internal capital requirement for concentration risk according to the estimated risk level.
As the regulatory capital requirement is calculated for the interest rate risk arising from the trading book, the Group additionally assesses and calculates the internal capital requirement for the interest rate risk arising from the banking book. The approach and the parameters used for this calculation are the same as the ones for evaluating the stress testing possible case scenario losses.
For evaluation of business risk the group uses the self – assessment which serves as a base for expert opinion about capital requirement for business risk.

The Bank calculates the internal capital requirement as Pillar I capital according to regulatory requirements adjusted by the amounts evaluated for the risks identified during ICAAP.

*Notes to the Financial Statements (continued)*

## 37 MATURITY ANALYSIS OF ASSETS AND LIABILITIES

The table below allocates the Group's assets and liabilities to maturity groupings based on the time remaining from the balance sheet date to the contractual maturity dates. The maturity analysis of assets and liabilities as at 31 December 2008 was as follows:

| | Up to 1 month LVL'000 | 1 – 3 months LVL'000 | 3 – 12 months LVL'000 | Over 12 months LVL'000 | Total LVL'000 |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Cash and balances with the Central banks | 89,328 | | | | 89,328 |
| Due from other credit institutions (demand) | 3,303 | | | | 3,303 |
| Financial assets held for trading | 3,694 | | 66 | 1,833 | 5,593 |
| Financial assets at fair value through profit or loss | 18,022 | 20,676 | 17,417 | 63,880 | 119,995 |
| Financial assets available-for-sale | | | | 10 | 10 |
| Loans and advances | 63,456 | 135,067 | 273,705 | 1,450,795 | 1,923,023 |
| -- *Due from other credit institutions (term)* | 1 | | 706 | 5,397 | 6,104 |
| -- *Loans to customers* | 63,455 | 135,067 | 273,999 | 1,445,398 | 1,916,919 |
| Accrued income and deferred expenses | 659 | 114 | | | 773 |
| Fixed assets | | | | 28,996 | 28,996 |
| Intangible assets | | | | 1,214 | 1,214 |
| Investments in the share capital of related companies | | | | - | - |
| Other assets | 8,851 | 6,809 | 1,780 | 387 | 17,827 |
| **Total assets** | **187,313** | **162,666** | **292,968** | **1,547,115** | **2,190,062** |
| | | | | | |
| **Liabilities** | | | | | |
| Liabilities to central bank | | | | | - |
| Liabilities to credit institutions (demand) | 7,703 | | | | 7,703 |
| Financial liabilities held for trading | 11,393 | | 77 | 2,347 | 13,817 |
| Financial liabilities at amortised cost: | 499,118 | 239,837 | 319,547 | 913,359 | 1,971,861 |
| -- *Due to credit institutions (term)* | 194,810 | 187,555 | 241,622 | 910,118 | 1,534,105 |
| -- *Deposits from customers* | 295,786 | 52,282 | 77,925 | 3,241 | 429,234 |
| -- *Other financial liabilities* | 8,522 | | | | 8,522 |
| Accrued expenses and deferred income | 1,292 | | | | 1,292 |
| Income tax liabilities | | | | 1,255 | 1,255 |
| Other liabilities | 2,892 | 1,071 | 171 | 720 | 4,854 |
| Subordinated loan | | | | 40,860 | 40,860 |
| **Total liabilities** | 522,398 | 242,047 | 319,795 | 958,541 | 2,041,642 |
| **Shareholders` equity** | | | | 148,420 | 148,420 |
| | | | | | |
| **Total liabilities and shareholders` equity** | **522,398** | **240,908** | **319,795** | **1,106,961** | **2,190,062** |
| | | | | | |
| Contingent liabilities | 3,969 | 1,268 | 7,180 | 16,741 | 29,158 |
| Commitments | 44,415 | 52,439 | 22,976 | 13,686 | 13,516 |
| | | | | | |
| **Liquidity risk** | **(383,469)** | **(131,949)** | **(56,983)** | **409,727** | |

