Joint Stock Company
"NORVIK BANKA"

Consolidated and Separate Financial statements
prepared in accordance with International
Financial Reporting Standards
as adopted by the EU and the requirements of the Latvian
Financial and Capital Market Commission
for the year ended 31 December 2008 and
independent auditors' report

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

Dear shareholders and clients!

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

Group assets were EUR 720 million at the end of 2008, consolidated annual profit reached EUR 3.8 million that could be regarded as a success given extraordinary tough market. Importantly to mention further strengthening of the capital base that was bolstered by full capitalisation of current year profit and resulted in high capital adequacy ratio of 14.41%.

The Bank placed an intense focus on its funding base development putting customers’ deposits as the main priority. The customers’ deposits remained stable and steadily growing in spite of sharp market worsening in the second half of the year and reached EUR 500 million.

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

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

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

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

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

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

2008 was another successful year for "Norvik Assets Management Company”, the Bank’s subsidiary mainly focused on the second tier pension fund management. Growth in number of participants resulted in substantial increase in value of assets under management that reached high EUR 17 million by the end of the year.

“Norvik UCO”- the Bank’s subsidiary in Armenia achieved its record results since the beginning of operations in 2006 and showed annual net profit of EUR 3.1 million.

In 2008 JSC “NORVIK BANKA” continued its sponsorship in Latvian cultural and sports projects. The Bank supported various concert and city festival arrangement, sponsored Latvian sportsmen participation in international competitions.

According to the Law on Financial Instrument Market the management of JSC “NORVIK BANKA” informs about its corporate governance.

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

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

The Management Board has authority to pass decisions if the majority of the Board members participate. The decisions are passed with simple majority of voting.

The Management Board has the following rights to represent the Bank:
- Chairman of the Management Board has the right to represent the Bank alone;
- Other five Management Board members have the right to represent the Bank together with another Management Board member.

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

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

Chairman of the Supervisory Council
J. H. Gudmundsson

Chairman of the Management Board
A. Svirčenkovs

Riga, 25 March 2009

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

Supervisory Council as at 31 December 2008

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

Management Board as at 31 December 2008

Name	Position	Date of appointment
A. Svirčenkovs	Chairman of the Management Board	01/04/2006
J. Šapurovs	Deputy Chairman of the Management Board	01/04/2006
S. Gusarovs	Member of the Management Board	01/04/2005
A. Upenieks	Member of the Management Board	01/12/2006
L. Saltuma	Member of the Management Board	10/12/2007
M. Stepiņa	Member of the Management Board	06/11/2008

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

On behalf of the Supervisory Council and Management Board:

Chairman of the Supervisory Council
J. H. Gudmundsson

Chairman of the Management Board
A. Svirčenkovs

Riga, 25 March 2009

STATEMENT OF MANAGEMENT`S RESPONSIBILITIES

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

The Consolidated and Separate Financial Statements are prepared in accordance with the source documents and present fairly the financial position of the Group as of 31 December 2008 and the results of its operations and cash flows for the financial year ended 31 December 2008, as well as the financial position of the Bank as of 31 December 2008 and the results of its operations and cash flows for the financial year ended 31 December 2008.

The management confirms that suitable accounting policies have been used and applied consistently and reasonable and prudent judgments and estimates have been made in the preparation of the Consolidated and Separate Financial Statements for the year ended 31 December 2008 set out on pages 7 to 66. The management also confirms that applicable International Financial Reporting Standards as adopted by the EU have been followed and that the Consolidated and the Separate Financial Statements have been prepared on a going concern basis and complies with the Regulations on the Preparation of Financial Statements of Banks issued by the Latvian Financial and Capital Market Commission in all material respects.

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

On the behalf of the Supervisory Council and Management Board:

Chairman of the Supervisory Council
J. H. Gudmundsson

Chairman of the Management Board
A. Svirčenkovs

Riga, 25 March 2009

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

	Notes	2008 Group EUR'000	2008 Bank EUR'000	2007 Group EUR'000	2007 Bank EUR'000
Interest and similar revenue		66 745	61 829	49 594	47 431
Interest and similar expense		(30 683)	(30 764)	(24 964)	(24 991)
Net interest income	5	**36 062**	**31 065**	**24 630**	**22 440**
Fee and commission revenue		12 645	11 962	10 010	9 606
Fee and commission expense		(2 521)	(2 474)	(2 255)	(2 194)
Net fee and commission income	6	**10 124**	**9 488**	**7 755**	**7 412**
Dividend revenue		27	27	4	4
Net trading income	7	6 995	7 046	1 228	1 195
Net gain or loss on financial assets and liabilities designated at fair value through profit or loss	8	(828)	(828)	78	78
Net gain or loss from sales of available-for-sale financial assets	9	(67)	(67)	-	-
Other operating income	10	2 166	2 217	3 249	3 354
Other operating expense		(1 309)	(1 246)	(699)	(660)
Net operating income		**53 170**	**47 702**	**36 245**	**33 823**
Administrative expenses	11	(28 103)	(26 030)	(21 874)	(21 100)
Personnel expenses		*(15 916)*	*(14 159)*	*(11 386)*	(10 842)
Other expenses		*(12 187)*	*(11 871)*	*(10 488)*	*(10 258)*
Depreciation and amortisation		(1 696)	(1 606)	(1 406)	(1 380)
Impairments losses on financial investments	19	(18 418)	(18 220)	(1 683)	(1 559)
Operating expenses		**(48 217)**	**(45 856)**	**(24 963)**	**(24 039)**
Net operating profit before tax		**4 953**	**1 846**	**11 282**	**9 784**
Corporate income tax	12	(1 189)	(394)	(2 439)	(2 122)
Profit for the year		**3 764**	**1 452**	**8 843**	**7 662**
Attributable to:					
Equity holders of the parent		**3 761**		**8 846**	
Minority interest		3		(3)	
Basic and Diluted Earnings per share (EUR)	34	**0.09**		**0.33**	

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

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

Chairman of the Supervisory Council
J. H. Gudmundsson

Chairman of the Management Board
A. Svirčenkovs

	Note	31.12.2008 Group EUR'000	31.12.2008 Bank EUR'000	31.12.2007 Group EUR'000	31.12.2007 Bank EUR'000
Assets					
Cash and balances with the central bank	13	83 410	83 410	59 984	59 984
Loans to and receivables from banks	14	60 397	57 969	269 047	268 808
Trading financial assets	15	13 173	13 173	53 927	53 927
Financial assets designated at fair value through profit or loss	16	661	661	2 069	2 069
Held-to-maturity financial assets	21	16 279	16 279	-	-
Derivatives financial instruments	17	10 942	10 942	7 597	7 597
Loans to and receivables from customers	18	464 094	457 701	461 668	457 359
Available-for-sale financial assets	20	54 879	54 879	13 144	13 144
Current tax assets		2 318	2 318	-	-
Investment property	24	6 214	6 214	6 010	6 010
Investment in subsidiaries	22	-	5 085	-	4 432
Tangible fixed assets	25	3 870	3 257	3 948	3 792
Goodwill and other intangible assets	23	1 439	1 150	1 308	854
Other assets	26	1 859	1 642	1 697	1 544
Total assets		**719 535**	**714 680**	**880 399**	**879 520**
Liabilities					
Due to the central bank and other banks	28	110 334	108 660	131 340	131 340
Derivatives financial instruments	17	7 998	7 998	7 077	7 077
Customer deposits	29	499 027	500 313	636 559	637 222
Subordinated debt	30	12 766	12 766	12 097	12 097
Debt securities in issue	31	3 293	3 293	8 352	8 352
Current tax liabilities		497	-	824	591
Deferred tax liabilities	12	929	793	680	635
Other liabilities	32	4 069	3 618	4 479	4 203
Total liabilities		**638 913**	**637 441**	**801 408**	**801 517**
Equity attributable to equity holders of the Bank					
Share capital	33	57 626	57 626	57 626	57 626
Reserves		10	10	10	10
Revaluation reserve of available-for-sale financial assets		(2 867)	(2 867)	(651)	(651)
Revaluation reserve of foreign currency translation		92	-	9	-
Retained earnings		21 965	21 018	13 119	13 356
Profit for the year		3 761	1 452	8 846	7 662
Total equity attributable to equity holders of the Bank		**80 587**	**77 239**	**78 959**	**78 003**
Minority interest		**35**		**32**	-
Total equity		**80 622**	**77 239**	**78 991**	**78 003**
Total liabilities and equity		**719 535**	**714 680**	**880 399**	**879 520**
Commitments and contingencies					
Contingent liabilities		6 002	7 506	5 815	6 659
Commitments		19 347	19 074	59 047	59 625
Total commitments and contingencies	36	**25 349**	**26 580**	**64 862**	**66 284**

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

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

Chairman of the Supervisory Council
J. H. Gudmundsson

Chairman of the Management Board
A. Svirčenkovs

Group	Share capital	Reserve	Revaluation reserve of available-for-sale financial assets	Revaluation reserve of foreign currency translation	Retained earnings	Total	Minority interest	Total Groups' equity
	Attributable to shareholders of the Bank							
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
As at 31 December 2006	**32 015**	**10**	**(69)**	**(11)**	**13 119**	**45 064**	**21**	**45 085**
Revaluation of available-for-sale financial assets	-	-	**(582)**	**-**	-	**(582)**	-	**(582)**
Foreign currency translation of foreign subsidiary	**-**	**-**	**-**	**20**	**-**	**20**	**-**	**20**
Total income and expenses for the year recognised directly in equity	**-**	**-**	**(582)**	**20**	**-**	**(562)**	**-**	**(562)**
Profit for the year	**-**	**-**	**-**	**-**	8 846	8 846	(3)	**8 843**
Total income and expense for the year	**-**	**-**	**(582)**	**20**	**8 846**	**8 284**	**(3)**	**8 281**
Increase of share capital	25 611	-	-	-	-	25 611	14	**25 625**
As at 31 December 2007	**57 626**	**10**	**(651)**	**9**	**21 965**	**78 959**	**32**	**78 991**
Revaluation of available-for-sale financial assets	-	-	**(2 216)**	**-**	-	**(2 216)**	-	**(2 216)**
Foreign currency translation of foreign subsidiary	-	-	**-**	**83**	-	**83**	**-**	**83**
Total income and expenses for the year recognised directly in equity	**-**	**-**	**(2 216)**	**83**	**-**	**(2 133)**	**-**	**(2 133)**
Profit for the year	**-**	**-**	**-**	**-**	3 761	3 761	3	**3 764**
Total income and expense for the year	**-**	**-**	**(2 216)**	**83**	**3 761**	**1 628**	**3**	**1 631**
As at 31 December 2008	**57 626**	**10**	**(2 867)**	**92**	**25 726**	**80 587**	**35**	**80 622**

SEPARATE STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2008

Bank	Share capital EUR'000	Reserve EUR'000	Revaluation reserve of available-for-sale financial assets EUR'000	Retained earnings EUR'000	Total EUR'000
As at 31 December 2006	**32 015**	**10**	**(69)**	**13 356**	**45 312**
Revaluation of available-for-sale financial assets	-	-	**(582)**	**-**	**(582)**
Total income and expenses for the year recognised directly in equity	-	-	**(582)**	**-**	**(582)**
Profit for the year	-	-	-	7 662	7 662
total income and expense for the year	-	-	**(582)**	**7 662**	**7 080**
Increase of share capital	**25 611**	-	-	-	**25 611**
As at 31 December 2007	**57 626**	**10**	**(651)**	**21 018**	**78 003**
Revaluation of available-for-sale financial assets	-	-	(2 216)	-	**(2 216)**
Total income and expenses for the year recognised directly in equity	-	-	**(2 216)**	-	**(2 216)**
Profit for the year	-	-	-	1 452	1 452
Total income and expense for the year	**-**	**-**	**(2 216)**	**1 452**	**(764)**
As at 31 December 2008	**57 626**	**10**	**(2 867)**	**22 470**	**77 239**

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Chairman of the Supervisory Council
J. H. Gudmundsson

Chairman of the Management Board
A. Svirčenkovs

		2008		2007	
		Group	**Bank**	**Group**	**Bank**
	Note	**EUR'000**	**EUR'000**	**EUR'000**	**EUR'000**
Cash flow from operations					
Profit before corporate income tax		4 953	1 846	11 282	9 784
Depreciation of intangible and tangible fixed assets and write off		2 537	2 413	2 881	2 856
Increase in provisions for impairments losses on financial investments		18 500	18 302	1 949	1 827
Loss/(profit) from foreign exchange revaluation		5 245	5 186	2 279	2 308
Revaluation reserve of foreign currency translation		83	-	20	-
Non-realised (profit)/loss from investment property		(204)	(204)	(2 261)	(2 261)
Operating cash flow before changes in operating assets and liabilities		**31 114**	**27 543**	**16 150**	**14 514**
Decrease/(increase) in loans and receivables to banks		6 891	6 891	(9 683)	(9 740)
Decrease/(increase) in trading financial assets		23 216	23 216	4 764	4 764
(Increase) in financial assets at fair value through profit or loss		1 408	1 408	(2 069)	(2 069)
Decrease/(increase) in derivatives financial assets		(3 345)	(3 345)	(6 081)	(6 081)
Decrease/(increase) in loans and receivables to customers		(19 657)	(17 375)	(193 528)	(190 140)
Decrease/(increase) in other assets		506	826	637	780
Increase/(decrease) in due to banks		(21 006)	(22 679)	38 191	38 191
Increase/(decrease) in customer deposits		(137 532)	(136 909)	348 917	349 363
Increase/(decrease) in derivatives financial liabilities		921	921	5 245	5 245
Increase/(decrease) in other liabilities		(747)	(1 185)	1 534	1 366
Cash provided by/(used in) operating activities		**(118 231)**	**(120 688)**	**204 077**	**206 193**
Corporate income tax (paid)		(3 926)	(3 477)	(1 089)	(1 052)
Net cash provided by/(used in) operating activities		**(122 157)**	**(124 165)**	**202 988**	**205 141**
Cash flow from investing activities					
Acquisition of intangible and tangible fixed assets		(2 590)	(2 176)	(3 220)	(3 055)
Acquisition of subsidiary		-	(653)	-	(2 236)
Decrease/(increase) in available-for-sale financial assets		(43 950)	(43 950)	(5 644)	(5 644)
Other cash received/(paid) as a result of investment activity		-	-	(28)	(28)
Net cash used in investing activities		**(46 540)**	**(46 779)**	**(8 892)**	**(10 963)**
Cash flow from financing activities					
Increase in share capital		-	-	25 626	25 612
Increase in subordinated debt		669	669	9 569	9569
Issue of debt securities		3 293	3 293	61 020	61020
Mature of debt securities		(8 353)	(8 353)	(52 668)	(52 668)
Net cash provided by/(used in) financing activities		**(4 391)**	**(4 391)**	**43 547**	**43 533**
Net increase/(decrease) in cash and cash equivalents		**(173 088)**	**(175 335)**	**237 643**	**237 711**
Cash and cash equivalents at the beginning of the period		312 733	312 494	77 369	77 091
Effect of exchange changes on cash and cash equivalents		(5 245)	(5 186)	(2 279)	(2 308)
Cash and cash equivalents at the end of the period	35	**134 400**	**131 973**	**312 733**	**312 494**

Operating cash flows from interest and dividends

	2008		2007	
	Group EUR'000	Bank EUR'000	Group EUR'000	Bank EUR'000
Interest paid	27 464	27 545	22 981	23 036
Interest received	62 625	58 116	46 433	44 495
Dividend received	27	27	4	4

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

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

Chairman of the Supervisory Council
J. H. Gudmundsson

Chairman of the Management Board
A. Svirčenkovs

1. GENERAL INFORMATION

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

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

The Bank has a central office, 14 branches, 62 accounting groups and one representative office in Moscow (Russia). The main banking operations are local and international money transfers, the issuance of loans, securities operations and foreign currency transactions.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES

(1) Basis of preparation

The functional currency of the Bank is Latvian lat. The presentation currency of these financial statements is thousand euro (EUR'000). The results and financial position of the Group are translated into presentation currency based on the fixed rate of Latvian euro to lat of 0.702804, as determined by the Bank of Latvia.

