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 (unaudited).

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

Dear shareholders and clients!

We are pleased to present for your evaluation financial statements for JSC “NORVIK BANKA” for the year 2008.

The year 2008 was successful for JSC NORVIK BANKA", despite the fact that during this year there was an economic slowdown in Latvia and the growth of international financial markets were shrank. The success is evidenced by an increase in the after-tax profit of NORVIK Group, that is 12.6% more as compared to the year 2007, and reached LVL 7.0 M

The assets of NORVIK Group in the end of the year 2008 have exceeded LVL 510.8 mln. According to the statistics of Association of Latvian Commercial Banks, by the amount of assets NORVIK BANKA (in the end of the year 2008, the assets have reached LVL 508.1 mln) is ranked 10th among Latvian commercial banks. (11th – in the year 2007) assets bank

Capital and reserves of NORVIK Group at the December 31, 2008 exceeded 61.8 million LVL that is 11.4% more as compared to the year 2007. According to the statistics of Association of Latvian Commercial Banks, by the amount of capital and reserves NORVIK BANKA is ranked 7th among Latvian commercial banks.

Currently, JSC „NORVIK BANKA" has one of the largest networks of branches and client service centers, which covers all regions of Latvia. The network consists of 14 branches and 60 service centers. To improve the accessibility of the Bank, 4 new client service centers were opened in 2008 – three centers in Riga and one in Liepaja.

In 2008, NORVIK BANKA continued to expand the list of products and services offered by the Bank, and also made innovative improvements to existing services.

An improvement of the Bank's Internet banking system e-NORVIK has evaluated the company "Metasite Business Solutions, and ranked e-NORVIK the 4th on the list of the best Latvian Internet banks (in the last year it was ranked the 5th best Internet bank in Latvia).

In June the Bank issued new credit card “Indigo”. The additional benefit of new card is the savings account linked directly to the card, which is novelty in market of payment cards in Latvia.

In total, during the year 2008 NORVIK BANKA issued more that 83 thousand payment cards.

At the end of June 2008, at the first time the Bank issued corporate bonds for the sum of EUR 3.37 M (nominal value of EUR 100), which were included in the Baltic list of debt securities.

In July 2008, the Bank attracted syndicated loan for the amount of EUR 25 M, and this is the fifth syndicated loan, which the Bank is attracted during the last two years. In December 2008, the Bank repaid the syndicated loan that was borrowed the year before.

For the NORVIK BANKA's subsidiary - "NORVIK Ieguldījumu pārvaldes sabiedrība”, which operates the Latvian market for more than 10 years, the year 2008 was particularly successful. The number of participants in the 2nd level pension investment plan increased for a quarter, the assets of NORVIK IPS in the year 2008, compared to 2007, has doubled and at the end of the year amounted to LVL 12.2 M.

In 2008 NORVIK BANKA continued to support Latvian cultural and sporting activities. With the Bank’s support was organized various concerts and city festivals, and several Latvian sportsmen made a successful start in different international competitions.

In year 2008 was completed restructurisation process of the Bank, which was started in year 2006 after the Bank had attracted strategic investor. There is created an efficient structure that is able to operate successfully in crisis situations.

Taking into account the economic situation in the global financial markets, the Bank will continue to build cautious crediting policy, and also will develop the deposit and investment services that will be not only profitable, but also safe.

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	Chairman of the Management Board
J. H. Gudmundsson	A. Svirčenkovs

Riga, 27 February 2009

SUPERVISORY COUNCIL AND 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 resigned their position:
- 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, 27 February 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 2007 and the results of its operations and cash flows for the financial year ended 31 December 2007.

The management confirms that suitable accounting policies have been used and applied consistently and reasonable and prudent judgments and estimates have been made in the preparation of the Consolidated and Separate Financial Statements for the year ended 31 December 2008 set out on pages 7 to 64. The management also confirms that applicable International Financial Reporting Standards as adopted by the EU have been followed and that the Consolidated and the Separate Financial Statements have been prepared on a going concern basis and complies with the Regulations on the Preparation of Financial Statements of Banks issued by the Latvian Financial and Capital Market Commission in all material respects.

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

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, 27 February 2009

CONSOLIDATED AND SEPARATE INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2008

	Notes	2008 Group LVL'000	2008 Bank LVL'000	2007 Group LVL'000	2007 Bank LVL'000
Interest and similar revenue		46 909	43 454	34 855	33 335
Interest and similar expense		(21 564)	(21 621)	(17 545)	(17 564)
Net interest income	5	**25 345**	**21 833**	**17 310**	**15 771**
Fee and commission revenue		8 887	8 407	7 035	6 751
Fee and commission expense		(1 772)	(1 739)	(1 585)	(1 542)
Net fee and commission income	6	**7 115**	**6 668**	**5 450**	**5 209**
Dividend revenue		19	19	3	3
Net trading income	7	4 916	4 952	863	840
Net gain or loss on financial assets and liabilities designated at fair value through profit or loss	8	(582)	(582)	55	55
Net gain or loss from sales of available-for-sale financial assets	9	(47)	(47)	-	-
Other operating income	10	1 522	1 558	2 283	2 357
Other operating expense		(923)	(879)	(491)	(464)
Net operating income		**37 365**	**33 522**	**25 473**	**23 771**
Administrative expenses	11	(19 718)	(18 260)	(15 373)	(14 829)
Personnel expenses		*(11 187)*	*(9 951)*	*(8 002)*	*(7 620)*
Other expenses		*(8 531)*	*(8 309)*	*(7 371)*	*(7 209)*
Depreciation and amortisation		(1 192)	(1 129)	(988)	(970)
Impairments losses on financial investments	19	(7 948)	(7 809)	(1 183)	(1 096)
Operating expenses		**(28 858)**	**(27 198)**	**(17 544)**	**(16 895)**
Net operating profit before tax		**8 507**	**6 324**	**7 929**	**6 876**
Income tax	12	(1 508)	(949)	(1 714)	(1 491)
Profit for the year		**6 999**	**5 375**	**6 215**	**5 385**
Attributable to:					
Equity holders of the parent		**6 997**		**6 217**	
Minority interest		2		(2)	
Basic and Diluted Earnings per share (LVL)	34	**0.17**		**0.23**	

The accompanying notes on pages 13 to 64 form an integral part of these consolidated and Bank financial statements.