*Notes to the Financial Statements (continued)*

## 37 MATURITY ANALYSIS OF ASSETS AND LIABILITIES (continued)

The table below allocates the Group's assets and liabilities to maturity groupings based on the time remaining from the balance sheet date to the contractual maturity dates. The maturity analysis of assets and liabilities as at 31 December 2007 was as follows:

| | Up to 1 month LVL'000 | 1 – 3 months LVL'000 | 3 – 12 months LVL'000 | Over 12 months LVL'000 | Total LVL'000 |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Cash and balances with the Central banks | 119,551 | - | - | - | 119,551 |
| Due from other credit institutions (demand) | 14,892 | - | - | - | 14,892 |
| Loans and advances to customers | 60,471 | 100,464 | 252,498 | 1,202,959 | 1,616,362 |
| Financial assets at fair value through profit or loss | 741 | 268 | 16 | 43,846 | 44,871 |
| Financial assets held for trading | 4,050 | - | - | - | 4,050 |
| Due from other credit institutions (term) | 25,620 | - | - | 442 | 26,062 |
| Property and equipment | - | - | - | 32,454 | 32,454 |
| Intangible fixed assets | - | - | - | 1,057 | 1,057 |
| Accrued income and other assets | 192,556 | 3,149 | 597 | 354 | 196,656 |
| **Total assets** | **417,881** | **103,881** | **253,081** | **1,281,112** | **2,055,955** |
| **Liabilities** | | | | | |
| Due to other credit institutions | 37,929 | - | - | - | 37,929 |
| Due to customers | 253,045 | 43,267 | 44,710 | 2,434 | 343,456 |
| Financial assets held for trading | 3,255 | - | - | - | 3,255 |
| Due to other credit institutions (term) | 122,339 | 280,873 | 237,416 | 649,403 | 1 290,031 |
| Accrued expenses and other liabilities | 192,924 | 1,556 | 449 | 2,580 | 197,509 |
| Subordinated loan | 229 | 461 | 26 | 40,060 | 40,776 |
| Capital and reserves | - | - | - | 142,999 | 142,999 |
| **Total liabilities** | **609,721** | **326,157** | **282,601** | **837,476** | **2,055,955** |
| Contingent liabilities | 1,885 | 3,575 | 10,944 | 13,320 | 29,724 |
| Commitments | 91,830 | 44,633 | 31,294 | 9,108 | 176,865 |
| **Liquidity risk** | **(285,555)** | **(270,484)** | **(71,758)** | **421,208** | |

*Notes to the Financial Statements (continued)*

## 37 MATURITY ANALYSIS OF ASSETS AND LIABILITIES (continued)

The table below allocates the Bank's assets and liabilities to maturity groupings based on the time remaining from the balance sheet date to the contractual maturity dates. The maturity analysis of assets and liabilities as at 31 December 2008 was as follows:

| | Up to 1 month LVL'000 | 1 – 3 months LVL'000 | 3 – 12 months LVL'000 | Over 12 months LVL'000 | Total LVL'000 |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Cash and balances with the Central banks | 89,328 | | | | 89,328 |
| Due from other credit institutions (demand) | 2,902 | | | | 2,902 |
| Financial assets held for trading | 3,694 | | 66 | 1,833 | 5,593 |
| Financial assets at fair value through profit or loss | 18,022 | 20,676 | 17,417 | 63,880 | 119,995 |
| Financial assets available-for-sale | | | | 10 | 10 |
| Loans and advances | 53,913 | 73,885 | 235,856 | 1,332,345 | 1,695,999 |
| *-- Due from other credit institutions (term)* | 1 | | 706 | 5,397 | 6,104 |
| *-- Loans to customers* | 53,912 | 73,885 | 235,150 | 1,326,948 | 1,689,895 |
| Accrued income and deferred expenses | 659 | | | | 659 |
| Fixed assets | | | | 7,233 | 7,233 |
| Intangible assets | | | | 809 | 809 |
| Investments in the share capital of related companies | | | | 987 | 987 |
| Other assets | **8,772** | | | **387** | **9,159** |
| **Total assets** | **177,290** | **94,561** | **253,339** | **1,407,484** | **1,932,674** |
| | | | | | |
| **Liabilities** | | | | | |
| Liabilities to central bank | | | | | - |
| Liabilities to credit institutions (demand) | 7,703 | | | | 7,703 |
| Financial liabilities held for trading | 11,393 | | 77 | 2,347 | 13,817 |
| Financial liabilities at amortised cost: | 465,463 | 239,773 | 319,758 | 692,467 | 1,717,461 |
| *-- Due to credit institutions (term)* | 159,293 | 187,491 | 241,622 | 689,226 | 1,277,632 |
| *-- Deposits from customers* | 297,648 | 52,282 | 78,136 | 3,241 | 431,307 |
| *-- Other financial liabilities* | 8,522 | | | | 8,522 |
| Accrued expenses and deferred income | 1,275 | | | | 1,275 |
| Income tax liabilities | | | | 556 | 556 |
| Other liabilities | 1,759 | | | | 1,759 |
| Subordinated loan | | | | 40,860 | 40,860 |
| **Total liabilities** | 487,593 | 239,773 | 319,835 | 736,230 | 1,783,431 |
| **Shareholders` equity** | | | | 149,243 | 149,243 |
| | | | | | |
| **Total liabilities and shareholders` equity** | **487,593** | **239,773** | **319,835** | **885,473** | **1,932,674** |
| | | | | | |
| Contingent liabilities | 3,969 | 1,268 | 7,180 | 237,632 | 250,049 |
| Commitments | 44,415 | 52,439 | 22,976 | 13,686 | 13,516 |
| | | | | | |
| **Liquidity risk** | **(358,687)** | **(198,919)** | **(96,652)** | **270,693** | |