The consolidated and separate financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union (the "EU") and the regulations of the Latvian Financial and Capital Market Commission ("FCMC"). IFRS as adopted by the EU do not currently differ from IFRS as issued by the International Accounting Standards Board (IASB) and currently effective for the purpose of these financial statements, except for certain hedge accounting requirements under IAS 39, which have not been adopted by the EU. The Group/Bank has determined that the unendorsed hedge accounting requirements under IAS 39 would not impact the Bank's and the Group's financial statements had they been endorsed by the EU at the balance sheet date.

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

The accounting policies used in the preparation of the financial statements are consistent with those followed in the preparation of the Group`s and Bank`s annual financial statements for the year ended 31 December 2007. However, in the preparation of the financial statement for the year ended 31 December 2008 the Group and Bank adopted Amendments to IAS 39 'Financial Instruments: Recognition and Measurement' and IFRS 7 'Financial Instruments: Disclosures' – 'Reclassification of Financial Assets' (effective on or after 1 July 2008).

Standards and Interpretations effective in the current period

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

- Amendments to IAS 39 'Financial Instruments: Recognition and Measurement' and IFRS 7 'Financial Instruments: Disclosures' – 'Reclassification of Financial Assets' (effective on or after 1 July 2008);
- Amendments to IAS 39 'Financial Instruments: Recognition and Measurement' and IFRS 7 'Financial Instruments: Disclosures' – 'Effective date and transition' (effective on or after 1 July 2008, not yet endorsed by EU);
- IFRIC 14, IAS 19 – 'The limit on a defined benefit asset, minimum funding requirements and their interaction' (effective for accounting period beginning on or after 1 January 2008), provides guidance on assessing the limit in IAS 19 on the amount of the surplus that can be recognised as an asset. It also explains how the pension asset or liability may be affected by a statutory or contractual minimum funding requirement;

- IFRIC 11, IFRS 2 – 'Group and treasury share transactions' (effective for accounting period beginning on or after 1 March 2007), provides guidance on whether share-based transactions involving treasury shares or involving group entities (for example, options over a parent's shares) should be accounted for as equity- settled or cash-settled share-based payment transactions in the stand-alone accounts of the parent;
- IFRIC 12 'Service Concession Arrangements' (effective for accounting periods beginning on or after 1 January 2008, however, not yet adopted by EU). The interpretation addresses how service concession operators should apply existing International Financial Reporting Standards to account for the obligations they undertake and rights they receive in service concession arrangements.

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

Standards and Interpretations in issue not yet adopted

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

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

- Amendment to IAS 39 ‘Financial Instruments: Recognition and Measurement’ – ‘Eligible Hedged Items’ (effective for accounting periods beginning on or after 1 July 2009, not yet endorsed by EU);
- In May 2008 the Board issued its first omnibus of amendments to various standards and interpretations resulting from the Annual quality improvement project of IFRS (IAS 1, IFRS 5, IFRS 7, IAS 8, IAS 10, IAS 16, IAS 18, IAS 19, IAS 20, IAS 23, IAS 27, IAS 28, IAS 29, IAS 31, IAS 34, IAS 36, IAS 38, IAS 39, IAS 40, IAS 41) primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard.
- IFRS 5 (Amendment), ‘Non-current assets held-for-sale and discontinued operations’ (and consequential amendment to IFRS 1, ‘First-time adoption’) (effective from 1 July 2009), (not yet endorsed by EU). The standard clarifies that all of a subsidiary’s assets and liabilities are classified as held for sale if a partial disposal sale plan results in loss of control.
- IFRS 8 Operating Segments (effective for accounting periods beginning on or after 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;

- IFRIC 13 Customer Loyalty Programmes (effective for accounting periods beginning on or after 1 July 2008). The interpretation specifies how customer loyalty programs should be accounted for;
- IFRIC 15 ‘Agreements for the Construction of Real Estate’ (effective for accounting periods beginning on or after 1 January 2009, not yet endorsed by EU);
- IFRIC 16 ‘Hedges of a Net Investment in a Foreign Operation’ (effective for accounting period beginning on or after 1 October 2008, not yet endorsed by EU);
- IFRIC 17 ‘Distribution of Non-cash Assets to Owners’ (effective for accounting periods beginning on or after 1 July 2009, not yet endorsed by EU); and
- IFRIC 18 ‘Transfers of Assets from Customers’ (effective for transfers of assets from customers received on or after 1 July 2009, not yet endorsed by EU).

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

Basis of Consolidation

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

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

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

Goodwill

The excess of the cost of acquisition over the Bank’s interest in the fair value of the identifiable net assets of the acquired subsidiary at the date of acquisition is recorded as goodwill.
After initial recognition, goodwill in the business combination is carried at cost less any impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from acquisition date, allocated to each of the Group’s cash-generating units, that are expected to benefit

from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units. Each unit to which the goodwill is allocated:

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

Under IAS 36 *“Impairment of Assets”*, goodwill is reviewed for impairment at each balance sheet date or more frequently when there are indications that impairment may have occurred. If such indications exist the Bank estimates the recoverable amount of goodwill. In case of the carrying amount of goodwill is greater than its estimated recoverable amount an impairment loss of goodwill is recognised in the Group’s consolidated income statement. There was no impairment identified in 2008 (2007: nil).

(2) Significant accounting judgments and estimates

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

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

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

Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recognized in the balance sheet cannot be obtained from active markets, fair value is determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

Allowances for impairment losses on loans and receivables

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

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

Impairment of financial instruments

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

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

Impairment of equity investments

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

Valuation of investment property

Investment property is stated at fair value, which has been determined based on valuation performed by certified valuator close to reporting date. The fair value represents the amount at which the assets could be exchanged between a knowledgeable, willing buyer and a knowledgeable, willing seller in an arm's length transaction at the date of valuation.

Current operating environment and the Bank's responsive actions

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

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

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

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

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

(3) Foreign currency translation

Transactions and balances

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

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

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

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

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

Group companies

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

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions);
- all resulting exchange differences are recognised as a separate component of equity *"Revaluation reserve of foreign currency translations"*.

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

(4) Financial assets and liabilities

Financial assets and liabilities held for trading

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

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

Derivatives recorded at fair value through profit or loss

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

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

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

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

Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available for sale or are not classified as loans and receivables, Held-to-maturity financial assets or financial assets at fair value through profit and loss. Available-for-sale financial assets include certain bonds and investments in funds.

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

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

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

Held-to-maturity financial assets

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

Loans and receivables to banks and to customers

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

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

Finance lease

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

Reverse repurchase agreements

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

Financial liabilities

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

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

Derecognition of financial assets and financial liabilities

A financial asset is derecognized where:

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

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

Impairment of financial assets

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

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

If there is objective evidence that an impairment loss on financial assets carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of expected future cash flows discounted at the financial instrument’s original effective interest rate.

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

Allowances are assessed collectively on portfolios with similar features such as credit cards portfolio and unsecured consumer lending. The main criterion for assessment is settlement discipline and calculation of necessary allowance on portfolio is based on experience and previous period’s statistics.

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

(5) Investment property

In accordance with IAS 40 *Investment Property,* from June 2007 Bank holds real estate as an investment property with the purpose to earn rental income or for value appreciation. Initially investment property was measured at cost. The fair value model of accounting is used for subsequent measurement of investment property. Fair value of investment property reflects market conditions at the balance sheet date. See Note 24 for more detailed information with respect to the Bank's investment property. Gains arising from changes in the fair value of investment property are included in the income statement in "Other operating income" in the period in which they arise.

(6) Intangible and tangible fixed assets

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

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

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

(7) Income and expense recognition

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

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

Accrued interest income is recognized in the income statement if the Group has no objective evidence that those payments will not be collected in defined term as well as on impaired financial assets.

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

(8) Cash and cash equivalents

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

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

(9) Taxes

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

(10) Segment reporting

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

(11) Use of estimates

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

3. RISK MANAGEMENT

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

Risk management structure

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

Supervisory Council
The Supervisory Council reviews and agrees policies for risks managing.

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

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

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

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

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

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

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

LIQUIDITY RISK

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

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

To ensure liquidity the Bank evaluates and plans the term structures of their assets and liabilities on a regular basis. The bank maintains marketable trading portfolio that can be liquidated or pledged in the event of unforeseen situations. The bank also has Money market and committed lines of credit that it can use to meet liquidity needs. In addition, the bank maintains an obligatory reserve deposit with the Central bank of Latvia equal to 5% of borrowings (at the end of 2008). In accordance to Liquidity requirements determined by the FCMC the Bank maintains liquid assets that are sufficient for settling liabilities, however, no less than 30% of total current liabilities of the Bank (liquidity ratio). Current liabilities are demand liabilities and liabilities with a residual maturity of no more than 30 days. The liquidity ratio during the year was as follows:

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

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

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

MATURITY ANALYSIS OF ASSETS AND LIABILITIES

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

As at 31 December 2008- Group	Up to 1 month EUR'000	From 1 to 3 months EUR'000	From 3 to 6 months EUR'000	From 6 months to 1 year EUR'000	From 1 to 5 years EUR'000	5 years and over EUR'000	Other EUR'000	Total EUR'000
Assets								
Cash and balance with the central bank	83 410	-	-	-	-	-	-	**83 410**
Loans and receivables to banks	54 850	1 542	1 634	293	2 078	-	-	**60 397**
Trading financial assets	13 173	-	-	-	-	-	-	**13 173**
Financial assets at fair value through profit or loss	661	-	-	-	-	-	-	**661**
Held-to-maturity financial investments	9 999	-	-	-	6 280	-	-	**16 279**
Derivative financial instruments	6 237	822	-	3 883	-	-	-	**10 942**
Loans and receivables to customers	36 854	61 697	32 050	50 412	249 516	23 529	10 036	**464 094**
Available-for-sale financial assets	909	-	-	-	-	15 537	38 433	**54 879**
Current tax assets	-	-	-	-	2 318	-	-	**2 318**
Investment property	-	-	-	-	-	-	6 214	**6 214**
Tangible fixed assets	-	-	-	-	-	-	3 870	**3 870**
Goodwill and other intangible assets	-	-	-	-	-	-	1 439	**1 439**
Other assets	1 714	27	1	-	-	-	117	**1 859**
Total assets	**207 807**	**64 088**	**33 685**	**54 588**	**260 192**	**39 066**	**60 109**	**719 535**
Liabilities								
Due to the central bank and other banks	9 690	1 040	35 649	25 522	-	-	38 433	**110 334**
Derivative financial instruments	6 515	724	37	722	-	-	-	**7 998**
Customer deposits	311 242	72 420	53 345	54 361	7 659	-	-	**499 027**
Subordinated debt	36	-	-	1 565	11 165	-	-	**12 766**
Debt securities in issue	-	-	3 293	-	-	-	-	**3 293**
Current tax liabilities	-	-	-	-	-	-	497	**497**
Deferred tax	-	-	-	-	-	-	929	**929**
Other liabilities	3 571	-	-	437	-	-	61	**4 069**
Total liabilities	**331 054**	**74 184**	**92 324**	**82 607**	**18 824**	**-**	**39 920**	**638 913**
Off-balance sheet items	16 973	3 014	1 197	142	2 049	-	-	**23 375**
Net liquidity	**(140 220)**	**(13 110)**	**(59 836)**	**(28 161)**	**239 319**	**39 066**	**20 189**	**-**