The consolidated and Separate financial statements on pages 7 to 64 will be approved by the Supervisory Council and the Management Board on 16 March 2009, and signed on their behalf by:

Chairman of the Supervisory Council J. H. Gudmundsson	Chairman of the Management Board A. Svirčenkovs

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

		31.12.2008		31.12.2007	
	Note	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Assets					
Cash and balances with the central bank	13	58 621	58 621	42 157	42 157
Loans and receivables to banks	14	42 447	40 741	189 087	188 919
Trading financial assets	15	9 258	9 258	37 900	37 900
Financial assets designated at fair value through profit or loss	16	466	466	1 454	1 454
Held-to-maturity investments	21	12 326	12 326		
Derivatives financial instruments	17	7 690	7 690	5 339	5 339
Loans to customer and receivables	18	330 278	325 785	324 462	321 434
Available-for-sale financial assets	20	39 395	39 395	9 238	9 238
Current tax assets		957	957	-	-
Investment property	24	4 367	4 367	4 224	4 224
Investment in subsidiaries	22	-	3 574	-	3 115
Tangible assets	25	2 720	2 289	2 775	2 665
Goodwill and other intangible assets	23	1 011	808	919	600
Deferred tax assets		-	-	-	-
Other assets	26	1 306	1 154	1 193	1 085
Total assets		**510 842**	**507 431**	**618 748**	**618 130**
Liabilities					
Due to the central bank and other banks	28	77 543	76 367	92 306	92 306
Derivatives financial instruments	17	5 621	5 621	4 974	4 974
Customer deposits	29	350 718	351 622	447 376	447 842
Subordinated debt	30	8 972	8 972	8 502	8 502
Debt securities in issue	31	2 314	2 314	5 870	5 870
Current tax liabilities		349		579	415
Deferred tax liabilities	12	653	557	478	446
Other liabilities	32	2 829	2 512	3 148	2 954
Total liabilities		**448 999**	**447 965**	**563 233**	**563 309**
Equity attributable to equity holders of the Bank					
Share capital	33	40 500	40 500	40 500	40 500
Reserves		7	7	7	7
Revaluation reserve of available-for-sale financial assets		(1 188)	(1 188)	(458)	(458)
Revaluation reserve of foreign currency translation		65		6	-
Retained earnings		15 437	14 772	9 220	9 387
Profit for the year		6 997	5 375	6 217	5 385
Total equity attributable to equity holders of the Bank		**61 818**	**59 466**	**55 492**	**54 821**
Minority interest				**23**	**-**
Total equity		**61 843**	**59 466**	**55 515**	**54 821**
Total liabilities and equity		**510 842**	**507 431**	**618 748**	**618 130**
Commitments and contingencies					
Contingent liabilities		4 218	5 275	4 087	4 680
Commitments		13 597	13 405	41 498	41 905
Total commitments and contingencies	36	**17 815**	**18 680**	**45 585**	**46 585**

The accompanying notes on pages 13 to 64 form an integral part of these consolidated and Bank financial statements.

The consolidated and Separate financial statements on pages 7 to 64 will be approved by the Supervisory Council and the Management Board on 16 March 2009, and signed on their behalf by:

Chairman of the Supervisory Council	Chairman of the Management Board
J. H. Gudmundsson	A. Svirčenkovs

CONSOLIDATED AND BANK STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2008

	Attributable to shareholders of the Bank							
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**
	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000
As at 31 December 2006	**22 500**	**7**	**(48)**	**(8)**	**9 220**	**31 671**	**15**	**31 686**
Revaluation of available-for-sale financial assets	-	-	(410)	-	-	**(410)**	-	**(410)**
Revaluation reserve of foreign currency translation*	-	-	-	14	-	**14**	**-**	**14**
Total income and expenses for the year recognised directly in equity	**-**	**-**	**(410)**	**14**	**-**	**(396)**	**-**	**(396)**
Profit for the year	**-**	**-**	**-**	**-**	**6 217**	**6 217**	(2)	**6 215**
Total income and expense for the year	**-**	**-**	**(410)**	**14**	**6 217**	**5 821**	**(2)**	**5 819**
Increase of share capital	18 000	-	**-**	**-**	**-**	**18 000**	10	**18 010**
As at 31 December 2007	**40 500**	**7**	**(458)**	**6**	**15 437**	**55 492**	**23**	**55 515**
Revaluation of available-for-sale financial assets	-	-	(730)	-		**(730)**	-	**(730)**
Revaluation reserve of foreign currency translation*	-	-	-	59	-	**59**	**-**	**59**
Total income and expenses for the year recognised directly in equity			**(730)**	**59**		**(671)**		**(671)**
Profit for the year	**-**	**-**	**-**	**-**	**6 997**	**6 997**	2	**6 999**
Total income and expense for the year			**(730)**	**59**	**6 997**	**6 326**	**2**	**6 328**
Increase of share capital	-	-	**-**	**-**	**-**	**-**	-	**-**
As at 31 December 2008	**40 500**	**7**	**(1 188)**	**65**	**22 434**	**61 818**	**25**	**61 843**

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

Bank	Share capital LVL'000	Reserve LVL'000	Revaluation reserve of available-for-sale financial assets LVL'000	Retained earnings LVL'000	Total LVL'000
As at 31 December 2006	**22 500**	**7**	**(48)**	**9 387**	**31 846**
Revaluation of available-for-sale financial assets	-	-	(410)	-	**(410)**
Total income and expenses for the year recognised directly in equity	-	-	**(410)**	-	**(410)**
Profit for the year	-	-	-	5 385	**5 385**
Total income and expense for the year	**-**	**-**	**(410)**	**5 385**	**4 975**
Increase of share capital	18 000	-	-	-	**18 000**
As at 31 December 2007	**40 500**	**7**	**(458)**	**14 772**	**54 821**
Revaluation of available-for-sale financial assets	-	-	(730)	-	**(730)**
Total income and expenses for the year recognised directly in equity			**(730)**		**(730)**
Profit for the year	-	-	-	5 375	**5 375**
Total income and expense for the year			**(730)**	**5 375**	**4 645**
Increase of share capital	-	-	-	-	**-**
As at 31 December 2008	**40 500**	**7**	**(1 188)**	**20 147**	**59 466**

The accompanying notes on pages 13 to 64 form an integral part of these consolidated and Bank financial statements.

The consolidated and Separate financial statements on pages 7 to 64 will be approved by the Supervisory Council and the Management Board on 16 March 2009, and signed on their behalf by:

Chairman of the Supervisory Council
J. H. Gudmundsson

Chairman of the Management Board
A. Svirčenkovs

	Note	2008 Group LVL’000	2008 Bank LVL’000	2007 Group LVL’000	2007 Bank LVL’000
Cash flow from operations					
Profit before corporate income tax		8 507	6 324	7 929	6 876
Depreciation of intangible and tangible fixed assets and write off		1 783	1 697	2 025	2 007
Increase in provisions for impairments losses on financial investments		8 006	7 867	1 370	1 284
Loss/(profit) from foreign exchange revaluation		3 686	3 645	1 602	1 622
Other changes		59		14	-
Non-realised (profit)/loss from investment property		(143)	(143)	(1 589)	(1 589)
Operating cash flow before changes in operating assets and liabilities		**21 898**	**19 390**	**11 351**	**10 200**
Decrease/(increase) in loans and receivables to banks		4 843	4 843	(6 805)	(6 845)
Decrease/(increase) in trading financial assets		16 316	16 316	3 348	3 348
(Increase) in financial assets at fair value through profit or loss		988	988	(1 454)	(1 454)
Decrease/(increase) in derivatives financial assets		(2 351)	(2 351)	(4 274)	(4 274)
Decrease/(increase) in loans and receivables to customers		(13 815)	(12 211)	(136 012)	(133 631)
Decrease/(increase) in other assets		356	580	448	548
Increase/(decrease) in due to banks		(14 763)	(15 939)	26 841	26 841
Increase/(decrease) in customer deposits		(96 658)	(96 220)	245 220	245 534
Increase/(decrease) in derivatives financial liabilities		647	647	3 686	3 686
Increase/(decrease) in other liabilities		(556)	(864)	1 078	960
Cash used in operating activities		**(83 095)**	**(84 821)**	**143 427**	**144 913**
Corporate income tax (paid)		(2 759)	(2 444)	(765)	(739)
Net cash used in operating activities		**(85 854)**	**(87 265)**	**142 662**	**144 174**
Cash flow from investing activities					
Acquisition of intangible and tangible fixed assets		(1 820)	(1 529)	(2 263)	(2 147)
Acquisition of subsidiary		-	(459)	-	(1 571)
Decrease/(increase) in available-for-sale financial assets		(30 887)	(30 887)	(3 967)	(3 967)
Other cash received/(paid) as a result of investment activity		-	-	(20)	(20)
Net cash used in investing activities		**(32 707)**	**(32 875)**	**(6 250)**	**(7 705)**
Cash flow from financing activities					
Increase in share capital		-	-	18 010	18 000
Increase in subordinated debt		470	470	6 725	6 725
Repayment of subordinated debt		-	-	-	-
Issue of debt securities		(3 556)	(3 556)	42 885	42 885
Mature of debt securities		-	-	(37 015)	(37 015)
Net cash provided by/(used in) financing activities		**(3 086)**	**(3 086)**	**30 605**	**30 595**
Net increase/(decrease) in cash and cash equivalents		**(121 647)**	**(123 226)**	**167 017**	**167 064**
Cash and cash equivalents at the beginning of the period		219 790	219 622	54 375	54 180
Effect of exchange changes on cash and cash equivalents		(3 686)	(3 645)	(1 602)	(1 622)
Cash and cash equivalents at the end of the period	35	**94 457**	**92 751**	**219 790**	**219 622**

Operating cash flows from interest and dividends

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

The accompanying notes on pages 13 to 64 form an integral part of these consolidated and Bank financial statements.

The consolidated and Separate financial statements on pages 7 to 64 will be approved by the Supervisory Council and the Management Board on 16 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, 60 accounting groups and one representative office in Moscow (Russia). The main banking operations are local and international money transfers, the issuance of loans, securities operations and foreign currency transactions.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES

(1) Basis of preparation

The accompanying financial statements are presented in the national currency of Latvia in thousands of lats (“LVL’000”).

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

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

The accounting policies used in the preparation of the financial statements are consistent with those followed in the preparation of the Group`s and Bank`s annual financial statements for the year ended 31 December 2008.

The Group has chosen not to early adopt the following standard and interpretations that were issued but not yet effective for accounting periods beginning on 1 January 2008:

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

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

IAS 1 Presentation of Financial Statements – Revised

IAS 1 (revised) was issued in September 2007 and becomes effective for annual periods beginning on or after 1 January 2009 . IAS 1 has been revised to enhance the usefulness of the information presented in the financial statements. Revision includes number of changes, including introduction of a new terminology, revised presentation of equity transactions and introduction of a new statement of comprehensive income as well as amended requirements related to the presentation of the financial statements in a case of their retrospective restatement.

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

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

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

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

Basis of Consolidation

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

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

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

Goodwill

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

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

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

(2) Significant accounting judgements and estimates

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

Fair value of financial instruments

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

Impairment losses on loans and receivables

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

Impairment of equity investments

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

(3) Foreign currency translation

Transactions and balances

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

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

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

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

	Bank of Latvia exchange rates as of 31 December 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 spot foreign exchange contracts, future currency agreements (forwards), currency exchange agreements (swaps), future currency agreements traded on stock exchange *(futures).* All derivatives are carried as assets if their fair value is positive and as liabilities if their fair value is negative. Fair value of derivative transactions is included in balance sheet as "Derivatives financial instruments". Changes in the fair value of derivatives are included in the income statement in "Net trading income" on a daily basis.

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

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

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

Available-for-sale financial assets

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

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

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

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

Finansial held-to-maturity assets

Held to maturity investments (‘HTM’) are non-derivative financial assets with fixed or determinable payments and fixed maturity that 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 then are recorded at their cost less accumulated depreciation using effective rate, and impairment.

In October, 2008 changes in IAS 39 “Financial Instruments: Recognition and Measurement” and in IFRS 7 “Financial Instruments: Disclosure” have been accepted. Mentioned changes allow to reclassify some assets, that were designated as financial assets designated at fair value through profit and loss or trading financial assets, but not mentioned to be sold in short term. Bank used the possibility and made the reclassification of financial instruments from *Trading financial assets* to *Held to maturity financial assets.*

Loans and receivables to banks and to customers

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

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

Finance lease

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

Reverse repurchase agreements

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

Financial liabilities

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

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

Derecognition of financial assets and financial liabilities

A financial asset is derecognized where:

- the right to receive cash flows from the assets have expired; or
- the group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a `pass-through` arrangement; and

- either (a) the Group has transferred substantially all the risks and rewards of the assets, or (b) the group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the assets.

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

Impairment of financial assets

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

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

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

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

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

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

(5) Investment property

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

(6) Intangible and tangible fixed assets

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

Intangible assets:	*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 are reviewed at least at each financial year-end. The depreciation and amortization expense on tangible fixed and intangible assets with finite lives is recognized in the income statement line "Depreciation and amortisation".

(7) Income and expense recognition

Interest income and expenses are recognized in the income statement on accrual basis of accounting using the effective interest 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 not objective evidence that those payments will not be collected in defined term as well as on impaired financial assets.

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

(8) Cash and cash equivalents

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

Cash flows from operating activities are presented under the indirect method. Cash flows from investing and financing activities are presented 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 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 the assessing the current quality of the Group’s assets and off-balance sheet items, and for making decisions on provisions for and/or writing off impaired assets.

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

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

Internal 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 8% of borrowings. 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, internal limit regulations regarding the net liquidity position, the effective usage of *liquidity`s I Reserve fund* and liquidity regulation for the remaining free resources, etc.