*Notes to the Financial Statements (continued)*

## 37 MATURITY ANALYSIS OF ASSETS AND LIABILITIES (continued)

The table below allocates the Bank's assets and liabilities to maturity groupings based on the time remaining from the balance sheet date to the contractual maturity dates. The maturity analysis of assets and liabilities as at 31 December 2007 was as follows:

| | Up to 1 month LVL'000 | 1 – 3 months LVL'000 | 3 – 12 months LVL'000 | Over 12 months LVL'000 | Total LVL'000 |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| Cash and balances with the Central banks | 119,551 | - | - | - | 119,551 |
| Due from other credit institutions (demand) | 14,892 | - | - | - | 14,892 |
| Loans and advances to customers | 54,300 | 65,799 | 239,577 | 1 082,593 | 1 442,269 |
| Financial assets at fair value through profit or loss | 741 | 268 | 16 | 43,846 | 44,871 |
| Investment in subsidiaries | | | | 710 | 710 |
| Financial assets held for trading | 4,050 | - | - | - | 4,050 |
| Due from other credit institutions (term) | 25,620 | - | - | 442 | 26,062 |
| Property and equipment | - | - | - | 7,523 | 7,523 |
| Intangible fixed assets | - | - | - | 817 | 817 |
| Accrued income and other assets | 134,298 | 646 | 354 | 38 | 135,336 |
| **Total assets** | **353,453** | **66,713** | **239,947** | **1,135,969** | **1,796,082** |
| **LIABILITIES** | | | | | |
| Balances due to other credit institutions (demand) | 37,929 | - | - | - | 37,929 |
| Due to customers | 256,549 | 43,416 | 40,777 | 6,367 | 347,109 |
| Financial assets held for trading | 3,255 | - | - | - | 3.255 |
| Due to other credit institutions (term) | 122,100 | 280,873 | 237,416 | 448,140 | 1 088,529 |
| Accrued expenses and other liabilities | 133,926 | 975 | 140 | 409 | 135,450 |
| Subordinated loan | 229 | 461 | 26 | 40,060 | 40,776 |
| Capital and reserves | - | - | - | 143,034 | 143,034 |
| **Total liabilities** | **553,988** | **325,725** | **278,359** | **639,010** | **1,796,082** |
| Contingent liabilities | 1,885 | 3,575 | 10,944 | 271,840 | 288,244 |
| Commitments | 91,830 | 44,633 | 31,294 | 9,108 | 176,865 |
| **Liquidity risk** | **(294,250)** | **(307,220)** | **(80,650)** | **217,011** | |

*Notes to the Financial Statements (continued)*

37 **MATURITY ANALYSIS OF ASSETS AND LIABILITIES** (continued)

| | 31 December 2008 | | 31 December 2007 | |
|---|---|---|---|---|
| | 1 week | 1 month | 1 week | 1 month |
| **Liquidity gap** | 36,603 | (162,944) | (45,060) | (152,062) |
| **Limit** | (193,271) | (193,271) | (189,757) | (189,757) |

Funding ratio shows how stable is the Bank's situation in terms of funding. The limit of funding ratio is 0,85, which means that not less than 85% of all loans to customers should be funded with the long term liabilities and equity. The ratio shows the proportion by which loans to customers are covered by the long term funding.

| | 31 December 2008 | 31 December 2007 |
|---|---|---|
| **Funding ratio** | 0,88 | 0,88 |

Note 37 analyzes assets and liabilities of the Bank into relevant maturity groupings based on the remaining period at balance sheet date to the contractual maturity date as well as the liquidity ratio requirement set by the Financial and Capital Market Commission.

**Funding approach**
After joining the international DnB NORD Group, the Bank has a possibility of attracting funding at minimum cost. The parent Banks DnB NOR (counterparty credit rating being AA-/Negative/A-1+ (Standard & Poor's) provided 14 April, 2008) and NORD/LB (counterparty credit rating being A/Negative/A-1 (Standard & Poor's) provided 24 July, 2007) are the lenders of last resort and provide the financing for the Bank in the cases of faltered liquidity.