As at 31 December 2007- Group	Up to 1 month EUR'000	From 1 to 3 months EUR'000	From 3 to 6 months EUR'000	From 6 months to 1 year EUR'000	From 1 to 5 years EUR'000	5 years and over EUR'000	Other EUR'000	Total EUR'000
Assets								
Cash and balance with the central bank	59 984	-	-	-	-	-	-	**59 984**
Loans and receivables to banks	250 115	4 000	7 436	5 326	713	1 457	-	**269 047**
Trading financial assets	53 927	-	-	-	-	-	-	**53 927**
Financial assets at fair value through profit or loss	2 069	-	-	-	-	-	-	**2 069**
Derivative financial instruments	7 056	296	148	97	-	-	-	**7 597**
Loans and receivables to customers	23 913	31 272	65 905	42 091	213 520	82 151	2 816	**461 668**
Available-for-sale financial assets	1 382	-	-	-	-	11 762	-	**13 144**
Investment property	-	-	-	-	-	-	6 010	**6 010**
Tangible fixed assets	-	-	-	-	-	-	3 948	**3 948**
Goodwill and other intangible assets	-	-	-	-	-	-	1 308	**1 308**
Other assets	1 599	37	-	-	-	-	61	**1 697**
Total assets	**400 045**	**35 605**	**73 489**	**47 514**	**214 233**	**95 370**	**14 143**	**880 399**
Liabilities								
Due to the central bank and other banks	35 030	24 579	49 660	22 071	-	-	-	**131 340**
Derivative financial instruments	6 394	470	132	81	-	-	-	**7 077**
Customer deposits	530 774	31 899	33 773	29 710	10 403	-	-	**636 559**
Subordinated debt	-	-	-	-	2 696	9 401	-	**12 097**
Debt securities in issue	-	4 021	3 154	1 177	-	-	-	**8 352**
Current tax liabilities	824	-	-	-	-	-	-	**824**
Deferred tax	-	-	-	-	-	-	680	**680**
Other liabilities	4 165	-	-	314	-	-	-	**4 479**
Total liabilities	**577 187**	**60 969**	**86 719**	**53 353**	**13 099**	**9 401**	**680**	**801 408**
Off-balance sheet items	64 014	-	-	-	-	-	-	**64 014**
Net liquidity	**(241 156)**	**(25 364)**	**(13 230)**	**(5 839)**	**201 134**	**85 969**	**13 463**	

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

As at 31 December 2008 - Bank	Up to 1 month EUR'000	From 1 to 3 months EUR'000	From 3 to 6 months EUR'000	From 6 months to 1 year EUR'000	From 1 to 5 years EUR'000	5 years and over EUR'000	Other EUR'000	Total EUR'000
Assets								
Cash and balance with the central bank	83 410	-	-	-	-	-	-	**83 410**
Loans and receivables to banks	52 423	1 542	1 634	293	2 077	-	-	**57 969**
Trading financial assets	13 173	-	-	-	-	-	-	**13 173**
Financial assets at fair value through profit or loss	661	-	-	-	-	-	-	**661**
Held-to-maturity financial investments	9 999	-	-	-	6 280	-	-	**16 279**
Derivative financial instruments	6 237	822	-	3 883	-	-	-	**10 942**
Loans and receivables to customers	36 073	59 853	29 999	105 564	206 457	16 151	3 604	**457 701**
Available-for-sale financial assets	909	-	-	-	-	15 537	38 433	**54 879**
Current tax assets	-	-	-	-	2 318	-	-	**2 318**
Investment property	-	-	-	-	-	-	6 214	**6 214**
Investments in subsidiaries	-	-	-	-	-	-	5 085	**5 085**
Tangible fixed assets	-	-	-	-	-	-	3 257	**3 257**
Goodwill and other intangible assets	-	-	-	-	-	-	1 150	**1 150**
Other assets	1 581	-	-	-	-	-	61	**1 642**
Total assets	**204 466**	**62 217**	**31 633**	**109 740**	**217 132**	**31 688**	**57 804**	**714 680**
Liabilities								
Due to the central bank and other banks	8 016	1 040	35 649	25 522	-	-	38 433	**108 660**
Derivative financial instruments	6 515	724	37	722	-	-	-	**7 998**
Customer deposits	311 882	72 541	53 590	54 641	7 659	-	-	**500 313**
Subordinated debt	36	-	-	1 565	11 165	-	-	**12 766**
Debt securities in issue	-	-	3 293	-	-	-	-	**3 293**
Deferred tax	-	-	-	-	-	-	793	**793**
Other liabilities	3 247	-	-	371	-	-	-	**3 618**
Total liabilities	**329 696**	**74 305**	**92 569**	**82 821**	**18 824**	**-**	**39 226**	**637 441**
Off-balance sheet items	18 204	3 014	1 197	142	2 049	-	-	**24 606**
Net liquidity	**(143 434)**	**(15 102)**	**(62 133)**	**26 777**	**196 259**	**31 688**	**18 578**	

As at 31 December 2007- Bank	Up to 1 month EUR'000	From 1 to 3 months EUR'000	From 3 to 6 months EUR'000	From 6 months to 1 year EUR'000	From 1 to 5 years EUR'000	5 years and over EUR'000	Other EUR'000	Total EUR'000
Assets								
Cash and balance with the central bank	59 984	-	-	-	-	-	**-**	**59 984**
Loans and receivables to banks	249 966	4 000	7 436	5 236	713	1 457		**268 808**
Trading financial assets	53 927	-	-	-	-	-	**-**	**53 927**
Financial assets at fair value through profit or loss	2 069	-	-	-	-	-	**-**	**2 069**
Derivative financial instruments	7 056	296	148	97	-	-	**-**	**7 597**
Loans and receivables to customers	22 772	29 402	63 826	62 206	198 149	78 275	2 729	**457 359**
Available-for-sale financial assets	1 382	-	-	-	-	11 762	**-**	**13 144**
Investment property	-	-	-	-	-	-	6 010	**6 010**
Investments in subsidiaries	-	-	-	-	-	-	4 432	**4 432**
Tangible fixed assets	-	-	-	-	-	-	3 792	**3 792**
Goodwill and other intangible assets	-	-	-	-	-	-	854	**854**
Other assets	1 483	-	-	-	-	-	61	**1 544**
Total assets	**398 639**	**33 698**	**71 410**	**67 539**	**198 862**	**91 494**	**17 878**	**879 520**
Liabilities								
Due to the central bank and other banks	35 030	24 579	49 660	22 071	-	-	**-**	**131 340**
Derivative financial instruments	6 394	470	132	81	-	-	**-**	**7 077**
Customer deposits	531 044	31 970	34 095	29 710	10 403	-	**-**	**637 222**
Subordinated debt	-	-	-	-	2 696	9 401	**-**	**12 097**
Debt securities in issue	-	4 021	3 154	1 177	-	-	**-**	**8 352**
Current tax liabilities	591	-	-	-	-	-	-	**591**
Deferred tax	-	-	-	-	-	-	635	**635**
Other liabilities	3 889	-	-	314	-	-	**-**	**4 203**
Total liabilities	**576 948**	**61 040**	**87 041**	**53 353**	**13 099**	**9 401**	**635**	**801 517**
Off-balance sheet items	65 438	-	-	-	-	-	**-**	**65 438**
Net liquidity	**(243 747)**	**(27 342)**	**(15 631)**	**14 186**	**185 763**	**82 093**	**17 243**	

ANALYSIS OF FINANCIAL LIABILITIES BY REMAINING CONTRACTUAL MATURITIES

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

Financial liabilities	**Up to 1 month**	**From 1 to 3 months**	**From 3 to 6 months**	**From 6 months to 1 year**	**From 1 to 5 years**	**5 years and over**	**Total**
As at 31 December 2008	**EUR'000**	**EUR'000**	**EUR'000**	**EUR'000**	**EUR'000**	**EUR'000**	**EUR'000**
Due to the central bank and other banks	46 420	1 049	36 579	26 586	-	-	**110 634**
Derivatives financial instruments	211	(23)	(122)	(1 907)	-	-	**(1 841)**
- Contractual amounts payable	*1 566 168*	*10 065*	*5 451*	*32 305*	-	-	***1 613 989***
- Contractual amounts receivable	*(1 565 957)*	*(10 088)*	*(5 573)*	*(34 212)*	-	-	***(1 615 830)***
Customer deposits	315 018	69 644	64 980	61 667	3 672	-	**514 981**
Subordinated debt	40	-	-	2 157	15 839	-	**18 036**
Debt securities in issue	-	-	3 369	-	-	-	**3 369**
Total undiscounted financial liabilities	**361 689**	**70 670**	**104 806**	**88 503**	**19 511**	**-**	**645 179**
Contingent liabilities	7 506	-	-	-	-	-	**7 506**
Commitments	12 672	3 014	1 197	142	2 049	-	**19 074**
Total	**20 178**	**3 014**	**1 197**	**142**	**2 049**	**-**	**26 580**
As at 31 December 2007							
Due to the central bank and other banks	35 492	24 852	52 544	23 269	-	-	**136 157**
Derivatives financial instruments	(646)	(41)	(98)	(138)	-	-	**(923)**
- Contractual amounts payable	*1 663 058*	*19 042*	*9 690*	*8 364*	-	-	***1 700 154***
- Contractual amounts receivable	*(1 663 704)*	*(19 083)*	*(9 788)*	*(8 502)*	-	-	***(1 701 077)***
Customer deposits	557 725	31 965	35 233	31 602	9 694	-	**666 219**
Subordinated debt	31	63	96	195	3 378	14 307	**18 070**
Debt securities in issue	-	4 156	3 391	1 312	-	-	**8 859**
Total undiscounted financial liabilities	**592 602**	**60 995**	**91 166**	**56 240**	**13 072**	**14 307**	**828 382**
Contingent liabilities	6 659	-	-	-	-	-	**6 659**
Commitments	59 625	-	-	-	-	-	**59 625**
Total	**66 284**	**-**	**-**	**-**	**-**	**-**	**66 284**

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

CREDIT RISK

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

MAXIMUM EXPOSURE TO CREDIT RISK

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

	31.12.2008		31.12.2007	
	Group EUR'000	Bank EUR'000	Group EUR'000	Bank EUR'000
Credit risk exposure relating to on-balance sheet assets	**624 164**	**615 225**	**808 943**	**804 288**
Loans and receivables to banks	60 397	57 969	269 047	268 808
Trading financial assets	13 173	13 173	53 927	53 927
Financial assets designated at fair value through profit or loss	661	661	2 069	2 069
Held-to-maturity financial investments	16 279	16 279	-	-
Derivatives assets	10 942	10 942	7 597	7 597
Loans and receivables to customers	464 094	457 701	461 668	457 359
Available-for-sale financial assets	54 879	54 879	13 144	13 144
Current tax assets	2 318	2 318	-	-
Other assets	1 421	1 303	1 491	1 384
Credit risk exposure relating to off-balance sheet items	**25 349**	**26 580**	**64 862**	**66 284**
Contingent liabilities	6 002	7 506	5 815	6 659
Commitments	19 347	19 074	59 047	59 625
Maximum exposure	**649 513**	**641 805**	**873 805**	**870 572**

Risk concentrations of the maximum exposure to credit risk

Concentration of risk is managed by client/group of clients. The maximum credit exposure to any client or group of clients during 2008 was limited maximum to 24 % of the sum tier 1 and tier 2 capitals before taking account of collateral or other credit enhancements.

In accordance with Credit Policy the maximum volume of Group's loans portfolio is limited to 80 % of the total assets and shall not exceed the sum tier 1 and tier 2 capitals more than 10 times. The share of loans granted to non-resident customers can not exceed 50% of total loans portfolio. Any type of loans is limited to 40% of the total loans portfolio.

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

At 31 December 2008 -Group	Latvia EUR'000	OECD countries EUR'000	Other countries EUR'000	Total EUR'000
Credit risk exposure relating to on-balance sheet assets	**317 539**	**47 006**	**259 619**	**624 164**
Loans and receivables to banks	5 328	21 083	33 986	**60 397**
Trading financial assets	-	1 313	11 860	**13 173**
Financial assets designated at fair value through profit or loss	661	-	-	**661**
Held-to-maturity financial assets	-	-	16 279	**16 279**
Derivatives assets	655	7 544	2 743	**10 942**
Loans and receivables to customers	268 871	16 924	178 299	**464 094**
Available-for-sale financial assets	38 622	17	16 240	**54 879**
Current tax assets	2 318	-	-	**2 318**
Other assets	1 084	125	212	**1 421**
Credit risk exposure relating to off-balance sheet items	**17 650**	**515**	**7 184**	**25 349**
Total	**335 189**	**47 521**	**266 803**	**649 513**

At 31 December 2007 -Group	Latvia EUR'000	OECD countries EUR'000	Other countries EUR'000	Total EUR'000
Credit risk exposure relating to on-balance sheet assets	**292 433**	**239 993**	**276 517**	**808 943**
Loans and receivables to banks	1 510	215 873	51 664	**269 047**
Trading financial assets	-	1 356	52 571	**53 927**
Financial assets designated at fair value through profit or loss	2 069	-	-	**2 069**
Derivatives assets	363	3 705	3 529	**7 597**
Loans and receivables to customers	286 679	18 944	156 045	**461 668**
Available-for-sale financial assets	694	-	12 450	**13 144**
Other assets	1 118	115	258	**1 491**
Credit risk exposure relating to off-balance sheet items	**43 402**	**1 881**	**19 579**	**64 862**
Total	**335 835**	**241 874**	**296 096**	**873 805**

At 31 December 2008 - Bank	Latvia EUR'000	OECD countries EUR'000	Other countries EUR'000	Total EUR'000
Credit risk exposure relating to on-balance sheet assets	**318 003**	**47 009**	**250 213**	**615 225**
Loans and receivables to banks	5 328	21 083	31 558	**57 969**
Trading financial assets	-	1 313	11 860	**13 173**
Financial assets designated at fair value through profit or loss	661	-	-	**661**
Held-to-maturity financial investments	-	-	16 279	**16 279**
Derivatives assets	655	7 544	2 743	**10 942**
Loans and receivables to customers	269 479	16 924	171 298	**457 701**
Available-for-sale financial assets	38 622	17	16 240	**54 879**
Current tax assets	2 318	-	-	**2 318**
Other assets	940	128	235	**1 303**
Credit risk exposure relating to off-balance sheet items	**18 052**	**515**	**8 013**	**26 580**
Total	**336 055**	**47 524**	**258 226**	**641 805**

At 31 December 2007 - Bank	Latvia EUR'000	OECD countries EUR'000	Other countries EUR'000	Total EUR'000
Credit risk exposure relating to on-balance sheet assets	**292 260**	**239 993**	**272 035**	**804 288**
Loans and receivables to banks	1 419	215 873	51 516	**268 808**
Trading financial assets	-	1 356	52 571	**53 927**
Financial assets designated at fair value through profit or loss	2 069	-	-	**2 069**
Derivatives assets	363	3 705	3 529	**7 597**
Loans and receivables to customers	286 679	18 944	151 736	**457 359**
Available-for-sale financial assets	694	-	12 450	**13 144**
Other assets	1 036	115	233	**1 384**
Credit risk exposure relating to off-balance sheet items	**43 402**	**1 881**	**21 001**	**66 284**
Total	**335 662**	**241 874**	**293 036**	**870 572**

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

	31.12.2008		31.12.2007	
	Group EUR'000	Bank EUR'000	Group EUR'000	Bank EUR'000
Credit risk exposure relating to on-balance sheet assets	**624 164**	**615 225**	**808 943**	**804 288**
Banks	94 686	92 258	323 728	323 487
Private individuals	112 555	93 059	129 053	113 937
Transport	120 364	117 614	107 299	106 964
Trade	72 692	64 240	62 390	56 339
Financial services	27 238	95 695	55 003	80 812
Processing industry	48 881	38 979	36 845	36 652
Building	31 747	10 401	20 697	13 006
Governments	38 547	38 547	694	694
Other	77 454	64 432	73 234	72 397
Credit risk exposure relating to off-balance sheet items	**25 349**	**26 580**	**64 862**	**66 284**
Total	**649 513**	**641 805**	**873 805**	**870 572**

Renegotiated loans

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

Renegotiating may be:

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

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

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

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

The amount of Renegotiated loans as at December 31, 2008 is EUR 000 5 077 (2007: nil).