MATURITY ANALYSIS OF ASSETS AND LIABILITIES

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

As at 31 December 2008- Group	Up to 1 month LVL'000	From 1 to 3 months LVL'000	From 3 to 6 months LVL'000	From 6 months to 1 year LVL'000	From 1 to 5 years LVL'000	5 years and over LVL'000	Other LVL'000	Total LVL'000
Assets								
Cash and balance with the central bank	58 621	-	-	-	-	-	-	**58 621**
Loans and receivables to banks	38 549	1 084	1 148	206	1 460	-	-	**42 447**
Trading financial assets	9 258	-	-	-	-	-	-	**9 258**
Financial assets at fair value through profit or loss	466	-	-	-	-	-	-	**466**
HTM financial assets	7 027	-	-	-	5 299	-	-	**12 326**
Derivative financial instruments	4 383	578	-	2 729	-	-	-	**7 690**
Loans and receivables to customers	30 012	43 361	22 525	35 430	175 361	16 536	7 053	**330 278**
Available-for-sale financial assets	639	-	-	-	-	11 745	27 011	**39 395**
Current tax assets	-	-	-	-	-	-	957	**957**
Investment property	-	-	-	-	-	-	4 367	**4 367**
Tangible assets	-	-	-	-	-	-	2 720	**2 720**
Goodwill and other intangible assets	-	-	-	-	-	-	1 011	**1 011**
Other assets	1 204	19	1	-	-	-	82	**1 306**
Total assets	**150 159**	**45 042**	**23 674**	**38 365**	**182 120**	**28 281**	**43 201**	**510 842**
Liabilities								
Due to the central bank and other banks	6 810	731	25 054	17 937	-	-	27 011	**77 543**
Derivative financial instruments	4 579	509	26	507	-	-	-	**5 621**
Customer deposits	218 742	50 897	37 491	38 205	5 383	-	-	**350 718**
Subordinated debt	25	-	-	1 100	7 847	-	-	**8 972**
Debt securities in issue	-	-	2 314	-	-	-	-	**2 314**
Current tax liabilities	-	-	-	-	-	-	349	**349**
Deferred tax	-	-	-	-	-	-	653	**653**
Other liabilities	2 479	-	-	307	-	-	43	**2 829**
Total liabilities	**232 635**	**52 137**	**64 885**	**58 056**	**13 230**	**-**	**28 056**	**448 999**
Off-balance sheet items	11 929	2 118	841	100	1 440	-	-	**16 428**
Net liquidity	**(94 405)**	**(9 213)**	**(42 052)**	**(19 791)**	**167 450**	**28 281**	**15 145**	

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

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

As at 31 December 2008- Bank	Up to 1 month LVL'000	From 1 to 3 months LVL'000	From 3 to 6 months LVL'000	From 6 months to 1 year LVL'000	From 1 to 5 years LVL'000	5 years and over LVL'000	Other LVL'000	Total LVL'000
Assets								
Cash and balance with the central bank	58 621	-	-	-	-	-	**-**	**58 621**
Loans and receivables to banks	36 843	1 084	1 148	206	1 460	-	**-**	**40 741**
Trading financial assets	9 258	-	-	-	-	-	**-**	**9 258**
Financial assets at fair value through profit or loss	466	-	-	-	-	-	**-**	**466**
HTM financial assets	7 027	-	-	-	5 299	-	**-**	**12 326**
Derivative financial instruments	4 383	578	-	2 729	-	-	**-**	**7 690**
Loans and receivables to customers	29 463	42 065	21 083	74 191	145 099	11 351	2 533	**325 785**
Available-for-sale financial assets	639	-	-	-	-	11 745	27 011	**39 395**
Current tax assets	-	-	-	-	-	-	957	**957**
Investment property	-	-	-	-	-	-	4 367	**4 367**
Investments in subsidiaries	-	-	-	-	-	-	3 574	**3 574**
Tangible assets	-	-	-	-	-	-	2 289	**2 289**

Goodwill and other intangible assets	-	-	-	-	-	-	808	**808**
Other assets	1 111	-	-	-	-	-	43	**1 154**
Total assets	**147 811**	**43 727**	**22 231**	**77 126**	**151 858**	**23 096**	**41 582**	**507 431**
Liabilities								
Due to the central bank and other banks	5 634	731	25 054	17 937	-	-	27 011	**76 367**
Derivative financial instruments	4 579	509	26	507	-	-	-	**5 621**
Customer deposits	219 192	50 982	37 663	38 402	5 383	-	-	**351 622**
Subordinated debt	25	-	-	1 100	7 847	-	-	**8 972**
Debt securities in issue	-	-	2 314	-	-	-	-	**2 314**
Current tax liabilities	-	-	-	-	-	-	-	
Deferred tax	-	-	-	-	-	-	557	**557**
Other liabilities	2 251	-	-	261	-	-	-	**2 512**
Total liabilities	**231 681**	**52 222**	**65 057**	**58 207**	**13 230**	**-**	**27 568**	**447 965**
Off-balance sheet items	12 794	2 118	841	100	1 440	-	-	**17 293**
Net liquidity	**(96 664)**	**(10 613)**	**(43 667)**	**18 819**	**137 188**	**23 096**	**14 014**	

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

ANALYSIS OF FINANCIAL LIABILITIES BY REMAINING CONTRACTUAL MATURITIES

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

Financial liabilities	Up to 1 month	From 1 to 3 months	From 3 to 6 months	From 6 months to 1 year	From 1 to 5 years	5 years and over	Total
As at 31 December 2008	**LVL'000**	**LVL'000**	**LVL'000**	**LVL'000**	**LVL'000**	**LVL'000**	**LVL'000**
Due to the central bank and other banks	32 624	737	25 708	18 685	-	-	**77 754**
Derivatives financial instruments	148	(16)	(86)	(1 340)	-	-	**(1 294)**
- Contractual amounts payable	*1100 709*	*7 074*	*3 831*	*22 704*	-	-	***1134 318***
- Contractual amounts receivable	*(1100 561)*	*(7 090)*	*(3 917)*	*(24 044)*	-	-	***(1135 612)***
Customer deposits	221 396	48 946	45 668	43 340	2 581	-	**361 931**
Subordinated debt	28	-	-	1 516	11 132	-	**12 676**
Debt securities in issue	-	-	2 368	-	-	-	**2 368**
Total undiscounted financial liabilities	**254 196**	**49 667**	**73 658**	**62 201**	**13 713**	**-**	**453 435**
Contingent liabilities	5 275	-	-	-	-	-	**5 275**
Commitments	8 906	2 118	841	100	1 440	-	13 405
Total	**14 181**	**2 118**	**841**	**100**	**1 440**	**-**	**18 680**
As at 31 December 2007							
Due to the central bank and other banks	24 944	17 466	36 928	16 354	-	-	**95 692**
Derivatives financial instruments	(454)	(29)	(69)	(97)	-	-	**(649)**
- Contractual amounts payable	*1 168 804*	*13 383*	*6 810*	*5 878*	-	-	***1 194 875***
- Contractual amounts receivable	*(1 169 258)*	*(13 412)*	*(6 879)*	*(5 975)*	-	-	***(1 195 524)***
Customer deposits	391 971	22 465	24 762	22 210	6 813	-	**468 221**
Subordinated debt	22	44	68	137	2 374	10 055	**12 700**
Debt securities in issue	-	2 921	2 383	922	-	-	**6 226**
Total undiscounted financial liabilities	**416 483**	**42 867**	**64 072**	**39 526**	**9 187**	**10 055**	**582 190**
Contingent liabilities	4 681	-	-	-	-	-	**4 681**
Commitments	41 905	-	-	-	-	-	**41 905**
Total	**46 586**	**-**	**-**	**-**	**-**	**-**	**46 586**