*Notes to the Financial Statements (continued)*

## 37 MATURITY ANALYSIS OF ASSETS AND LIABILITIES (continued)

The following table represents the analysis of the contractual remaining cash flows of financial liabilities.

The table below allocates the Group's financial liabilities cash flows as at 31 December 2008:

| | Up to 1 month | 1-3 months | 3-12 months | 1-5 years | >5 years | Total |
|---|---|---|---|---|---|---|
| | LVL'000 | LVL'000 | LVL'000 | LVL'000 | LVL'000 | LVL'000 |
| Short term funding | (152,445) | (191,781) | (51,855) | - | (11,237) | **(396,081)** |
| Long term funding | (18,176) | (7,747) | (223,329) | (928,816) | (11,237) | **(1,189,305)** |
| Subordinated loans | (194) | (370) | (1,724) | (9,160) | (44,304) | **(55,752)** |
| Term deposits | (79,728) | (51,854) | (66,612) | (75,731) | (177) | **(274,102)** |
| **Derivatives:** | | | | | | |
| Derivatives settled on a gross basis | | | | | | |
| Currency SWAPs | | | | | | |
| inflow | 134,016 | 32,071 | 1,429 | - | - | **167,516** |
| outflow | (131,923) | (31,332) | (1,440) | - | - | **(164,695)** |
| Foreign exchange derivatives | | | | | | |
| inflow | 60,843 | - | 693 | - | - | **61,536** |
| outflow | (60,709) | - | (794) | - | - | **(61,504)** |
| Derivatives settled on a net basis | (1,158) | (319) | (3,796) | (19,124) | (1,933) | **(26,328)** |
| **Total** | **(117,551)** | **(251,332)** | **(347,428)** | **(1,032,831)** | **(68,888)** | **(1,938,715)** |

The table below allocates the Bank's financial liabilities cash flows as at 31 December 2008:

| | Up to 1 month | 1-3 months | 3-12 months | 1-5 years | >5 years | Total |
|---|---|---|---|---|---|---|
| | LVL'000 | LVL'000 | LVL'000 | LVL'000 | LVL'000 | LVL'000 |
| Short term funding | (152,445) | (191,781) | (51,885) | - | - | **(396,081)** |
| Long term funding | (17,527) | (6,513) | (217,579) | (705,066) | (11,237) | **(957,922)** |
| Subordinated loans | (194) | (370) | (1,724) | (9,160) | (44,304) | **(55,752)** |
| Term deposits | (79,728) | (51,854) | (66,612) | (75,731) | (177) | **(274,102)** |
| **Derivatives:** | | | | | | |
| Derivatives settled on a gross basis | | | | | | |
| Currency SWAPs | | | | | | |
| inflow | 134,016 | 32,071 | 1,429 | - | - | **167,516** |
| outflow | (131,923) | (31,332) | (1,440) | - | - | **(164,695)** |
| Foreign exchange derivatives | | | | | | |
| inflow | 60,843 | - | 693 | - | - | **61,536** |
| outflow | (60,709) | - | (794) | - | - | **(61,504)** |
| Derivatives settled on a net basis | (1,158) | (319) | (3,796) | (19,124) | (1,933) | **(26,328)** |
| **Total** | **(248,825)** | **(250,098)** | **(341,708)** | **(809,081)** | **(57,651)** | **(1,707,132)** |

*Notes to the Financial Statements (continued)*

## 37 MATURITY ANALYSIS OF ASSETS AND LIABILITIES (continued)

The table below allocates the Group's financial liabilities cash flows as at 31 December 2007:

| | Up to 1 month LVL'000 | 1-3 months LVL'000 | 3-12 months LVL'000 | 1-5 years LVL'000 | >5 years LVL'000 | Total LVL'000 |
|---|---|---|---|---|---|---|
| Short term funding | (134,149) | (128,254) | (33,740) | - | - | **(296,143)** |
| Long term funding | (39,447) | (88,753) | (615,702) | (337,325) | (14,372) | **(1,095,419)** |
| Subordinated loans | (179) | (347) | (1,589) | (8,442) | (46,179) | **(56,736)** |
| Term deposits | (104,666) | (42,605) | (46,597) | (5,166) | (23) | **(199,057)** |
| **Derivatives:** | | | | | | |
| Derivatives settled on a gross basis | | | | | | |
| Currency SWAPs | | | | | | |
| inflow | 25,840 | 85,353 | - | 1,429 | - | **112,622** |
| outflow | (25,831) | (74,659) | - | (1,440) | - | **(101,930)** |
| Foreign exchange derivatives | | | | | | |
| inflow | 886 | 562 | - | 601 | - | **2,049** |
| outflow | (991) | (562) | - | (605) | - | **(2,158)** |
| Derivatives settled on a net basis | **(440)** | **825** | (2,350) | (17,476) | - | **(19,441)** |
| Total | **(278,977)** | **(248,440)** | **699,978** | **(368,424)** | **(60,574)** | **(1,656,213)** |