Collateral and other credit enhancements

The type and amount of collateral required depends on an assessment of the credit risk of the client/group of clients. The types of collateral and valuation parameters are obtained by Credit Policy and Monitoring Procedure. The main types of collateral are as follows: mortgage, ships, commercial collateral, deposits and securities; the Bank also accepts guarantees as additional (secondary) collateral. Management monitors the market value of collateral, paying special attention to the real estate property and corrects it accordingly taking into account the decrease of its value, in order to ensure loan-to-value or adequacy of the allowance for impairment losses.

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

Credit quality of loans and receivables to customers

	31.12.2008		31.12.2007	
	Group EUR'000	**Bank EUR'000**	**Group EUR'000**	**Bank EUR'000**
Loans and receivables to customers				
Neither past due nor impaired	332 402	342 301	420 257	416 621
Past due but not impaired	92 024	80 560	36 458	36 458
Impaired	53 928	48 864	6 682	5 872
Gross amount	**478 354**	**471 725**	**463 397**	**458 951**
(Provisions)	(14 260)	(14 024)	(1 729)	(1 592)
Total net loans and receivables to customers	**464 094**	**457 701**	**461 668**	**457 359**

As at 31 December 2008 and 31 December 2007 other financial assets: loans and receivables to banks, available-for-sale financial assets, contingent liabilities and commitments have been classified as neither past due nor impaired.

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

The table below represents the Group's and the Bank's an analysis of past due but not impaired loans as at 31 December 2008

Group	**Past due but not impaired**					
At 31 December 2008	**up to 30 days EUR'000**	**31 to 60 days EUR'000**	**61 to 90 days EUR'000**	**91 to 180 days EUR'000**	**More than 180 days EUR'000**	**Total EUR'000**
Mortgage loans	7 451	8 184	4 573	4 084	403	**24 695**
Industrial loans	21 283	20 558	9 181	-	-	**51 022**
Commercial loans	2 087	4 927	90	755	378	**8 237**
Consumer loans	1 299	191	29	14	4	**1 537**
Credit card	398	-	-	-	-	**398**
Finance leases	312	3 497	287	74	-	**4 170**
Factoring	92	-	177	-	-	**269**
Other	1 612	84	-	-	-	**1 696**
Total	**34 534**	**37 441**	**14 337**	**4 927**	**785**	**92 024**

Bank	**Past due but not impaired**					
At 31 December 2008	**up to 30 days EUR'000**	**31 to 60 days EUR'000**	**61 to 90 days EUR'000**	**91 to 180 days EUR'000**	**More than 180 days EUR'000**	**Total EUR'000**
Mortgage loans	6 981	8 184	1 723	2 284	31	**19 203**
Industrial loans	21 283	19 119	9 180	-	-	**49 582**
Commercial loans	2 028	4 888	90	723	-	**7 729**
Consumer loans	1 236	91	13	-	-	**1 340**
Credit card	398	-	-	-	-	**398**
Finance leases	115	177	-	51	-	**343**
Factoring loans	92	-	177	-	-	**269**
Other	1 612	84	-	-	-	**1 696**
Total	**33 745**	**32 543**	**11 183**	**3 058**	**31**	**80 560**

The table below represents an analysis of past due but not impaired loans of the Bank as at 31 December 2007; there were no past due but not impaired loans in Bank's subsidiaries as they have been classified as neither past due nor impaired.

Bank/Group	**Past due but not impaired**					
At 31 December 2007	**up to 30 days EUR'000**	**31 to 60 days EUR'000**	**61 to 90 days EUR'000**	**91 to 180 days EUR'000**	**More than 180 days EUR'000**	**Total EUR'000**
Mortgage loans	12 888	6 577	142	56	-	**19 663**
Industrial loans	5 294	3 331	-	-	-	**8 625**
Commercial loans	3 096	2 238	14	-	-	**5 348**
Consumer loans	565	-	6	-	-	**571**
Credit card	295	-	-	-	-	**295**
Finance leases	193	-	-	-	-	**193**
Other	142	1 621	-	-	-	**1 763**
Total	**22 473**	**13 767**	**162**	**56**	**-**	**36 458**

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

MARKET RISK

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

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

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

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

Interest rate risk

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

The sensitivity of the income statement is the effect of the assumed changes in interest rates on the net interest income (with equal effect on pre-tax profit) for one year, based on financial assets and financial liabilities (variable loan commitments are not included) categorised by the earlier of contractual re-pricing or maturity dates. The sensitivity of equity is calculated by revaluing fixed rate available-for-sale financial assets held at 31 December 2008 and is based on the assumption that there are parallel shifts in the yield curve discounting future cash flows by amended interest rate. There is the same effect on sensitivity of equity of the Group as only the Bank has available-for-sale assets revaluing them through the equity.

At 31 December 2008		**Bank**	**Group**	**Sensitivity of equity**			
Currency	**Increase in basis points**	**Sensitivity of net interest income**	**Sensitivity of net interest income**	**0 to 6 months**	**6 months to 1 year**	**More than 1 year**	**Total**
		EUR`000	**EUR`000**	**EUR`000**	**EUR`000**	**EUR`000**	**EUR`000**
LVL	+ 500	(1 485)	(1 439)	-	-	(73)	(73)
USD	+ 75	253	27	-	-	-	-
EUR	+ 50	120	111	-	-	-	-

At 31 December 2007		**Bank**	**Group**	**Sensitivity of equity**			
Currency	**Increase in basis points**	**Sensitivity of net interest income**	**Sensitivity of net interest income**	**0 to 6 months**	**6 months to 1 year**	**More than 1 year**	**Total**
		EUR`000	**EUR`000**	**EUR`000**	**EUR`000**	**EUR`000**	**EUR`000**
LVL	+ 300	265	280	-	-	(94)	(94)
USD	+ 150	(60)	(363)	-	-	-	-
EUR	+ 100	332	330	-	-	-	-

Interest rates decreasing have opposite effect on the net interest income

Currency risk

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

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

As at 31 December 2008 - Group	LVL	USD	EUR	Other currencies	Total
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
Assets					
Cash and due from the central bank	78 700	1 513	2 268	929	**83 410**
Loans and receivables to banks	1 972	26 053	5 780	26 592	**60 397**
Trading financial assets	-	10 829	258	2 086	**13 173**
Financial assets designated at fair value through profit or loss	-	-	661	-	**661**
Held-to-maturity financial investments	-	12 365	3 914	-	**16 279**
Derivative financial instruments	10 902	-	40	-	**10 942**
Loans to customers and receivables	56 475	155 655	245 530	6 434	**464 094**
Available-for-sale financial assets	38 622	720	15 537	-	**54 879**
Current tax assets	2 318	-	-	-	**2 318**
Investment property	6 214	-	-	-	**6 214**
Tangible fixed assets	3 337	-	413	120	**3 870**
Goodwill and other intangible assets	1 429	-	-	10	**1 439**
Other assets	1 232	144	118	365	**1 859**
Total assets	**201 201**	**207 279**	**274 519**	**36 536**	**719 535**
Liabilities and equity					
Due to the central bank and other banks	41 667	2 859	65 695	113	**110 334**
Derivative financial instruments	7 998	-	-	-	**7 998**
Customer deposits	115 549	173 319	193 981	16 178	**499 027**
Subordinated debt	2 490	36	10 240	-	**12 766**
Debt securities in issue	-	-	3 293	-	**3 293**
Current tax liabilities	-	-	-	497	**497**
Deferred tax liabilities	793	-	-	136	**929**
Other liabilities	2 477	652	485	455	**4 069**
Total liabilities	**170 974**	**176 866**	**273 694**	**17 379**	**638 913**
Share capital and reserves	76 098	-	-	4 489	**80 587**
Minority interest	35	-	-	-	**35**
Total liabilities and equity	**247 107**	**176 866**	**273 694**	**21 868**	**719 535**
Net balance sheet long/(short) position	**(45 906)**	**30 413**	**825**	**14 668**	
Spot foreign-exchange contracts long/(short) position	(330)	(4 533)	1 717	3 146	
Swap foreign-exchange contracts long/(short) position	46 044	(16 841)	(17 913)	(11 290)	
Forward foreign-exchange contracts long/(short) position	541	(10 565)	11 542	(1 518)	
Net open long/(short) currency position	**349**	**(1 526)**	**(3 829)**	**5 006**	
Currency open position in % from capital as of 31/12/2008		**1.82**	**4.56**		
As at 31 December 2007 - Group					
Net open long/(short) currency position	**(3 465)**	**2**	**758**	**2 705**	
Currency open position in % from capital as of 31/12/2007		**0.00**	**0.87**		

The table below indicates the currencies to which the Group had significant exposure at 31 December 2008 and at 31 December 2007 on its bank and trading monetary assets and liabilities and its forecast cash flows. The analysis calculates the effect of a reasonable possible movement of the currency rate against the lat, with all other variables held constant, on the income statement.

	31.12.2008		31.12.2007	
Currency	**Change in currency rate**	**Effect on income statement**	**Change in currency rate**	**Effect on income statement**
	%	**EUR`000**	**%**	**EUR`000**
USD	+15	(229)	+10	-
EUR	+10	(38)	+1	7

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

As at 31 December 2008 - Bank	**LVL**	**USD**	**EUR**	**Other currencies**	**Total**
	EUR’000	**EUR’000**	**EUR’000**	**EUR’000**	**EUR’000**
Assets					
Cash and due from the central bank	78 700	1 513	2 268	929	**83 410**
Loans and receivables to banks	1 972	25 580	5 771	24 646	**57 969**
Trading financial assets	-	10 829	258	2 086	**13 173**
Financial assets designated at fair value through profit or loss	-	-	661	-	**661**
Held-to-maturity financial investments	-	12 365	3 914	-	**16 279**
Derivative financial instruments	10 902	-	40	-	**10 942**
Loans to customers and receivables	56 478	154 966	245 729	528	**457 701**
Available-for-sale financial assets	38 622	720	15 537	-	**54 879**
Current tax assets	2 318	-	-	-	**2 318**
Investment property	6 214	-	-	-	**6 214**
Investment in subsidiaries	5 085	-	-	-	**5 085**
Tangible fixed assets	3 257	-	-	-	**3 257**
Goodwill and other intangible assets	1 150	-	-	-	**1 150**
Other assets	1 133	141	104	264	**1 642**
Total assets	**205 831**	**206 114**	**274 282**	**28 453**	**714 680**
Liabilities and equity					
Due to the central bank and other banks	41 667	1 584	65 298	111	**108 660**
Derivative financial instruments	7 998	-	-	-	**7 998**
Customer deposits	116 825	173 319	193 991	16 178	**500 313**
Subordinated debt	2 490	36	10 240	-	**12 766**
Debt securities in issue	-	-	3 293	-	**3 293**
Deferred tax liabilities	793	-	-	-	**793**
Other liabilities	2 287	640	357	334	**3 618**
Total liabilities	**172 060**	**175 579**	**273 179**	**16 623**	**637 441**
Share capital and reserves	77 239				77 239
Total liabilities and equity	**249 299**	**175 579**	**273 179**	**16 623**	**714 680**
Net balance sheet long/(short) position	**(43 468)**	**30 535**	**1 103**	**11 830**	
Spot foreign-exchange contracts long/(short) position	(330)	(4 533)	1 717	3 146	
Swap foreign-exchange contracts long/(short) position	46 044	(16 841)	(17 913)	(11 290)	
Forward foreign-exchange contracts long/(short) position	541	(10 565)	11 542	(1 518)	
Net open long/(short) currency position	**2 787**	**(1 404)**	**(3 551)**	**2 168**	
Currency open position in % from capital as of 31/12/2008		**1.7**	**4.3**		
As at 31 December 2007 - Bank					
Net open long/(short) currency position	**(3 523)**	**563**	**774**	**2 186**	
Currency open position in % from capital as of 31/12/2007		**0.65**	**0.89**		

As at 31 December 2008, the Bank’s open position was 7.23 % of the tier 1 and tier 2 of the share capital (2007: 4.14%).

According to the Law on Credit Institutions of the Republic of Latvia the total open position should not exceed 20% of the capital amount, and the open position for every currency should not exceed 10 %; the internal limits set by the Board during the 2008 were stronger (15 % and 7% accordingly).

The table below indicates the currencies to which the Bank had significant exposure at 31 December 2008 and at 31 December 2007 on its bank and trading monetary assets and liabilities and its forecast cash flows. The analysis calculates the effect of a reasonable possible movement of the currency rate against the lat, with all other variables held constant, on the income statement.