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

CREDIT RISK

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

MAXIMUM EXPOSURE TO CREDIT RISK

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

	31.12.2008		31.12.2007	
	Group LVL'000	**Bank LVL'000**	**Group LVL'000**	**Bank LVL'000**
Credit risk exposure relating to on-balance sheet assets	**443 797**	**437 534**	**568 528**	**565 257**
Loans and receivables to banks	42 447	40 741	189 087	188 919
Trading financial assets	9 258	9 258	37 900	37 900
Financial assets designated at fair value through profit or loss	466	466	1 454	1 454
HTM financial assets	12 326	12 326	-	-
Derivatives assets	7 690	7 690	5 339	5 339
Loans and receivables to customers	330 278	325 785	324 462	321 434
Available-for-sale financial assets	39 395	39 395	9 238	9 238
Current tax assets	957	957		
Other assets	980	916	1 048	973
Credit risk exposure relating to off-balance sheet items	**17 815**	**18 680**	**45 585**	**46 585**
Contingent liabilities	4 218	5 275	4 087	4 680
Commitments	13 597	13 405	41 498	41 905
Maximum exposure	**461 612**	**456 214**	**614 113**	**611 842**

Risk concentrations of the maximum exposure to credit risk

Concentration of risk is managed by client/group of clients. The maximum credit exposure to any client or group of clients during 2008 was limited maximum to 24 % of the sum tier 1 and tier 2 capitals before taking account of collateral or other credit enhancements.
In accordance with Credit Policy the maximum volume of Group's loans portfolio is limited to 80 % of the total assets and shall not exceed the sum tier 1 and tier 2 capitals more than 10 times. The share of loans granted to non-resident customers can not to 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 LVL'000	OECD countries LVL'000	Other countries LVL'000	Total LVL'000
Credit risk exposure relating to on-balance sheet assets	**225 380**	**33 035**	**185 382**	**443 797**
Loans and receivables to banks	3 745	14 817	23 885	**42 447**
Trading financial assets	-	923	8 335	**9 258**
Financial assets designated at fair value through profit or loss	466	-	-	**466**
HTM financial assets	-	-	12 326	**12 326**
Derivatives assets	460	5 302	1 928	**7 690**
Loans and receivables to customers	191 846	11 894	126 538	**330 278**
Available-for-sale financial assets	27 144	12	12 239	**39 395**
Current tax assets	957	-	-	**957**
Other assets	762	87	131	**980**
Credit risk exposure relating to off-balance sheet items	**12 404**	**362**	**5 049**	**17 815**
Total	**237 784**	**33 397**	**190 431**	**461 612**

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

At 31 December 2008 - Bank	Latvia LVL'000	OECD countries LVL'000	Other countries LVL'000	Total LVL'000
Credit risk exposure relating to on-balance sheet assets	**225 723**	**33 038**	**178 773**	**437 534**
Loans and receivables to banks	3 745	14 817	22 179	**40 741**
Trading financial assets	-	923	8 335	**9 258**
Financial assets designated at fair value through profit or loss	466	-	-	**466**
HTM financial assets	-	-	12 326	**12 326**
Derivatives assets	460	5 302	1 928	**7 690**
Loans and receivables to customers	192 290	11 894	121 601	**325 785**
Available-for-sale financial assets	27 144	12	12 239	**39 395**
Current tax assets	957	-	-	**957**
Other assets	661	90	165	**916**
Credit risk exposure relating to off-balance sheet items	**12 687**	**362**	**5 631**	**18 680**
Total	**238 410**	**33 400**	**184 404**	**456 214**

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

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

	31.12.2008		31.12.2007	
	Group	Bank	Group	Bank
	LVL'000	LVL'000	LVL'000	LVL'000
Credit risk exposure relating to on-balance sheet assets	**443 816**	**437 534**	**568 528**	**565 257**
Banks	67 431	65 725	227 517	227 348
Private individuals	79 104	65 402	90 699	80 075
Transport	85 804	83 872	75 410	75 175
Trade	51 089	45 148	43 848	39 595
Financial services	34 354	68 081	38 656	56 795
Processing industry	19 969	27 395	25 895	25 759
Building	22 846	7 844	14 546	9 141
Governments	27 091	27 091	488	488
Other	56 128	46 976	51 469	50 881
Credit risk exposure relating to off-balance sheet items	**17 815**	**18 680**	**45 585**	**46 585**
Total	**461 631**	**456 214**	**614 113**	**611 842**

Renegotiated loans

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

Renegotiating may be: principal amount

- 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 overdafts 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 2008 LVL’ 000 3 568 (2007: nil).

Collateral and other credit enhancements

The type and amount of collateral required depends on an assessment of the credit risk of the client/group of clients. The types of collateral and valuation parameters are obtained by Credit Policy and Monitoring Procedure. The main types of collateral are as following: 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.

Credit quality of loans and receivables to customers

	31.12.2008		31.12.2007	
	Group LVL’000	Bank LVL’000	Group LVL’000	Bank LVL’000
Loans and receivables to customers				
Neither past due nor impaired	241 456	248 413	295 358	292 803
Past due but not impaired	76 937	68 880	25 623	25 623
Impaired	17 796	14 237	4 696	4 127
Gross amount	**336 189**	**331 530**	**325 677**	**322 553**
(Provisions)	(5 911)	(5 745)	(1 215)	(1 119)
Total net loans and receivables to customers	**330 278**	**325 785**	**324 462**	**321 434**

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 Group’s and Bank’s 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 LVL’000**	**31 to 60 days LVL’000**	**61 to 90 days LVL’000**	**91 to 180 days LVL’000**	**More than 180 days LVL’000**	**Total LVL’000**
Mortgage loans	5 237	6 989	3 214	2 870	283	**18 593**
Industrial loans	14 958	19 225	11 654	-	-	**45 837**
Commercial loans	1 467	3 713	63	1 326	266	**6 835**
Consumer loans	913	134	20	10	3	**1 080**
Credit card	280	-	-	-	-	**280**
Finance leases	219	2 458	202	52	-	**2 931**
Factoring	65	-	124	-	-	**189**
Other	1 133	59	-	-	-	**1 192**
Total	**24 272**	**32 578**	**15 277**	**4 258**	**552**	**76 937**
Bank						

	Past due but not impaired					
At 31 December 2008	**up to 30 days LVL'000**	**31 to 60 days LVL'000**	**61 to 90 days LVL'000**	**91 to 180 days LVL'000**	**More than 180 days LVL'000**	**Total LVL'000**
Mortgage loans	4 906	6 989	1 211	1 605	22	**14 733**
Industrial loans	14 958	18 215	11 653	-	-	**44 826**
Commercial loans	1 425	3 685	63	1 304	-	**6 477**
Consumer loans	869	64	9	-	-	**942**
Credit card	280	-	-	-	-	**280**
Finance leases	81	124		36	-	**241**
Factoring loans	65	-	124	-	-	**189**
Other	1 133	59	-	-	-	**1 192**
Total	**23 717**	**29 136**	**13 060**	**2 945**	**22**	**68 880**

Of the total amount of gross past due but not impaired loans and receivables to customers, the fair value of collateral that the Bank held as at 31 December 2008 was LVL'000 138 296 (2007: LVL'000 53 850).