The table below allocates the Bank's financial liabilities cash flows as at 31 December 2007:

| | Up to 1 month LVL'000 | 1-3 months LVL'000 | 3-12 months LVL'000 | 1-5 years LVL'000 | >5 years LVL'000 | Total LVL'000 |
|---|---|---|---|---|---|---|
| Short term funding | (134,149) | (128,254) | (33,740) | - | - | **(296,143)** |
| Long term funding | (38,620) | (86,971) | (408,252) | (337,325) | (14,372) | **(885,540)** |
| Subordinated loans | (179) | (347) | (1,589) | (8,442) | (46,179) | **(56,736)** |
| Term deposits | (104,666) | (42,605) | (46,597) | (5,166) | (23) | **(199,057)** |
| **Derivatives:** | | | | | | |
| Derivatives settled on a gross basis | | | | | | |
| Currency SWAPs | | | | | | |
| inflow | 25,840 | 85,353 | - | 1,429 | - | **112,622** |
| outflow | (25,831) | (74,659) | - | (1,440) | - | **(101,930)** |
| Foreign exchange derivatives | | | | | | |
| inflow | 886 | 562 | - | 601 | - | **2,049** |
| outflow | (991) | (562) | - | (605) | - | **(2,158)** |
| Derivatives settled on a net basis | **(441)** | **825** | (2,350) | (17,476) | - | **(19,441)** |
| Total | **(278,151)** | **(246,658)** | **492,528** | **350,933** | **60,574** | **(1,446,334)** |

*Notes to the Financial Statements (continued)*

## 38 CURRENCY ANALYSIS

The currency analysis of assets and liabilities by currency profile of the Group as at 31 December 2008 was as follows:

| | LVL | USD | EUR | Other currencies | Total LVL'000 |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Cash and balances with the Central banks | 84,226 | 1,067 | 3,754 | 281 | 89,328 |
| Due from other credit institutions (demand) | 106 | 1,066 | 1,101 | 1,030 | 3,303 |
| Financial assets held for trading | 3,681 | - | 1,912 | - | 5,593 |
| Financial assets at fair value through profit or loss | 63,330 | - | 56,665 | - | 119,995 |
| Financial assets available-for-sale | - | - | 10 | - | 10 |
| Loans and advances | 54,878 | 81,957 | 1,750,032 | 36,156 | 1,923,023 |
| -- *Due from other credit institutions (term)* | - | 464 | 5,640 | - | 6,104 |
| -- *Loans to customers* | 54,878 | 81,493 | 1,744,392 | 36,156 | 1,916,919 |
| Accrued income and deferred expenses | 743 | 3 | 28 | - | 773 |
| Fixed assets | 28,996 | - | - | - | 28,996 |
| Intangible assets | 1,214 | - | - | - | 1,214 |
| Investments in the share capital of related companies | - | - | - | - | - |
| Other assets | 170,359 | 3,142 | (155,609) | (65) | 17,827 |
| incl. unsettled dealing operations on balance sheet | 155,999 | 2,685 | (155,746) | (108) | 2,830 |
| **Total assets** | **470,533** | **87,234** | **1,657,893** | **37,402** | **2,190,062** |
| | | | | | |
| **Liabilities** | | | | | |
| Liabilities to central bank | | | | | |
| Liabilities to credit institutions (demand) | 2,614 | 3,419 | 1,482 | 188 | 7,703 |
| Financial liabilities held for trading | 10,209 | - | 3,608 | - | 13,817 |
| Financial liabilities at amortised cost: | 213,973 | 82,989 | 1,637,999 | 36,900 | 1,971,861 |
| -- *Due to credit institutions (term)* | 32,048 | 46,495 | 1,419,849 | 35,713 | 1,534,105 |
| -- *Deposits from customers* | 178,498 | 35,626 | 214,038 | 1,072 | 429,234 |
| -- *Other financial liabilities* | 3,427 | 868 | 4,112 | 115 | 8,522 |
| Accrued expenses and deferred income | 1,022 | 51 | 219 | - | 1,292 |
| Income tax liabilities | 1,255 | - | - | - | 1,255 |
| Other liabilities | 2,749 | 1 | 2,104 | - | 4,854 |
| Subordinated loan | - | - | 40,860 | - | 40,860 |
| **Total liabilities** | 231,822 | 86,460 | 1,686,272 | 37,088 | 2,041,642 |
| **Shareholders` equity** | 148,420 | - | - | - | 148,420 |
| | | | | | |
| **Total liabilities and shareholders` equity** | **380,242** | **86,460** | **1,686,272** | **37,088** | **2,190,062** |
| | | | | | |
| **Off-balance sheet claims arising from foreign exchange** | | | | | |
| Spot foreign exchange receivable | 2,833 | 489 | 562 | - | 3,884 |
| Forward foreign exchange receivable | 31,753 | 808 | 193,565 | 73 | 226,199 |
| **Total foreign exchange receivable** | *34,586* | *1,297* | *194,127* | *73* | *230,083* |
| **Off-balance sheet claims arising from foreign exchange** | | | | | |
| Spot foreign exchange payable | - | 558 | 3,303 | - | 3,861 |
| Forward foreign exchange payable | 193,558 | 3,051 | 32,430 | 13 | 229,052 |
| **Total foreign exchange payable** | *193,558* | *3,609* | *35,733* | *13* | *232,913* |
| *Net long/ (short) position on foreign exchange* | (158,972) | (2,312) | 158,394 | 60 | (2,830) |
| ***Net long/ (short) position*** | **(2,973)** | **373** | **2,648** | **(48)** | - |