	31.12.2008		**31.12.2007**	
Currency	**Change in currency rate %**	**Effect on income statement EUR`000**	**Change in currency rate %**	**Effect on income statement EUR`000**
USD	+15	(211)	+10	57
EUR	+10	(36)	+1	7

Operational risk

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

4. SEGMENT INFORMATION

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

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

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

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

Insurance – provision of insurance agent services.

Primary segment information – business segments

The following tables present income and profit and certain asset and liability information regarding the Group’s business segments for the year ended 31 December 2008 and 2007:

As at 31 December 2008	Banking finance operations	Asset manage-ment	Insurance	Adjustment on consolidation	Total
	EUR’000	EUR’000	EUR’000	EUR’000	EUR’000
Revenue					
External operating income					
Net interest income	36 061	61	1	(61)	**36 062**
Net fee and commission income	9 194	724	108	98	**10 124**
Dividend income	27	-	-	-	**27**
Net trading income	6 102	(1)	-	(1)	**6 100**
Other operating income	2 290	-	-	(124)	**2 166**
Other operating expense	(1 262)	(47)	-	-	**(1 309)**
Net operating income	**52 412**	**737**	**109**	**(88)**	**53 170**
Impairment losses on financial investments	(18 418)	-	-	-	**(18 418)**
Result					
Net operating profit before tax	**4 721**	**455**	**(154)**	**(69)**	**4 953**
Income tax					(1 189)
Profit for the year					**3 764**
Assets and liabilities					
Segment assets	717 122	761	85	(751)	**717 217**
Unallocated assets	2 318	-	-	-	**2 318**
Total assets	**719 440**	**761**	**85**	**(751)**	**719 535**
Segment liabilities	637 367	67	195	(142)	**637 487**
Unallocated liabilities	1 426	-	-	-	**1 426**
Total liabilities	**638 793**	**67**	**195**	**(142)**	**638 913**
Other segment information					
Capital expenditure					
Tangible assets	3 852	5	13	-	**3 870**
Intangible assets	1 025	11	24	-	**1 060**
Depreciation	1 287	3	3	-	**1 293**
Amortisation of other intangible assets	387	6	10	-	**403**

As at 31 December 2007	Banking finance operations	Asset manage-ment	Insurance	Adjustment on consolidation	Total
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
Revenue					
External operating income					
Net interest income	24 621	33	-	(24)	**24 630**
Net fee and commission income	6 928	707	6	114	**7 755**
Dividend income	4	-	-	-	**4**
Net trading income	1 306	-	-	-	**1 306**
Other operating income	3 370	-	-	(121)	**3 249**
Other operating expense	(673)	(23)	(3)	-	**(699)**
Net operating income	**35 556**	**717**	**3**	**(31)**	**36 245**
Impairment losses on financial investments	(1 683)	-	-	-	**(1 683)**
Result					
Net operating profit before tax	**10 822**	**512**	**(28)**	**(24)**	**11 282**
Income tax					(2 439)
Profit for the year					**8 843**
Assets and liabilities					
Segment assets	881 098	681	64	(1 444)	**880 399**
Unallocated assets	-	-	-	-	**-**
Total assets	**881 098**	**681**	**64**	**(1 444)**	**880 399**
Segment liabilities	799 849	33	22	-	**799 904**
Unallocated liabilities	1 504	-	-	-	**1 504**
Total liabilities	**801 353**	**33**	**22**	**-**	**801 408**
Other segment information					
Capital expenditure					
Tangible assets	3 942	3	3	-	**3 948**
Intangible assets	912	-	17	-	**929**
Depreciation	1 133	3	-	-	**1 136**
Amortisation of other intangible assets	270	-	-	-	**270**

Secondary segment information – geographical segments

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

As at 31 December 2008	Latvia EUR`000	Other countries EUR`000	Adjustment on consolidation EUR`000	Total EUR`000
Revenue				
External operating income				
Net interest income	29 658	4 808	1 596	**36 062**
Net fee and commission income	10 047	74	3	**10 124**
Dividend income	27	-	-	**27**
Net trading income	6 151	(51)	-	**6 100**
Other operating income	2 066	100	-	**2 166**
Other operating expense	(1 308)	(1)	-	**(1 309)**
Net operating income	**46 641**	**4 930**	**1 599**	**53 170**
Impairment losses on financial investments	(18 239)	(179)	-	**(18 418)**
Total assets	**674 475**	**45 060**	**-**	**719 535**
Capital expenditure				
Tangible assets	3 749	121	-	**3 870**
Intangible assets	1 051	9	-	**1 060**

As at 31 December 2007	Latvia EUR`000	Other countries EUR`000	Adjustment on consolidation EUR`000	Total EUR`000
Revenue				
External operating income				
Net interest income	21 383	3 271	(24)	**24 630**
Net fee and commission income	7 561	80	114	**7 755**
Dividend income	4	-	-	**4**
Net trading income	1 273	33	-	**1 306**
Other operating income	3 351	19	(121)	**3 249**
Other operating expense	(686)	(13)	-	**(699)**
Net operating income	**32 886**	**3 390**	**(31)**	**36 245**
Impairment losses on financial investments	(1 559)	(124)	-	**(1 683)**
Total assets	851 321	30 522	(1 444)	**880 399**
Capital expenditure				
Tangible assets	3 813	135	-	**3 948**
Intangible assets	919	10	-	**929**

5. NET INTEREST INCOME

	2008		2007	
	Group EUR'000	Bank EUR'000	Group EUR'000	Bank EUR'000
Interest income	**66 745**	**61 829**	**49 594**	**47 431**
Loans and receivables to customers	52 621	45 634	36 888	34 774
Trading securities	3 073	3 073	6 820	6 820
Loans and receivables to banks	9 377	11 144	5 408	5 395
Available-for-sale securities	649	649	165	165
Held-to-maturity financial investments	1 097	1 097	-	-
Other	289	232	313	277
Interest expense	**30 683**	**30 764**	**24 964**	**24 991**
Deposits from banks	8 782	8 865	10 142	10 142
Customer deposits	19 232	19 230	9 844	9 871
Debt securities in issue	605	605	3 857	3 857
Payments in the Deposit Guarantee Fund	993	993	697	697
Subordinated debts	1 071	1 071	424	424
Net interest income	**36 062**	**31 065**	**24 630**	**22 440**

As at 31 December 2008, interest income accrued on impaired loans to customers amounted to EUR'000 1 273 (2007: EUR'000 98).

6. NET FEE AND COMMISSION INCOME

	2008		2007	
	Group EUR'000	Bank EUR'000	Group EUR'000	Bank EUR'000
Fee and commission income	**12 645**	**11 962**	**10 010**	**9 606**
Account services and money transfer fees	5 604	5 611	5 686	5 682
Payment cards	1 669	1 669	1 430	1 430
Asset management fees	901	408	874	561
Cash withdrawal	680	680	556	556
Brokerage services on securities	804	717	542	542
Commission for public utility payments	2 419	2 419	444	444
Commission on letters of credit and collection	154	154	129	129
Other	414	304	349	262
Fee and commission expense	**2 521**	**2 474**	**2 255**	**2 194**
Payment cards	1 316	1 316	1 003	1 003
Services of correspondent banks	640	640	591	582
Securities purchase and brokerage services	346	346	499	447
Other	219	172	162	162
Net fee and commission income	**10 124**	**9 488**	**7 755**	**7 412**

7. NET TRADING INCOME

	2008		2007	
	Group EUR'000	Bank EUR'000	Group EUR'000	Bank EUR'000
Profit/(loss) from trading financial assets, net	**(4 435)**	**(4 435)**	**(6 030)**	**(6 030)**
Bonds and other fixed income securities	***(3 947)***	***(3 947)***	***(6 332)***	***(6 332)***
Net trading profit/(loss)	(1 868)	(1 868)	(3 996)	(3 996)
Fair value adjustment	(2 079)	(2 079)	(2 336)	(2 336)
Shares and other non- fixed income securities	***(488)***	***(488)***	***302***	***302***
Net trading profit/(loss)	(128)	(128)	376	376
Fair value adjustment	(360)	(360)	(74)	(74)
Profit/(loss) from derivative instruments and foreign exchanges trading, net	**16 675**	**16 667**	**9 537**	**9 533**
Net trading profit/(loss)	13 899	13 891	9 197	9 193
Fair value adjustment	2 776	2 776	340	340
Profit/(loss) from revaluation of open position, net	**(5 245)**	**(5 186)**	**(2 279)**	**(2 308)**
Net trading income	**6 995**	**7 046**	**1 228**	**1 195**

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

	2008		2007	
	Group EUR'000	Bank EUR'000	Group EUR'000	Bank EUR'000
Profit/(loss) from financial assets designated at FV through PL, net	**(828)**	**(828)**	**79**	**79**
Net realised profit/(loss)	(411)	(411)	-	-
Fair value adjustment	(417)	(417)	**79**	**79**
Profit/(loss) from financial liabilities designated at FV through PL, net	**-**	**-**	**(1)**	**(1)**
Net realised profit/(loss)	-	-	(1)	(1)
Fair value adjustment	-	-	-	-
Total	**(828)**	**(828)**	**78**	**78**

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

	2008		2007	
	Group EUR'000	Bank EUR'000	Group EUR'000	Bank EUR'000
Bonds and other fixed income securities	(67)	(67)	-	-
Shares and other non-fixed income securities	-	-	-	-
Total	**(67)**	**(67)**	**-**	**-**

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

10. OTHER OPERATING INCOME

	2008		2007	
	Group EUR'000	Bank EUR'000	Group EUR'000	Bank EUR'000
Change in fair value of investment property (Note 24)	154	154	2 261	2 261
Penalties	1 230	1 134	434	434
Rent of investment property	613	613	343	343
Rent of premises	155	155	135	147
Other	14	161	76	169
Total	**2 166**	**2 217**	**3 249**	**3 354**

11. ADMINISTRATIVE EXPENSES

	2008		2007	
	Group EUR'000	Bank EUR'000	Group EUR'000	Bank EUR'000
Personnel expense	**15 916**	**14 159**	**11 386**	**10 842**
Personnel remuneration	12 136	10 895	8 813	8 384
Supervisory Council and Management Board remuneration	954	700	558	512
Social security contributions	2 826	2 564	2 015	1 946
Other expense	**12 187**	**11 871**	**10 488**	**10 258**
Professional services	2 416	2 315	1 813	1 709
Rent	2 231	2 108	1 705	1 685
Computer repair and communications	1 509	1 621	1 431	1 410
VAT	993	992	923	923
Public utilities and maintenance	845	828	894	887
Advertising	1 141	1 135	729	726
Rebranding	-	-	451	451
Write-off of leasehold improvement	229	229	448	448
Donations	330	330	415	415
Business trip	380	373	317	315
Security	342	333	246	239
Stationery and miscellaneous	303	290	225	215
Real estate tax	115	115	50	50
Other administrative expenses	1 353	1 202	841	785
Total	**28 103**	**26 030**	**21 874**	**21 100**

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

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

12. CORPORATE INCOME TAX

a) Components of corporate income tax	2008		2007	
	Group EUR'000	Bank EUR'000	Group EUR'000	Bank EUR'000
Corporate income tax expense for the year	940	236	1 895	1 640
Change in deferred tax liability	249	158	544	482
Total	**1 189**	**394**	**2 439**	**2 122**

b) Reconciliation of accounting profit to tax charge	2008		2007	
	Group EUR'000	Bank EUR'000	Group EUR'000	Bank EUR'000
Profit before taxation	**4 953**	**1 846**	**11 282**	**9 784**
Expected corporate income tax *	1 059	277	1 793	1 467
Tax effect of:				
(Untaxed income)/non-deductible expense	816	803	1 245	1 254
Sponsorship	(33)	(33)	(252)	(252)
Tax exemptions	(653)	(653)	(347)	(347)
Total	**1 189**	**394**	**2 439**	**2 122**

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

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

	2008		2007	
	Group EUR'000	Bank EUR'000	Group EUR'000	Bank EUR'000
Deferred tax asset at the beginning of year	-	-	(17)	-
Deferred tax asset (increase)/decrease for the year	-	-	17	-
Deferred tax asset at the year end	**-**	**-**	-	-
Deferred tax liability at the beginning of year	680	635	152	152
Deferred tax liability increase for the year	249	158	527	483
Foreign exchange	-	-	1	-
Deferred tax liability at the year end	**929**	**793**	**680**	**635**

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

	2008		2007	
Group	**Deferred tax asset EUR'000**	**Deferred tax liability EUR'000**	**Deferred tax asset EUR'000**	**Deferred tax liability EUR'000**
Loans to customers	-	(134)	-	(37)
Accruals for vacations	55	-	50	-
Revaluation of available-for-sale financial assets*	-	(253)	-	(98)
Depreciation and amortisation	-	(240)	-	(252)
Change in fair value of investment property	-	(360)	-	(339)
Other assets	-	-	1	-
Other liabilities	3	-	-	(5)
Tax loss carry-forwards	-	-	-	-
Total mutual off setting of asset/(liability)	**58**	**(987)**	**51**	**(731)**
Total non-mutual off setting of asset/(liability)	-	-	-	-
Net deferred tax asset/(liability)	**-**	**(929)**	**-**	**(680)**

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

Bank	2008 Deferred tax assets EUR'000	2008 Deferred tax liability EUR'000	2007 Deferred tax assets EUR'000	2007 Deferred tax liability EUR'000
Accruals for vacations	55	-	47	-
Revaluation of available-for-sale financial assets	-	(253)	-	(98)
Depreciation and amortisation	-	(235)	-	(245)
Change in fair value of investment property	-	(360)	-	(339)
Total mutual off setting of asset/(liability)	**55**	**(848)**	**47**	**(682)**
Net deferred tax asset/(liability)	**-**	**(793)**	**-**	**(635)**

13. CASH AND BALANCES WITH THE CENTRAL BANK

	31.12.2008 Group EUR'000	31.12.2008 Bank EUR'000	31.12.2007 Group EUR'000	31.12.2007 Bank EUR'000
Cash	7 635	7 635	11 675	11 675
Due from the central bank	75 775	75 775	48 309	48 309
Total	**83 410**	**83 410**	**59 984**	**59 984**

Balances with the Bank of Latvia represent funds held in the Bank's clearing account. In accordance with the regulations set by the Bank of Latvia, the Bank's average monthly correspondent account balance should not be less than the amount of the statutory reserve which is calculated on the basis of the balance of liabilities included in the reserve base, as at the end of month. As at 31 December 2008 and 2007 the amount of the statutory reserve of the Bank was EUR'000 30 355 and EUR'000 47 791, respectively.