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

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

MARKET RISK

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

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

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

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

Interest rate risk

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

The sensitivity of the income statement is the effect of the assumed changes in interest rates on the net interest income (with equal effect on pre-tax profit) for one year, based on financial assets and financial liabilities (variable loan commitments are not included) categorised by the earlier of contractual re-pricing or maturity dates. The sensitivity of equity is calculated by revaluing fixed rate available-for-sale financial assets held at 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**
	LVL`000	**LVL`000**	**LVL`000**	**LVL`000**	**LVL`000**	**LVL`000**	**LVL`000**
LVL	+ 500	(1011)	(1044)	-	-	(51)	(51)
USD	+ 75	26	184	-	-	-	-
EUR	+ 50	94	100	-	-	-	-

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**
	LVL`000	**LVL`000**	**LVL`000**	**LVL`000**	**LVL`000**	**LVL`000**	**LVL`000**
LVL	+ 300	186	197	-	-	(66)	(66)
USD	+ 150	(42)	(255)	-	-	-	-
EUR	+ 100	233	232	-	-	-	-

		Bank	**Group**	**Sensitivity of equity**			
Currency	**Decrease in basis points**	**Sensitivity of net interest income**	**Sensitivity of net interest income**	**0 to 6 months**	**6 months to 1 year**	**More than 1 year**	**Total**

	LVL`000	LVL`000	LVL`000	LVL`000	LVL`000	LVL`000	LVL`000
LVL	- 300	(186)	(197)	-	-	25	25
USD	- 150	42	255	-	-	-	-
EUR	- 100	(233)	(232)	-	-	-	-

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**
	LVL'000	**LVL'000**	**LVL'000**	**LVL'000**	**LVL'000**
Assets					
Cash and due from the central bank	55 311	1 063	1 594	653	**58 621**
Loans and receivables to banks	1 386	18 310	4 062	18 689	**42 447**
Trading financial assets	-	7 611	181	1 466	**9 258**
Financial assets designated at fair value through profit or loss	-	-	466	-	**466**
HTM financial assets	-	9 469	2 857	-	**12 326**
Derivative financial instruments	7 662		28	-	**7 690**
Loans to customers and receivables	39 691	110 122	175 943	4 522	**330 278**
Available-for-sale financial assets	27 144	506	11 745	-	**39 395**
Current tax assets	957	-	-	-	**957**
Investment property	4 367	-	-	-	**4 367**
Tangible assets	2 345	-	290	85	**2 720**
Goodwill and other intangible assets	1 004	-	-	7	**1 011**
Other assets	866	101	83	256	**1 306**
Total assets	**140 733**	**147 182**	**197 249**	**25 678**	**510 842**
Liabilities and equity					
Due to the central bank and other banks	29 284	2 009	46 171	79	**77 543**
Derivative financial instruments	5 621	-	-	-	**5 621**
Customer deposits	81 208	121 809	136 331	11 370	**350 718**
Subordinated debt	1 750	25	7 197	-	**8 972**
Debt securities in issue	-	-	2 314	-	**2 314**
Current tax liabilities	-	-	-	349	**349**
Deferred tax liabilities	557	-	-	96	**653**
Other liabilities	1 711	457	341	320	**2 829**
Total liabilities	**120 131**	**124 300**	**192 354**	**12 214**	**448 999**
Share capital and reserves	58 663	-	-	3 155	**61 818**
Minority interest	25	-	-	-	**25**
Total liabilities and equity	**178 819**	**124 300**	**192 354**	**15 369**	**510 842**
Net balance sheet long/(short) position	**(38 086)**	**22 882**	**4 895**	**10 309**	
Spot foreign-exchange contracts long/(short) position	(232)	(3 186)	1 207	2 211	
Swap foreign-exchange contracts long/(short) position	32 360	(11 836)	(12 589)	(7 935)	
Forward foreign-exchange contracts long/(short)	380	(7 425)	8 112	(1 067)	

position				
Net open long/(short) currency position	**(5 578)**	**435**	**1 625**	**3 518**
Currency open position in % from capital as of 31/12/2008				
As at 31 December 2007 - Group				
Net open long/(short) currency position	**(2 435)**	**1**	**533**	**1 901**
Currency open position in % from capital as of 31/12/2007		**0.00**	**0.87**	

The table below indicates the currencies to which the Group had significant exposure at 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 LVL`000**	**Change in currency rate %**	**Effect on income statement LVL`000**
USD			- 10	-
EUR			- 1	(5)
USD	+ 15	65	+ 10	-
EUR	+ 10	16	+ 1	5

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**
	LVL'000	**LVL'000**	**LVL'000**	**LVL'000**	**LVL'000**
Assets					
Cash and due from the central bank	55 311	1 063	1 594	653	**58 621**
Loans and receivables to banks	1 386	17 978	4 056	17 321	**40 741**
Trading financial assets	-	7 611	181	1 466	**9 258**
Financial assets designated at fair value through profit or loss	-	-	466	-	**466**
HTM financial assets		9 469	2 857		**12 326**
Derivative financial instruments	7 662	-	28	-	**7 690**
Loans to customers and receivables	39 693	109 638	176 083	371	**325 785**
Available-for-sale financial assets	27 144	506	11 745	-	**39 395**
Current tax assets	957	-	-	-	**957**
Investment property	4 367	-	-	-	**4 367**
Investment in subsidiaries	3 574	-	-	-	**3 574**
Tangible assets	2 289	-	-	-	**2 289**
Goodwill and other intangible assets	808	-	-	-	**808**
Other assets	796	99	73	186	**1 154**
Total assets	**143 987**	**146 364**	**197 083**	**19 997**	**507 431**
Liabilities and equity					
Due to the central bank and other banks	29 284	1 113	45 892	78	**76 367**
Derivative financial instruments	5 621	-	-	-	**5 621**
Customer deposits	82 105	121 809	136 338	11 370	**351 622**
Subordinated debt	1 750	25	7 197	-	**8 972**
Debt securities in issue	-	-	2 314	-	**2 314**
Current tax liabilities	-	-	-	-	**-**
Deferred tax liabilities	557	-	-	-	**557**
Other liabilities	1 576	450	251	235	**2 512**