*Notes to the Financial Statements (continued)*

## 38 CURRENCY ANALYSIS (continued)

The currency analysis of assets and liabilities by currency profile of the Group as at 31 December 2007 was as follows:

| | LVL | USD | EUR | Other currencies | Total LVL'000 |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Cash and balances with the Central banks | 114,177 | 1,211 | 3,841 | 322 | 119,551 |
| Due from other credit institutions (demand) | 5,004 | 2,832 | 1,054 | 6,002 | 14,892 |
| Loans and advances to customers | 60,839 | 63,818 | 1 491,690 | 15 | 1,616,362 |
| Financial assets at fair value through profit or loss | 7,882 | - | 36,989 | - | 44,871 |
| Financial assets held for trading | 4,050 | - | - | - | 4,050 |
| Due from other credit institutions (term) | 25,562 | 444 | - | 56 | 26,062 |
| Property and equipment | 8,666 | 25 | 23,628 | 135 | 32,454 |
| Intangible fixed assets | 930 | - | 58 | 69 | 1,057 |
| Accrued income and other assets | 91,375 | 14,177 | 89,584 | 1,520 | 196,656 |
| incl. unsettled dealing operations on balance sheet | 86,616 | 13,732 | (99,766) | 89 | 671 |
| **Total assets** | **318,485** | **82,507** | **1 646,844** | **8,119** | **2,055,955** |
| **Liabilities** | | | | | |
| Due to other credit institutions (demand) | 4,032 | 26,744 | 7,150 | 3 | 37,929 |
| Due to customers | 146,573 | 35,713 | 154,285 | 6,885 | 343,456 |
| Financial assets held for trading | 3,255 | - | - | - | 3,255 |
| Due to other credit institutions (term) | 15,642 | 18,870 | 1 243,969 | 11,550 | 1 290,031 |
| Accrued expenses and other liabilities | 5,427 | 892 | 191,190 | - | 197,509 |
| Subordinated loan | - | - | 40,776 | - | 40,776 |
| Capital and reserves | 142,999 | - | - | - | 142,999 |
| **Total liabilities** | **317,928** | **82,219** | **1 637,370** | **18,438** | **2,055,955** |
| **Off-balance sheet claims arising from foreign exchange** | | | | | |
| Spot foreign exchange receivable | 2,091 | - | 1,764 | 1,392 | 5,247 |
| Forward foreign exchange receivable | 86,965 | 15,019 | 2,535 | 270 | 104,789 |
| **Total foreign exchange receivable** | *89,056* | *15,019* | *4,299* | *1,662* | *110,036* |
| **Off-balance sheet claims arising from foreign exchange** | | | | | |
| Spot foreign exchange payable | - | 484 | 3,501 | 1,296 | 5,281 |
| Forward foreign exchange payable | 2,318 | 496 | 100,981 | 289 | 104,084 |
| **Total foreign exchange payable** | *2,318* | *980* | *104,482* | *1,585* | *109,365* |
| *Net long/ (short) position on foreign exchange* | 86,738 | 14,039 | (100,183) | 77 | 671 |
| ***Net long/ (short) position*** | **(122)** | **(307)** | **417** | **12** | **-** |