14. LOANS TO AND RECEIVABLES FROM BANKS

	31.12.2008 Group EUR'000	31.12.2008 Bank EUR'000	31.12.2007 Group EUR'000	31.12.2007 Bank EUR'000
Demand placements with:	**45 956**	**45 166**	**57 605**	**57 456**
other countries banks	21 762	20 972	33 810	33 661
OECD countries banks	20 838	20 838	23 758	23 758
the Republic of Latvia banks	3 356	3 356	37	37
Loans to and receivables from:	**14 441**	**12 803**	**211 442**	**211 352**
Banks of the OECD countries	245	245	192 115	192 115
Banks of other countries	12 224	10 586	17 854	17 854
Banks of the Republic of Latvia	1 972	1 972	1 473	1 383
Total	**60 397**	**57 969**	**269 047**	**268 808**

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

15. TRADING FINANCIAL ASSETS

	31.12.2008		31.12.2007	
	Group EUR'000	Bank EUR'000	Group EUR'000	Bank EUR'000
Trading bonds and other fixed income securities	**12 914**	**12 914**	**52 689**	**52 689**
Other country bonds	11 601	11 601	51 333	51 333
OECD country bonds	1 313	1 313	1 356	1 356
Trading shares and other non- fixed income securities	**259**	**259**	**1 238**	**1 238**
Other country shares	259	259	1 238	1 238
Total	**13 173**	**13 173**	**53 927**	**53 927**

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

	31.12.2008		31.12.2007	
	Group EUR'000	Bank EUR'000	Group EUR'000	Bank EUR'000
Fund participations	**661**	**661**	**2 069**	**2 069**
Latvian funds	661	661	2 069	2 069

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

17. DERIVATIVE FINANCIAL INSTRUMENTS

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

	31.12.2008			31.12.2007		
	Assets EUR'000	Liabilities EUR'000	Notional amount EUR'000	Assets EUR'000	Liabilities EUR'000	Notional amount EUR'000
Swaps	9 498	6 098	1 215 216	5 410	4 724	1 105 564
Spot	1 107	1 062	331 099	1 280	1 349	553 637
Forwards	297	838	69 581	810	1 004	42 145
Options	40	-	901	97	-	1 060
Total	**10 942**	**7 998**	**1 616 797**	**7 597**	**7 077**	**1 702 406**

18. LOANS TO AND RECEIVABLES FROM CUSTOMERS

	31.12.2008		31.12.2007	
	Group EUR'000	Bank EUR'000	Group EUR'000	Bank EUR'000
Net loans to:	**457 589**	**425 674**	**455 772**	**451 463**
Private companies	351 070	338 631	328 442	338 232
Individuals	120 779	101 067	129 059	114 823
Allowance for impairment losses (Note 19)	(14 260)	(14 024)	(1 729)	(1 592)
Receivables from:	**6 505**	**32 027**	**5 896**	**5 896**
Finance companies	6 505	32 027	**5 896**	**5 896**
Total net loans and receivables from customers, net	**464 094**	**457 701**	**461 668**	**457 359**
Geographical segmentation of loans and receivables				
Net loans to:	**457 589**	**425 674**	**455 772**	**451 463**
Residents of Latvia	281 046	256 114	288 267	288 267
Residents of the other countries	180 369	173 150	156 179	151 733
Residents of OECD countries	10 434	10 434	13 055	13 055
Allowance for impairment losses (Note 19)	(14 260)	(14 024)	(1 729)	(1 592)
Receivables from:	**6 505**	**32 027**	**5 896**	**5 896**
Residents of OECD countries	6 499	6 499	5 889	5 889
Residents of the other countries	-	-	4	4
Residents of Latvia	6	25 528	3	3
Total loans to and receivables from customers	**464 094**	**457 701**	**461 668**	**457 359**

	31.12.2008		31.12.2007	
	Group EUR'000	Bank EUR'000	Group EUR'000	Bank EUR'000
Analysis of loans by type				
Industrial loans	117 656	116 219	130 354	130 354
Mortgage loans	118 056	89 948	93 009	85 483
Commercial loans	112 486	123 285	90 811	101 619
Consumer loans	51 088	44 960	57 144	49 553
Reverse Repo transactions	25 655	25 655	56 650	56 650
Credit card balances	14 308	14 308	12 743	12 743
Finance leases	12 613	5 572	6 813	6 813
Factoring loans	552	552	2 652	2 652
Other	5 175	5 175	5 596	5 596
Net loans to customers	**457 589**	**425 674**	**455 772**	**451 463**

The Group has received securities at fair value EUR'000 30 109 (at 31 December 2007: EUR'000 58 359) as collateral for reverse repo deals and the Group is permitted to sell or repledge them. As at 31 December 2008 have not been sold or repledged (at 31 December 2007: EUR'000 nil).
Bank's average interest rates are: LVL 18.04%, USD 7.30%, EUR 8.40%.

Finance leases	31.12.2008		31.12.2007	
	Group EUR'000	Bank EUR'000	Group EUR'000	Bank EUR'000
Gross investments	**14 603**	**6 545**	**8 399**	**8 399**
Within 1 year	1 777	1 675	1 679	1 679
From 1 year to 5 years	8 315	4 621	5 257	5 257
More than 5 years	4 511	249	1 463	1 463
Unearned income	**1 990**	**973**	**1 586**	**1 586**
Within 1 year	351	348	603	603
From 1 year to 5 years	1 134	622	910	910
More than 5 years	505	3	73	73
Present value of minimum lease payments	**12 613**	**5 572**	**6 813**	**6 813**
Within 1 year	1 426	1 326	1 076	1 076
From 1 year to 5 years	7 181	4 000	4 347	4 347
More than 5 years	4 006	246	1 390	1 390

19. IMPAIRMENT LOSSES ON FINANCIAL ASSETS

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

Group	At 31 December 2007 EUR'000	Increase in allowance EUR'000	Written off EUR'000	Released from allowance EUR'000	Foreign exchange EUR'000	At 31 December 2008 EUR'000
Industrial loans	45	3 086	(196)	-	-	**2 935**
Commercial loans	52	1 107	(720)	(51)	-	**388**
Consumer loans	1 049	5 296	(389)	(355)	2	**5 603**
Credit cards	518	1 625	(618)	(95)	-	**1 430**
Finance leasing	43	20	(43)	-	-	**20**
Factoring	-	21	(21)	-	-	-
Mortgage loans	22	5 343	(2 709)	(23)	-	**2 633**
Reverse repo	-	1 257	-	-	(6)	**1 251**
Provisions for held-to-maturity financial investments	-	1 259	-	-	-	**1 259**
Other provisions	-	10	-	-	1	**11**
Total	**1 729**	**19 024**	**(4 696)**	**(524)**	**(3)**	**15 530**

Group at 31 December, 2008	Individual impair-ment	Collective impairment	Total	Gross amount of financial assets, individually determined to be impaired, before deducting any individually assessed impairment allowance
	EUR'000	EUR'000	EUR'000	EUR'000
Industrial loans	2 935	-	**2 935**	**14 200**
Commercial loans	388	-	**388**	**3 042**
Consumer loans	4 859	744	**5 603**	**6 623**
Credit cards	1 271	159	**1 430**	**1 816**
Finance leasing	20	-	**20**	**93**
Mortgage loans	2 633	-	**2 633**	**15 235**
Reverse repo	1 251	-	**1 251**	**4 371**
Provisions for held-to-maturity financial assets	1 259	-	**1 259**	**17 538**
Other provisions	11	-	**11**	**11**
Total	**14 627**	**903**	**15 530**	**62 929**

Group	At 31 December 2006	Increase in allowance	Written off	Released from allowance	Foreign exchange	At 31 December 2007
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
Industrial loans	58	-	-	(13)	-	**45**
Commercial loans	30	44	-	(24)	2	**52**
Consumer loans	17	1 133	(98)	(6)	3	**1 049**
Credit cards	57	851	(357)	(33)	-	**518**
Finance leasing	110	13	(44)	(36)	-	**43**
Mortgage loans	-	21	-	-	1	**22**
Total	**272**	**2 062**	**(499)**	**(112)**	**6**	**1 729**

Group at 31 December, 2007	Individual impairment	Collective impairment	Total	Gross amount of financial assets, individually determined to be impaired, before deducting any individually assessed impairment allowance
	EUR\`000	EUR\`000	EUR'000	EUR\`000
Industrial loans	45	-	**45**	**45**
Commercial loans	6	46	**52**	**9**
Consumer loans	646	403	**1 049**	**646**
Credit cards	477	41	**518**	**477**
Finance leasing	43	-	**43**	**43**
Mortgage loans	-	22	**22**	**-**
Total	**1 217**	**512**	**1 729**	**1 220**

Group	2008	2007
	EUR’000	EUR’000
Result from allowance for impairment losses	**(18 418)**	**(1 683)**
Increase in allowance	(19 024)	(2 062)
Released from allowance (loans)	524	112
Recovery of previously written-off assets	82	267

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

Bank	At 31 December 2007 EUR’000	Increase in allowance EUR’000	Written off EUR’000	Released from allowance EUR’000	Foreign exchange EUR’000	At 31 December 2008 EUR’000
Industrial loans	45	3 086	(196)	-	-	**2 935**
Commercial loans	6	1 107	(720)	(6)	-	**387**
Consumer loans	980	5 044	(288)	(350)	-	**5 386**
Credit cards	518	1 625	(618)	(95)	-	**1 430**
Finance leasing	43	1	(43)	-	-	**1**
Factoring	-	21	(21)	-	-	-
Mortgage loans	-	5 343	(2 709)	-		**2 634**
Reverse repo	-	1 257	-	-	(6)	**1 251**
Provisions for held-to-maturity financial assets	-	1 259	-	-	-	**1 259**
Other provisions	-	10	-	-	1	**11**
Total	**1 592**	**18 753**	**(4 595)**	**(451)**	**(5)**	**15 294**

Bank At 31 December, 2008	Individual impairment	Collective impairment	Total	Gross amount of financial assets, individually determined to be impaired, before deducting any individually assessed impairment allowance
	EUR’000	EUR’000	EUR’000	EUR’000
Industrial loans	2 935	-	**2 935**	**14 200**
Commercial loans	387	-	**387**	**3 042**
Consumer loans	4 859	527	**5 386**	**6 623**
Credit cards	1 271	159	**1 430**	**1 816**
Finance leasing	1	-	**1**	**51**
Mortgage loans	2 634	-	**2 634**	**15 235**
Reverse repo	1 251	-	**1 251**	**4 371**
Provisions for held-to-maturity financial assets	1 259	-	**1 259**	**17 538**
Other provisions	11	-	**11**	**11**
Total	**14 608**	**686**	**15 294**	**62 887**

Bank	At 31 December 2006	Increase in allowance	Written off	Released from allowance	Foreign exchange	At 31 December 2007
	EUR’000	EUR’000	EUR’000	EUR’000	EUR’000	EUR’000
Industrial loans	58	-	-	(13)	-	**45**
Commercial loans	30	1	-	(24)	(1)	**6**
Consumer loans	10	1 073	(97)	(6)	-	**980**
Credit cards	57	851	(357)	(33)	-	**518**
Finance leasing	110	13	(44)	(36)	-	**43**
Total	**265**	**1 938**	**(498)**	**(112)**	**(1)**	**1 592**

Bank At 31 December, 2007	Individual impairment	Collective impairment	Total	Gross amount of financial assets, individually determined to be impaired, before deducting any individually assessed impairment allowance
	EUR`000	EUR`000	EUR’000	EUR`000
Industrial loans	45	-	**45**	**45**
Commercial loans	6	-	**6**	**9**
Consumer loans	646	334	**980**	**646**
Credit cards	477	41	**518**	**477**
Finance leasing	43	**-**	**43**	**43**
Total	**1 217**	**375**	**1 592**	**1 220**

Bank	**2008**	**2007**
	EUR’000	**EUR’000**
Result from allowance for impairment losses	**(18 220)**	**(1 559)**
Increase in allowance	(18 753)	(1 938)
Released from allowance (loans)	451	112
Recovery of previously written-off assets	82	267

20. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	31.12.2008		**31.12.2007**	
	Group	**Bank**	**Group**	**Bank**
	EUR’000	**EUR’000**	**EUR’000**	**EUR’000**
Bonds and other fixed income securities	**39 342**	**39 342**	**1 381**	**1 381**
Latvian bonds	38 622	38 622	694	694
OECD country bonds	17	17	-	-
Other country bonds	703	703	687	687
Shares and other non-fixed income securities	**15 537**	**15 537**	**11 763**	**11 763**
EU country funds	15 537	15 537	11 763	11 763
Total	**54 879**	**54 879**	**13 144**	**13 144**

As of 31 December 2008 JSC Norvik Bank has investments into multi-fund company Norvik Malta SICAV Plc in the amount of 15.5 m EUR (31.12.2007: 11.8 m EUR). Norvik Malta SICAV PLC is a collective investment scheme established as a multi fund company with variable share capital. The Bank’s shares are without voting rights. 99.9% of voting rights are held by the consultant to the Bank and 0.1% of voting rights are held by investment management company JSC „Norvik ieguldījumu pārvaldes sabiedrība". Norvik Malta SICAV PLC as a fund is not consolidated as the Bank believes that it does not have power to govern the financial and operating policies of the funds so as to obtain benefits from its activities.

As of 31 December 2008 the Bank's investments in these funds were allocated as follows: 9.2 m EUR in investment properties (31.12.2007: 6.5 m EUR), 2.3 m EUR in loans and advances to customers (31.12.2007: nil), 2.6 m EUR in available for sale securities (31.12.2007: 1.8 m EUR), 1.3 m EUR in cash and due from credit institutions (31.12.2007: 3.3 m EUR) and 0.14 m EUR in other assets (31.12.2007: 0.14 m EUR).