Total liabilities	**120 893**	**123 397**	**191 992**	**11 683**	**447 965**
Share capital and reserves	59 466	-	-	-	**59 466**
Total liabilities and equity	**180 359**	**123 397**	**191 992**	**11 683**	**507 431**
Net balance sheet long/(short) position	**(36 372)**	**22 967**	**5 091**	**8 314**	
Spot foreign-exchange contracts long/(short) position	(232)	(3 186)	1 207	2 211	
Swap foreign-exchange contracts long/(short) position	32 360	(11 836)	(12 589)	(7 935)	
Forward foreign-exchange contracts long/(short) position	380	(7 425)	8 112	(1 067)	
Net open long/(short) currency position	**(3 864)**	**520**	**1 821**	**1 523**	
Currency open position in % from capital as of 31/12/2008					

As at 31 December 2007 - Bank

Net open long/(short) currency position	**(2 476)**	**396**	**544**	**1 536**
Currency open position in % from capital as of 31/12/2007		**0.65**	**0.89**	

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 LVL`000**	**Change in currency rate %**	**Effect on income statement LVL`000**
USD			- 10	(40)
EUR			- 1	(5)
USD	+15	78	+ 10	40
EUR	+10	18	+ 1	5

Operational risk

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

4. SEGMENT INFORMATION

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

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

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

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

Insurance – provision of insurance agent services.

Primary segment information – business segments

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

As at 31 December 2008	Banking finance operations	Asset manage-ment	Insurance	Adjustment on consolidation	Total
	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000
Revenue					
External operating income					
Net interest income	25 344	43	1	(43)	**25 345**
Net fee and commission income	6 461	509	76	69	**7 115**
Dividend income	19	-	-	-	**19**
Net trading income	4 289	(1)	-	(1)	**4 287**
Other operating income	1 609	-	-	(87)	**1 522**
Other operating expense	(890)	(33)	-	-	**(923)**
Net operating income	**36 832**	**518**	**77**	**(62)**	**37 365**
Impairment losses on financial investments	(7 948)	-	-	-	**(7 948)**
Result					
Net operating profit before tax	**8 344**	**320**	**(108)**	**(49)**	**8 507**
Income tax					(1 508)
Profit for the year					**6 999**
Assets and liabilities					
Segment assets	509 819	534	60	(528)	**509 885**
Unallocated assets	957	-	-	-	**957**
Total assets	**510 776**	**534**	**60**	**(528)**	**510 842**
Segment liabilities	447 914	46	137	(100)	**447 997**
Unallocated liabilities	1 002	-	-	-	**1 002**
Total liabilities	**448 916**	**46**	**137**	**(100)**	**448 999**
Other segment information					
Capital expenditure					
Tangible assets	2 707	4	9	-	**2 720**
Intangible assets	720	8	17	-	**745**
Depreciation	905	2	2	-	**909**
Amortisation of other intangible assets	272	4	7	-	**283**

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

Secondary segment information – geographical segments

Principally the Group operates in the Republic of Latvia. The following tables 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 LVL`000	Other countries LVL`000	Adjustment on consolidation LVL`000	Total LVL`000
Revenue				
External operating income				
Net interest income	20 844	3 379	1 122	**25 345**
Net fee and commission income	7 061	52	2	**7 115**
Dividend income	19	-	-	**19**
Net trading income	4 323	(36)	-	**4 287**
Other operating income	1 452	70	-	**1 522**
Other operating expense	(922)	(1)	-	**(923)**
Net operating income	**32 777**	**3 464**	**1 124**	**37 365**
Impairment losses on financial investments	(7 822)	(126)	-	**(7 948)**
Total assets	479 175	31 667	-	510 842
Capital expenditure				
Tangible assets	2 635	85	-	**2 720**
Intangible assets	739	6	-	**745**

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

5. INTEREST INCOME, NET

	2008		2007	
	Group LVL'000	**Bank LVL'000**	**Group LVL'000**	**Bank LVL'000**
Interest income	**46 909**	**43 454**	**34 855**	**33 335**
Loans and receivables to customers	36 648	31 991	25 925	24 439
Trading securities	2 160	2 160	4 793	4 793
Loans and receivables to banks	6 590	7 832	3 801	3 792
Available-for-sale securities	537	537	116	116
HTM financial assets	771	771		
Other	203	163	220	195
Interest expense	**21 564**	**21 621**	**17545**	**17564**
Deposits from banks	6 172	6 230	7128	7128
Customer deposits	13 516	13 515	6918	6937
Debt securities in issue	425	425	2711	2711
Payments in the Deposit Guarantee Fund	698	698	490	490
Subordinated debts	753	753	298	298
Net interest income	**25 345**	**21 833**	**17 310**	**15 771**

As at 31 December 2008, interest income accrued on impaired loans to customers amounted to LVL'000 649 (2007: LVL'000 69).

6. FEE AND COMMISSION INCOME, NET

	2008		2007	
	Group LVL'000	**Bank LVL'000**	**Group LVL'000**	**Bank LVL'000**
Fee and commission income	**8 887**	**8 407**	**7 035**	**6 751**
Account services and money transfer fees	3 939	3 943	3 996	3 993
Payment cards	1 173	1 173	1 005	1 005
Asset management fees	633	287	614	394
Cash withdrawal	478	478	391	391
Brokerage services on securities	565	504	381	381
Commission for public utility payments	1 700	1 700	312	312
Commission on letters of credit and collection	108	108	91	91
Other	291	214	245	184
Fee and commission expense	**1 772**	**1 739**	**1 585**	**1 542**
Payment cards	925	925	705	705
Services of correspondent banks	450	450	415	409
Securities purchase and brokerage services	243	243	351	314
Other	154	121	114	114
Net fee and commission income	**7 115**	**6 668**	**5 450**	**5 209**

7. NET TRADING INCOME

	2008		2007	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Profit/(loss) from trading financial assets, net	**(3 117)**	**(3 117)**	**(4 238)**	**(4 238)**
Bonds and other fixed income securities	***(2 774)***	***(2 774)***	***(4 450)***	***(4 450)***
Net trading profit/(loss)	(1 313)	(1 313)	(2 808)	(2 808)
Fair value adjustment	(1 461)	(1 461)	(1 642)	(1 642)
Shares and other non- fixed income securities	***(343)***	***(343)***	***212***	***212***
Net trading profit/(loss)	(90)	(90)	264	264
Fair value adjustment	(253)	(253)	(52)	(52)
Profit/(loss) from derivative instruments and foreign exchanges trading, net	**11 719**	**11 714**	**6 703**	**6 700**
Net trading profit/(loss)	9 768	9 763	6 464	6 461
Fair value adjustment	1 951	1 951	239	239
Profit/(loss) from revaluation of open position, net	**(3 686)**	**(3 645)**	**(1 602)**	**(1 622)**
Net trading income	**4 916**	**4 952**	**863**	**840**

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

	2008		2007	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Profit/(loss) from financial assets designated at FV through PL, net	**(582)**	**(582)**	**56**	**56**
Net realised profit/(loss)	(289)	(289)	**-**	**-**
Fair value adjustment	(293)	(293)	**56**	**56**
Profit/(loss) from financial liabilities designated at FV through PL, net	**-**	**-**	**(1)**	**(1)**
Net realised profit/(loss)	**-**	**-**	**(1)**	**(1)**
Fair value adjustment	**-**	**-**	**-**	**-**
Total	**(582)**	**(582)**	**55**	**55**