*Notes to the Financial Statements (continued)*

## 38 CURRENCY ANALYSIS (continued)

The currency analysis of assets and liabilities by currency profile of the Bank as at 31 December 2008 was as follows:

| | LVL | USD | EUR | Other currencies | Total LVL'000 |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Cash and balances with the Central banks | 84,226 | 1,067 | 3,754 | 281 | 89,328 |
| Due from other credit institutions (demand) | 13 | 1,066 | 793 | 1,030 | 2,902 |
| Financial assets held for trading | 3,681 | | 1,912 | - | 5,593 |
| Financial assets at fair value through profit or loss | 63,330 | - | 56,665 | - | 119,995 |
| Financial assets available-for-sale | - | - | 10 | - | 10 |
| Loans and advances | 59,547 | 81,178 | 1,554,630 | 644 | 1,695,999 |
| -- *Due from other credit institutions (term)* | - | 464 | 5,640 | - | 6,104 |
| -- *Loans to customers* | 59,547 | 80,714 | 1,548,990 | 644 | 1,689,895 |
| Accrued income and deferred expenses | 629 | 3 | 28 | - | 659 |
| Fixed assets | 7,233 | - | - | - | 7,233 |
| Intangible assets | 809 | - | - | - | 809 |
| Investments in the share capital of related companies | 987 | - | - | - | 987 |
| Other assets | 161,719 | 3,142 | (155,636) | (65) | 9,159 |
| incl. unsettled dealing operations on balance sheet | 155,999 | 2,685 | (155,746) | (108) | 2,830 |
| **Total assets** | **382,173** | **86,455** | **1,462,156** | **1,890** | **1,932,674** |
| | | | | | |
| **Liabilities** | | | | | |
| Liabilities to central bank | | | | | |
| Liabilities to credit institutions (demand) | 2,614 | 3,419 | 1,482 | 188 | 7,703 |
| Financial liabilities held for trading | 10,209 | | 3,608 | | 13,817 |
| Financial liabilities at amortised cost: | 214,379 | 82,989 | 1,418,391 | 1,702 | 1,717,461 |
| -- *Due to credit institutions (term)* | 32,048 | 46,495 | 1,198,574 | 515 | 1,277,632 |
| -- *Deposits from customers* | 178,904 | 35,626 | 215,705 | 1,072 | 431,307 |
| -- *Other financial liabilities* | 3,427 | 868 | 4,112 | 115 | 8,522 |
| Accrued expenses and deferred income | 1,005 | 51 | 219 | - | 1,275 |
| Income tax liabilities | 556 | - | - | - | 556 |
| Other liabilities | 1,584 | 1 | 174 | - | 1,759 |
| Subordinated loan | - | - | 40,860 | - | 40,860 |
| **Total liabilities** | 230,347 | 86,460 | 1,464,734 | 1,890 | 1,783,431 |
| **Shareholders` equity** | 149,243 | - | - | - | 149,243 |
| | | | | | |
| **Total liabilities and shareholders` equity** | **379,590** | **86,460** | **1,464,734** | **1,890** | **1,932,674** |
| | | | | | |
| **Off-balance sheet claims arising from foreign exchange** | | | | | |
| Spot foreign exchange receivable | 2,833 | 489 | 562 | - | 3,884 |
| Forward foreign exchange receivable | 31,753 | 808 | 193,565 | 73 | 226,199 |
| **Total foreign exchange receivable** | *34,586* | *1,297* | *194,127* | *73* | *230,083* |
| **Off-balance sheet claims arising from foreign exchange** | | | | | |
| Spot foreign exchange payable | | 558 | 3,303 | - | 3,861 |
| Forward foreign exchange payable | 193,558 | 3,051 | 32,430 | 13 | 229,052 |
| **Total foreign exchange payable** | *193,558* | *3,609* | *35,733* | *13* | *232,913* |
| *Net long/ (short) position on foreign exchange* | (158,972) | (2,312) | 158,394 | 60 | (2,830) |
| ***Net long/ (short) position*** | **(2,937)** | **(373)** | **2,648** | **(48)** | **-** |

* Other assets include open dealing amounts that are shown net in the balance sheet in the amount of LVL2,830 thousand.