21. HELD-TO-MATURITY FINANCIAL INVESTMENTS

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

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

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

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

	EUR'000
Value of reclassified Finansial instruments held for trading at 30 October, 2008	17 084
Losses, reversed due to reclassification	1 752
Interest income from reclassification	188
Held-to-maturity financial instrument's book value at 30 October, 2008	**19 024**

The effective rate of reclassified financial instrument is from 9 to 52%. If the reclassification have not been made, then during the period from 30 October, 2008 until 31 December, 2008 the negative revaluation result would be EUR'000 6 860

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

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

22. INVESTMENT IN SUBSIDIARIES

As at 31 December 2008 the Bank had the following investment in the subsidiaries:

Company	Country and address of registration	Business profile	Share capital	Bank's investments	Bank's share capital	Total equity value	Goodwill
			EUR'000	EUR'000	%	EUR'000	EUR'000
JSC "NORVIK Ieguldījumu pārvaldes sabiedrība"	Latvia, Riga, E.Birznieka-Upīša str. 21	Finance	1 074	1 181	94.95	694	379
JSC "NORVIK" Universal Credit Organization	Armenia, Yerevan, Khanjyan str. 41	Finance	3 001	2 766	100	7 420	-
"NORVIK Līzings" SIA	Latvia, Riga, E.Birznieka-Upīša str. 21	Finance	996	996	100	373	-
"NORVIK TECHNOLOGY" SIA	Latvia, Riga, E.Birznieka-Upīša str. 21	IT service	142	142	100	58	-
				5 085			

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

In February 2008, the Bank has increased the capital of JSC "NORVIK LĪZINGS" (Latvia) by EUR `000 711, as result of which the capital of this subsidiary company now amounts to EUR`000 996.

23. GOODWILL AND OTHER INTANGIBLE ASSETS

	31.12.2008		31.12.2007	
	Group	Bank	Group	Bank
	EUR'000	EUR'000	EUR'000	EUR'000
Goodwill	379	-	379	-
Other intangible assets	1 012	1 107	918	842
Prepayments for intangible assets	48	43	11	11
Net book value of other intangible assets	**1 439**	**1 150**	**1 308**	**853**

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

Group **EUR `000**	**Goodwill**	**Other intangible assets**	**Prepayments for other intangible assets**	**Total**
Historical cost				
At 31 December 2007	**379**	**1 794**	**11**	**2 184**
Additions	-	498	174	**672**
Disposals	-	(41)	(137)	**(178)**
At 31 December 2008	**379**	**2 251**	**48**	**2 678**
Amortisation				
At 31 December 2007	**-**	**876**	**-**	**876**
Charge	-	403	-	**403**
Disposals	-	(40)	-	**(40)**
At 31 December 2008	**-**	**1 239**	**-**	**1 239**
Net book value				
At 31 December 2007	**379**	**918**	**11**	**1 308**
At 31 December 2008	**379**	**1 012**	**48**	**1 439**

Group **EUR `000**	**Goodwill**	**Other intangible assets**	**Prepayments for other intangible assets**	**Total**
Historical cost				
At 31 December 2006	**379**	**1 356**	**-**	**1 735**
Additions	-	560	146	**706**
Disposals	-	(122)	(135)	**(257)**
At 31 December 2007	**379**	**1 794**	**11**	**2 184**
Amortisation				
At 31 December 2006	**-**	**727**	**-**	**727**
Charge	-	271	-	**271**
Disposals	-	(122)	-	**(122)**
At 31 December 2007	**-**	**876**	**-**	**876**
Net book value				
At 31 December 2006	**379**	**629**	**-**	**1 008**
At 31 December 2007	**379**	**918**	**11**	**1 308**

Goodwill acquired through business combination with indefinite lives have been allocated for impairment testing to one individual cash-generating unit – Investment Funds Management, which is included into reportable segment Asset Management.

Bank **EUR `000**	**Other intangible assets**	**Prepayments for other intangible assets**	**Total**
Historical cost			
At 31 December 2007	**1 713**	**11**	**1 724**
Additions	627	168	795
Disposals	(41)	(136)	(177)
At 31 December 2008	**2 299**	**43**	**2 342**
Amortisation			
At 31 December 2007	**871**	**-**	**871**
Charge	361	-	361
Disposals	(40)	-	(40)
At 31 December 2008	**1 192**	**-**	**1 192**
Net book value			
At 31 December 2007	**842**	**11**	**853**
At 31 December 2008	**1 107**	**43**	**1 150**

Bank **EUR `000**	**Other intangible assets**	**Prepayments for other intangible assets**	**Total**
Historical cost			
At 31 December 2006	**1 344**	**1**	**1 345**
Additions	491	145	**636**
Disposals	(122)	(135)	**(257)**
At 31 December 2007	**1 713**	**11**	**1 724**
Amortisation			
At 31 December 2006	**726**	**-**	**726**
Charge	267	-	**267**
Disposals	(122)	-	**(122)**
At 31 December 2007	**871**	**-**	**871**
Net book value			
At 31 December 2006	**618**	**-**	**619**
At 31 December 2007	**842**	**11**	**853**

24. INVESTMENT PROPERTY

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

EUR'000	**Building**
As at 31 December 2006	-
Reclassification	3 721
Net change in fair value	2 261
Additions	28
As at 31 December 2007	**6 010**
Reclassification	-
Net change in fair value	154
Additions	50
As at 31 December 2008	**6 214**

Investment property is stated at fair value, which has been determined based on valuation performed by CJSC "Independent consulting group 2K Audit – Business consultations" *("ЗАО "Независимая консалтинговая группа «2К Аудит –Деловые консультации»)*, an industry specialist in valuing these types of investment properties, at 19 December 2008. The fair value represents the amount at which the assets could be exchanged between a knowledgeable, willing buyer and a knowledgeable, willing seller in an arm's length transaction at the date of valuation. Net change in fair value of investment property is recognized in the income statement in "Other operating income".

All investment property generated rental income during 2008. The property rental income earned by the Bank from its investment property, all of which is leased out to a related company under an operating lease agreement, amounted to EUR'000 615, at the same time the related property maintenance expense including real estate tax was EUR'000 172.

25. TANGIBLE FIXED ASSETS

	31.12.2008		31.12.2007	
	Group EUR'000	**Bank EUR'000**	**Group EUR'000**	**Bank EUR'000**
Lands and buildings	939	939	1 339	1 339
Vehicles	829	327	421	342
Office equipment and other fixed assets	1 956	1 845	1 840	1 763
Prepayments for tangible fixed assets	46	46	4	4
Leasehold improvements	100	100	344	344
Net book value of tangible fixed assets	**3 870**	**3 257**	**3 948**	**3 792**

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

EUR'000	Land and Buildings	Vehicles	Office equipment and other fixed assets	Prepayments for tangible fixed assets	Leasehold improvements	Total
Historical cost						
At 31 December 2007	**4 240**	**498**	**5 030**	**5**	**344**	**10 117**
Additions	-	48	868	464	-	**1 380**
Reclassification	-	-	-	-	-	**-**
Disposals	-	(10)	(275)	(423)	(244)	**(952)**
At 31 December 2008	**4 240**	**536**	**5 623**	**46**	**100**	**10 545**
Depreciation						
At 31 December 2007	**2 901**	**156**	**3 268**	**-**	**-**	**6 325**
Charge	400	60	785	-	-	**1 245**
Disposals	-	(7)	(275)	-	-	**(282)**
At 31 December 2008	**3 301**	**209**	**3 778**	**-**	**-**	**7 288**
Net book value						
At 31 December 2007	**1 339**	**342**	**1 762**	**5**	**344**	**3 792**
At 31 December 2008	**939**	**327**	**1 845**	**46**	**100**	**3 257**
Fair value	**5 845**	**-**	**-**	**-**	**-**	**-**

EUR’000	Land and Buildings	Vehicles	Office equipment and other fixed assets	Prepayments for tangible fixed assets	Leasehold improvements	Total
Historical cost						
At 31 December 2006	**6 989**	**481**	**4 518**	**283**	**808**	**13 079**
Additions	84	54	812	696	773	**2 419**
Reclassification (Note 24)	(2 833)	-	-	(115)	(773)	**(3 721)**
Disposals	-	(37)	(300)	(859)	(464)	**(1 660)**
At 31 December 2007	**4 240**	**498**	**5 030**	**5**	**344**	**10 117**
Depreciation						
At 31 December 2006	**2 501**	**142**	**2 888**	**-**	**-**	**5 531**
Charge	400	51	663	-	-	**1 114**
Disposals	-	(37)	(283)	-	-	**(320)**
At 31 December 2007	**2 901**	**156**	**3 268**	**-**	**-**	**6 325**
Net book value						
At 31 December 2006	**4 488**	**339**	**1 630**	**283**	**808**	**7 548**
At 31 December 2007	**1 339**	**342**	**1 762**	**5**	**344**	**3 792**
Fair value	**6 915**	**-**	**-**	**-**	**-**	**-**

26. OTHER ASSETS

	31.12.2008		31.12.2007	
	Group EUR’000	Bank EUR’000	Group EUR’000	Bank EUR’000
Deferred expenses	430	427	485	434
Accrued income	337	309	277	212
VAT	326	260	216	216
Cards transactions	122	122	127	127
Other debtors	644	524	592	555
Total	**1 859**	**1 642**	**1 697**	**1 544**

27. MANAGED TRUST ASSETS AND LIABILITIES

	31.12.2008		31.12.2007	
	Group EUR’000	Bank EUR’000	Group EUR’000	Bank EUR’000
Managed trust assets	**42 624**	**42 624**	**61 407**	**61 407**
Debt securities	20 472	20 472	31 477	31 477
Loans	15 499	15 499	21 744	21 744
Shares and other securities with non-fixed income	797	797	1 918	1 918
Due from credit institutions	810	810	793	793
Other	5 046	5 046	5 475	5 475
Managed trust liabilities	**42 624**	**42 624**	**61 407**	**61 407**
Private companies	42 318	42 318	60 219	60 219
Individuals	306	306	1 188	1 188

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

28. DUE TO THE CENTRAL BANK AND OTHER BANKS

	31.12.2008		31.12.2007	
	Group EUR'000	Bank EUR'000	Group EUR'000	Bank EUR'000
Demand deposits	**36 258**	**36 258**	**6 899**	**6 899**
Banks registered in Latvia	34 813	34 813	3 129	3 129
Banks registered in other countries	384	384	3 081	3 081
Banks registered in OECD countries	1 061	1 061	689	689
Term deposits	**74 076**	**72 402**	**124 441**	**124 441**
Banks registered in OECD countries	64 183	64 183	114 915	114 915
Banks registered in other countries	1 674	-	6 514	6 514
Banks registered in Latvia	8 219	8 219	3 012	3 012
Total	**110 334**	**108 660**	**131 340**	**131 340**

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

29. CUSTOMER DEPOSITS

	31.12.2008		31.12.2007	
	Group EUR'000	Bank EUR'000	Group EUR'000	Bank EUR'000
Current accounts	**207 482**	**207 641**	**210 151**	**210 285**
Private companies	182 634	182 802	185 295	185 429
Individuals	24 233	24 224	24 173	24 173
Public organizations	249	249	400	400
Government companies	327	327	209	209
Local government	39	39	74	74
Fixed-term deposits	**291 545**	**292 672**	**426 408**	**426 937**
Private companies	142 982	144 099	318 322	318 851
Individuals	130 410	130 420	99 351	99 351
Government companies	18 103	18 103	8 537	8 537
Public organizations	50	50	198	198
Total	**499 027**	**500 313**	**636 559**	**637 222**
Geographical segmentation of customer deposits				
Current accounts	**207 482**	**207 641**	**210 151**	**210 285**
Residents of the other countries	123 855	123 855	121 744	121 744
Residents of Latvia	49 856	50 015	46 043	46 176
Residents of OECD countries	33 771	33 771	42 364	42 365
Fixed-term deposits	**291 545**	**292 672**	**426 408**	**426 937**
Residents of OECD countries	7 204	7 204	195 239	195 239
Residents of the other countries	129 548	129 548	118 433	118 433
Residents of Latvia	154 793	155 920	112 736	113 265
Total	**499 027**	**500 313**	**636 559**	**637 222**

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

30. SUBORDINATED DEBT

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

	Maturity	Interest rate (%)	Currency	31.12.2008 EUR'000	31.12.2007 EUR'000
"Straumborg Ehf." (Iceland)	2013	9	EUR	8 142	7 473
"Ice-Balt Invest Ehf." (Iceland)	2013	9	EUR	1 350	1 350
Other persons	2009-2013	6-10	LVL, USD,EUR	3 274	3 274
Total				**12 766**	**12 097**

31. DEBT SECURITIES IN ISSUE

	31.12.2008.				31.12.2007.			
	Nominal EUR`000	Effective interest rate, %	Group EUR'000	Bank EUR'000	Nominal ISK`000	Effective interest rate, %	Group EUR'000	Bank EUR'000
Corporate bills	3 370	7.87	3 293	3 293	810 000	16.33	8 352	8 352
Total	**3 370**	**7.87**	**3 293**	**3 293**	**810 000**	**16.33**	**8 352**	**8 352**

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

32. OTHER LIABILITIES

	31.12.2008		31.12.2007	
	Group EUR'000	Bank EUR'000	Group EUR'000	Bank EUR'000
Payments collected on behalf of communal utilities providers	473	473	1 357	1 357
Accrued expenses	1 474	1 474	837	808
Cards transactions	21	21	650	650
Accruals for vacations	437	371	314	314
Suspense amounts	223	223	305	305
Deferred income	70	70	53	53
Other	1 371	986	963	716
Total	**4 069**	**3 618**	**4 479**	**4 203**

Suspense amounts represent payments received by the Bank where the beneficiary is not clearly identified and are cleared after year-end.

Based on cooperation agreements *Payments collected on behalf of communal utilities providers* are transferred to providers after year end.

33. SHARE CAPITAL

	31.12.2008		31.12.2007	
	Quantity`000	EUR `000	Quantity`000	EUR `000
Registered and paid – in share capital	**40 500**	**57 626**	**40 500**	**57 626**

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

	31.12.2008			31.12.2007		
	Number of shares	% of total shares	Paid up share capital EUR'000	Number of shares	% of total shares	Paid up share capital EUR'000
"Straumborg Ehf."(Iceland)	20 705 879	51.13	29 462	20 705 879	51.13	29 462
J. Šapurovs	8 007 091	19.77	11 393	8 007 091	19.77	11 393
A. Svirčenkovs	8 007 089	19.77	11 393	8 007 089	19.77	11 393
Other (individually less than 10%)	3 779 869	9.33	5 378	3 779 869	9.33	5 378
Total	**40 499 928**	**100.00**	**57 626**	**40 499 928**	**100.00**	**57 626**

34. EARNINGS PER SHARE

Earnings per share are based on net profit attributable to ordinary equity holders of the parent divided by the weighted average number of issued shares. As of 31 December 2008 and 2007 there is no difference between basic and diluted earnings per share calculation.

	Group 31.12.2008	Group 31.12.2007
Net profit (EUR'000)	3 761	8 846
Weighted average number of ordinary shares	40 500	26 500
Earnings per share (EUR)	**0.09**	**0.33**

35. CASH AND CASH EQUIVALENTS

	31.12.2008		31.12.2007	
	Group EUR'000	Bank EUR'000	Group EUR'000	Bank EUR'000
Cash and balances due on demand from the Bank of Latvia	83 410	83 410	59 984	59 984
Balances due from other banks with original maturity of 3 months or less	50 990	48 563	252 749	252 510
Total	**134 400**	**131 973**	**312 733**	**312 494**

36. COMMITMENTS AND CONTINGENCIES

	31.12.2008		31.12.2007	
	Group EUR'000	Bank EUR'000	Group EUR'000	Bank EUR'000
Contingent liabilities	**6 002**	**7 506**	**5 815**	**6 659**
Guarantees	5 932	7 436	5 747	6 591
Other	70	70	68	68
Commitments	**19 347**	**19 074**	**59 047**	**59 625**
Unused credit lines	18 405	18 132	58 260	58 838
Letters of credit	942	942	787	787
Total off-balance sheet items, gross	**25 349**	**26 580**	**64 862**	**66 284**

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

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

37. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

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

	31.12.2008.			31.12.2007.		
Group	Carrying value EUR'000	Fair value EUR'000	Difference EUR'000	Carrying value EUR'000	Fair value EUR'000	Difference EUR'000
Financial assets						
Cash and balances with the central bank	83 410	83 410	-	59 984	59 984	-
Loans and receivables to banks	60 397	61 165	768	269 047	269 579	532
Trading financial assets	13 173	13 173	-	53 927	53 927	-
Financial assets designated at fair value through profit or loss	661	661	-	2 069	2 069	-
Derivative financial instruments	10 942	10 942	-	7 597	7 597	-
Loans to customer and receivables	464 094	478 173	14 079	461 668	470 831	9 163
Available-for-sale financial assets	54 879	54 879	-	13 144	13 144	-
Held-to-maturity financial assets	16 279	10 400	(5 879)	-	-	-
Financial liabilities						
Due to the central bank and other banks	110 334	110 872	(538)	131 340	131 971	(631)
Derivative financial instruments	7 998	7 998	-	7 077	7 077	-
Customer deposits	499 027	499 770	(743)	636 559	638 060	(1 501)
Subordinated debt	12 766	12 766	-	12 097	12 097	-
Debt securities in issue	3 293	3 334	(41)	8 352	8 393	(41)
Total difference			**7 646**			**7 522**

Bank	31.12.2008. Carrying value EUR'000	31.12.2008. Fair value EUR'000	31.12.2008. Difference EUR'000	31.12.2007. Carrying value EUR'000	31.12.2007. Fair value EUR'000	31.12.2007. Difference EUR'000
Financial assets						
Cash and balances with the central bank	83 410	83 410	-	59 984	59 984	-
Loans and receivables to banks	57 969	58 737	768	268 808	269 340	532
Trading financial assets	13 173	13 173	-	53 927	53 927	-
Financial assets designated at fair value through profit or loss	661	661	-	2 069	2 069	-
Derivative financial instruments	10 942	10 942	-	7 597	7 597	-
Loans to customer and receivables	457 701	471 780	14 079	457 359	466 522	9 163
Available-for-sale financial assets	54 879	54 879	-	13 144	13 144	-
Held-to-maturity financial assets	16 279	10 400	(5 879)			
Financial liabilities						
Due to the central bank and other banks	108 660	109 198	(538)	131 340	131 971	(631)
Derivative financial instruments	7 998	7 998	-	7 077	7 077	-
Customer deposits	500 313	501 056	(743)	637 222	638 723	(1 501)
Subordinated debt	12 766	12 766	-	12 097	12 097	-
Debt securities in issue	3 293	3 334	(41)	8 352	8 393	(41)
Total difference			**7 646**			**7 522**

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

- For financial assets and liabilities that have a short term maturity (such as overdrafts, money market deals with maturity less than 3 months) it is assumed that the carrying amounts approximate to their fair value. This assumption is also applied to demand deposits, current accounts without a specific maturity and subordinated debts with special conditions which permit for such debts to be eligible as tier 2 capital.
- The fair value of fixed rate financial assets and liabilities carried at amortised cost are estimated as the present value of future cash flows using average market interest rates for loans and debts with similar credit risk and maturity.
- No future loan losses, adjustments related to future probable loan restructurisation, early repayment considered.

38. FINANCIAL INSTRUMENTS RECORDED AT FAIR VALUE

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

As at 31 December 2008 - Group	Quoted market EUR'000	Valuation techniques – market observable inputs EUR'000	Valuation techniques – non-market observable inputs EUR'000	Total EUR'000
Financial assets	**51 852**	**12 266**	**15 537**	**79 655**
Trading financial assets	13 173	-	-	**13 173**
Financial assets designated at fair value through profit or loss	-	661	-	**661**
Derivative financial instruments	40	10 902	-	**10 942**
Available-for-sale financial assets	38 639	703	15 537	**54 879**
Financial liabilities	**-**	**7 998**	**-**	**7 998**
Derivatives financial instruments	-	7 998	-	**7 998**

As at 31 December 2007 - Group	Quoted market	Valuation techniques – market observable inputs	Valuation techniques – non-market observable inputs	Total
	EUR’000	EUR’000	EUR’000	EUR’000
Financial assets	**54 718**	**10 256**	**11 763**	**76 737**
Trading financial assets	53 927	-	-	**53 927**
Financial assets designated at fair value through profit or loss	-	2 069	-	**2 069**
Derivative financial instruments	97	7 500	-	**7 597**
Available-for-sale financial assets	694	687	11 763	**13 144**
Financial liabilities	**-**	**7 077**	**-**	**7 077**
Derivatives financial instruments	-	7 077	-	**7 077**

39. CAPITAL ADEQUACY CALCULATION

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

ASSETS	Notional risk level %	Group Exposure EUR’000	Group Risk weighted assets EUR’000	Bank Exposure EUR’000	Bank Risk weighted assets EUR’000
Central governments or central banks	0%	114 321	-	114 321	-
Financial institutions	0%	703	-	703	-
	20%	54 979	10 996	52 551	10 510
	50%	5 350	2 675	5 350	2 675
	100%	22 196	22 196	22 196	22 196
Private companies and individuals	0%	14 282	-	14 282	-
	100%	380 149	380 149	353 269	353 269
Pool of retail exposure claims (MRD)	0%	7	-	7	-
	75%	42 341	31 756	42 341	31 756
Past due exposures	0%	2	-	2	-
	100%	1 516	1 516	1 495	1 495
	150%	8 396	12 595	8 304	12 456
Collective investment undertakings (CIU)	100%	15 536	15 536	15 536	15 536
Other items	0%	7 636	-	7 635	-
	20%	-	-	-	-
	100%	14 181	14 181	13 352	13 352
Total assets and risk weighted assets		**681 595**	**491 600**	**651 344**	**463 245**

OFF-BALANCE SHEET ITEMS	Notional risk level %	Exposure EUR’000	Risk weighted assets EUR’000	Exposure EUR’000	Risk weighted assets EUR’000
Items with 0% adjustment	0%	1 811	-	2 734	-
Items with 50% adjustment	75%	6 164	2 311	6 164	2 311
Items with 50% adjustment	100%	12 800	6 400	11 567	5 783
Items with 50% adjustment	150%	62	46	62	46
Items with 100% adjustment	100%	4 031	4 031	4 031	4 031
Amounts that are not included in the calculation of the weighted risk value	0%	2 021	-	2 021	-
Total off-balance sheet items		**26 889**	**12 788**	**26 579**	**12 171**
Total assets and off-balance sheet items		**708 484**	**504 388**	**677 923**	**475 416**

	Group EUR’000	Bank EUR’000
Tier 1		
Paid in share capital	57 626	57 626
Reserve capital	10	10
Retained earnings for previous years	21 965	21 018
Minority interest	35	-
Revaluation reserve of available for sale financial assets	(2 867)	(2 867)
Retained earnings	2 057	1 452
Goodwill	(378)	-
Other intangible assets	(1 060)	(1 150)
Investment property revaluation (earnings)	(2 213)	(2 213)
Total tier 1	**75 175**	**73 876**
Tier 2		
Subordinated capital	7 748	7 748
45% from investment property revaluation earnings	996	996
Total tier 2	**8 744**	**8 744**
Total capital	**83 919**	**82 620**
Summary		
Credit risk capital	40 351	38 033
Market risks capital requirement	1 953	1 948
Operational risk	4 286	4 286
Capital requirement covered by capital (total capital)	**37 329**	**38 353**
Capital adequacy rate as of 31.12.2008	**14.41%**	**14.93%**
Capital adequacy rate as of 31.12.2007	**14.13%**	**14.06%**
Minimal capital adequacy ratio (%) 2008 and 2007	**8.00%**	**8.00%**

40. RELATED PARTIES

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

Group	Average interest rate %	Amount EUR’000	Off-balance sheet items EUR’000	31.12.2008 Total EUR’000	31.12.2007 Total EUR’000
Assets		**12 206**	**294**	**12 500**	**39 742**
Loans and receivables, net		**12 206**	**294**	**12 500**	**39 742**
Related undertakings and Individuals	7.03	11 986	181	**12 167**	**39 487**
Council and Board	7.77	34	107	**141**	**74**
Other senior executives	4.2	186	6	**192**	**181**
Liabilities		**15 309**	**-**	**15 309**	**24 023**
Deposits		**5 019**	**-**	**5 019**	**14 100**
Related undertakings and Individuals	1.41	3 685	-	**3 685**	**13 214**
Council and Board	3.02	1 325	-	**1 325**	**876**
Other senior executives	-	9	-	**9**	**10**
Subordinated debt		**10 290**	**-**	**10 290**	**9 923**
Related undertakings and Individuals	9.05	7 668	-	**7 668**	**7 301**
Council and Board	8.19	2 622	-	**2 622**	**2 622**

Bank	Average interest rate %	Amount EUR'000	Off-balance sheet items EUR'000	31.12.2008 Total EUR'000	31.12.2007 Total EUR'000
Assets		**80 588**	**2 758**	**83 346**	**69 117**
Loans and receivables, net		**80 588**	**2 758**	**83 346**	**69 117**
Related undertakings and Individuals	7.03	11 986	181	**12 167**	**39 487**
Subsidiaries	4.56	68 555	2 464	**71 019**	**29 525**
Council and Board	7.77	34	107	**141**	**75**
Other senior executives	7.04	13	6	**19**	**30**
Liabilities		**16 551**	**-**	**16 551**	**24 647**
Deposits		**6 261**	**-**	**6 261**	**14 724**
Related undertakings and Individuals	1.41	3 685	-	**3 685**	**13 215**
Subsidiaries	8.96	1 242	-	**1 242**	**623**
Council and Board	3.02	1 325	-	**1 325**	**876**
Other senior executives	-	9	-	**9**	**10**
Subordinated debt		**10 290**	**-**	**10 290**	**9 923**
Related undertakings and Individuals	9.05	7 668	-	**7 668**	**7 301**
Council and Board	8.19	2 622	-	**2 622**	**2 622**

As at 31 December 2008, the amount of the Bank's exposure transactions with related parties is EUR`000 3 318 or 3.7% of the sum tier 1 and tier 2 capital. According to the Law on Credit Institutions of the Republic of Latvia the total amount of exposure transactions with persons that are associated with the bank may not exceed 15 % of the sum tier 1 and tier 2 capital of the Bank.

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

	2008		2007	
	Group EUR'000	Bank EUR'000	Group EUR'000	Bank EUR'000
Interest income	1 322	3 133	623	1 737
Interest expense	(1 010)	(1 091)	(546)	(573)
Net interest income	**312**	**2 042**	**77**	**1 164**

41. SUBSEQUENT EVENTS

In January 2009 it was decided to increase the share capital by issuing 1 000 000 new voting shares with nominal value of EUR 1.4 each.

In January 2009 it was decided to establish a 75% owned subsidiary company "NORVIK Alternative Investments" Ltd. (Latvia) with the share capital of EUR`000 192.

In February 2009 it was decided to establish a 100% owned subsidiary company "LEGAL CONSULTING" Ltd. (Latvia) with the share capital of EUR`000 3.

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Deloitte.

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INDEPENDENT AUDITOR'S REPORT

To the shareholders of AS "Norvik Banka":

Report on the financial statements

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

Management's responsibility for the financial statements

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

Auditor's responsibility

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

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

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

Opinion

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

Emphasis of matter

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

Report on other legal and regulatory requirements

Report on the management report

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

Report on corporate management information

We have read the information on corporate governance presented in the management report on pages 3-4 and verified that the information is consistent with the requirements listed in section 56.[1] first paragraph clauses 3, 4, 6, 8 and 9 and in section 56.[2] second paragraph clause 5 in the Law on Financial Instruments Market.

Deloitte Audits Latvia SIA
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Hendrik Kramer
Authorised representative

Inguna Stasa
Sworn Auditor
Certificate No. 145

Riga, Latvia
25 March 2009

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