*Notes to the Financial Statements (continued)*

## 38 CURRENCY ANALYSIS (continued)

The currency analysis of assets and liabilities by currency profile of the Bank as at 31 December 2007 was as follows:

| | LVL | USD | EUR | Other currencies | Total LVL'000 |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Cash and balances with the Central banks | 114,177 | 1,211 | 3,841 | 322 | 119,551 |
| Due from other credit institutions (demand) | 5,004 | 2,832 | 1,054 | 6,002 | 14,892 |
| Loans and advances to customers | 61,959 | 58,497 | 1 321,184 | 629 | 1,442,269 |
| Financial assets at fair value through profit or loss | 7,882 | - | 36,989 | - | 44,871 |
| Investment in subsidiary | 535 | - | - | 175 | 710 |
| Financial assets held for trading | 4,050 | - | - | - | 4,050 |
| Due from other credit institutions (term) | 25,562 | 444 | - | 56 | 26,062 |
| Property and equipment | 7,523 | | | | 7,523 |
| Intangible assets | 817 | - | | | 817 |
| Accrued income and other assets | 90,811 | 14,177 | 30,157 | 191 | 135,336 |
| incl. unsettled dealing operations on balance sheet | 86,616 | 13,732 | (99,766) | 89 | 671 |
| **Total assets** | **318,320** | **77,161** | **1 393,225** | **7,376** | **1,796,082** |
| **Liabilities** | | | | | |
| Due to other credit institutions (demand) | 4,032 | 26,744 | 7,150 | 3 | 37,929 |
| Due to customers | 147,549 | 35,716 | 156,959 | 6,885 | 347,109 |
| Financial assets held for trading | 3,255 | - | - | - | 3,255 |
| Due to other credit institutions (term) | 15,642 | 14,391 | 1 045,426 | 13,070 | 1 088,529 |
| Accrued expenses and other liabilities | 4,701 | 66 | 130,528 | 155 | 135,450 |
| Subordinated loan | - | - | 40,776 | - | 40,776 |
| Capital and reserves | 143,034 | - | - | - | 143,034 |
| **Total liabilities** | **318,213** | **76,917** | **1 380,839** | **20,113** | **1,796,082** |
| **Off-balance sheet claims arising from foreign exchange** | | | | | |
| Spot foreign exchange receivable | 2,091 | - | 1,764 | 1,392 | 5,247 |
| Forward foreign exchange receivable | 86,965 | 15,019 | 2,535 | 270 | 104,789 |
| **Total foreign exchange receivable** | *89,056* | *15,019* | *4,299* | *1,662* | *110,036* |
| **Off-balance sheet claims arising from foreign exchange** | | | | | |
| Spot foreign exchange payable | - | 484 | 3,501 | 1,296 | 5,281 |
| Forward foreign exchange payable | 2,318 | 496 | 100,981 | 289 | 104,084 |
| **Total foreign exchange payable** | *2,318* | *980* | *104,482* | *1,585* | *109,365* |
| *Net long/ (short) position on foreign exchange* | 86,738 | 14,039 | (100,183) | 77 | 671 |
| **Net long/ (short) position** | **(122)** | **(307)** | **417** | **12** | **-** |

*Notes to the Financial Statements (continued)*

## 39 HEDGE ACCOUNTING

As at part of risk management process, management identifies the financial risk to which the bank is exposed. A common strategy in risk management is reduction or elimination of the risks that the bank faces by entering into transaction that gives an offsetting risk profile.

The bank for interest rate risk hedge accounting uses fair value accounting model.
Fair value hedge is a hedge of the exposure to changes in the fair value of a recognized asset or liability, or an identified portion of such an asset or liability that is attributable to a particular risk and that will affect reported net income.

| LVL'000 | Notional amount | Gains/(losses) on the hedged item attributable to the hedge risk | | Gains/(losses) on the hedging instrument | |
|---|---|---|---|---|---|
| | | 2008 | 2007 | 2008 | 2007 |
| **Hedged item** | | | | | |
| Loans portfolio | 126,117 | 6,020 | - | (6388) | - |

## 40 LITIGATION AND CLAIMS

In the ordinary course of business, the Bank has been involved in a number of legal proceedings to recover outstanding credit balances and maintain collaterals. The Management of the Bank believes that any legal proceedings pending as at 31 December 2008 will not result in material losses for the Bank and/ or Group.

## 41 EVENTS AFTER BALANCE SHEET DATE

As of the last day of the reporting year until the date of signing these consolidated financial statements there have been no events requiring adjustment of or disclosure in the consolidated financial statements or notes thereto.