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

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

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

10. OTHER OPERATING INCOME

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

11. ADMINISTRATIVE EXPENSES

	2008		2007	
	Group	Bank	Group	Bank
	LVL'000	LVL'000	LVL'000	LVL'000
Personnel expense	**11 187**	**9 951**	**8 002**	**7 620**
Personnel remuneration	8 530	7657	6 194	5 892
Supervisory Council and Management Board remuneration	671	492	392	360
Social security contributions	1 986	1 802	1 416	1 368
Other expense	**8 531**	**8 309**	**7 371**	**7 209**
Professional services	1 654	1 583	1 274	1 201
Rent	1 568	1 481	1 198	1 184
Computer repair and communications	1 071	1 150	1 006	991
VAT	698	697	649	649
Public utilities and maintenance	594	582	628	623
Advertising	802	798	512	510
Rebranding	-	-	317	317
Write-off of leasehold improvement	161	161	315	315
Donations	231	231	292	292
Business trip	267	262	223	221
Security	240	234	173	168
Stationery and miscellaneous	213	204	158	151
Real estate tax	81	81	35	35
Other administrative expenses	951	845	591	552
Total	**19 718**	**18 260**	**15 373**	**14 829**

During the 2008 the average number of employees by the Group and the Bank was 882 (including 9 Supervisory Council and 16 Management Board members) and 822 (including 6 Supervisory Council and 5 Management Board members), respectively.
The average number of employees by the Group and the Bank in 2007 was 773 (including 10 Supervisory Council and 13 Management Board members) and 727 (including 6 Supervisory Council and 5 Management Board members), respectively.

12. CORPORATE INCOME TAX

a) Components of corporate income tax	2008		2007	
	Group	**Bank**	**Group**	**Bank**
	LVL'000	**LVL'000**	**LVL'000**	**LVL'000**
Corporate income tax expense for the year	1333	838	1 332	1 152
Change in deferred tax liability	175	111	382	339
Change in deferred tax asset		-	-	-
Total	**1 508**	**949**	**1 714**	**1 491**

b) Reconciliation of accounting profit to tax charge	2008		2007	
	Group	**Bank**	**Group**	**Bank**
	LVL'000	**LVL'000**	**LVL'000**	**LVL'000**
Profit before taxation	**8 505**	**6 324**	**7 929**	**6 876**
Expected corporate income tax *	1 498	949	1 260	1 031
Tax effect of:				
(Untaxed income)/non-deductible expense	499	489	875	881
Sponsorship	(23)	(23)	(177)	(177)
Tax exemptions	(466)	(466)	(244)	(244)
Total	**1 508**	**949**	**1 714**	**1 491**

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

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

	2008		2007	
	Group	**Bank**	**Group**	**Bank**
	LVL'000	**LVL'000**	**LVL'000**	**LVL'000**
Deferred tax asset at the beginning of year	-	-	(12)	-
Deferred tax asset (increase)/decrease for the year	-	-	12	-
Deferred tax asset at the year end	-	-	-	-
Deferred tax liability at the beginning of year	478	446	107	107
Deferred tax liability increase for the year	175	111	370	339
Foreign exchange		-	1	-
Deferred tax liability at the year end	**653**	**557**	**478**	**446**

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

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

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

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

13. CASH AND BALANCES WITH THE CENTRAL BANK

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

Balances with the Bank of Latvia represent funds held in the Bank’s clearing account. In accordance with the regulations set by the Bank of Latvia, the Bank’s average monthly correspondent account balance should not be less than the amount of the statutory reserve which is calculated on the basis of the balance of liabilities included in the reserve base, as at the end of month. As at 31 December 2008 and 2007 the amount of the statutory reserve of the Bank was LVL'000 21 334 and LVL'000 33 588, respectively.

14. LOANS AND RECEIVABLES TO BANKS

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

15. TRADING FINANCIAL ASSETS

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

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

	31.12.2008		31.12.2007	
	Group LVL’000	Bank LVL’000	Group LVL’000	Bank LVL’000
Fund participations	**466**	**466**	**1 454**	**1 454**
Latvian funds	466	466	1 454	1 454

As at 31 December 2008, the Bank has investments in open-end investment funds, which JSC “NORVIK ieguldījumu pārvaldes sabiedrība”, a subsidiary company of the Bank, has registered in the Financial and Capital Market Commission (FCMC).

17. DERIVATIVE FINANCIAL INSTRUMENTS

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

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

18. LOANS AND RECEIVABLES TO CUSTOMER

	31.12.2008		31.12.2007	
	Group LVL’000	Bank LVL’000	Group LVL’000	Bank LVL’000
Net loans to:	**325 706**	**303 276**	**320 318**	**317 290**
Private companies	246 733	237 991	230 830	237 711
Individuals	84 884	71 030	90 703	80 698
Allowance for impairment losses (Note 19)	(5 911)	(5 745)	(1 215)	(1 119)
Receivables to:	**4 572**	**22 509**	**4 144**	**4 144**
Finances companies	4 572	22 509	4 144	4 144
Total net loans and receivables to customers	**330 278**	**325 785**	**324 462**	**321 434**

Geographical segmentation of loans and receivables				
Net loans to:	**325 706**	**303 276**	**320 318**	**317 290**
Residents of Latvia	197 520	179 998	202 595	202 595
Residents of the other countries	126 764	121 690	109 763	106 639
Residents of OECD countries	7 333	7 333	9 175	9 175
Allowance for impairment losses (Note 19)	(5 911)	(5 745)	(1 215)	(1 119)
Receivables to:	**4 572**	**22 509**	**4 144**	**4 144**
Residents of OECD countries	4 568	4 568	4 139	4 139
Residents of the other countries			3	3
Residents of Latvia	4	17 941	2	2
Total loans and receivables to customers	**330 278**	**325 785**	**324 462**	**321 434**

	31.12.2008		31.12.2007	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Analysis of loans by type				
Industrial loans	84 752	83 743	91 613	91 613
Mortgage loans	84 776	65 023	65 367	60 078
Commercial loans	79 298	86 885	63 822	71 418
Consumer loans	35 905	31 598	40 161	34 826
Reverse Repo transactions	18 030	18 030	39 814	39 814
Credit card balances	10 056	10 056	8 956	8 956
Finance leases	8 864	3 916	4 788	4 788
Factoring loans	388	388	1 864	1 864
Other	3 637	3 637	3 933	3 933
Net loans to customers	**325 706**	**303 276**	**320 318**	**317 290**

The Group has received securities at fair value LVL'000 21 161 (at 31 December 2007: LVL'000 41 015) 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: LVL'000 nil).

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

19. IMPAIRMENT LOSSES ON FINANCIAL INVESTMENTS

The total impairment allowance for Group's loans and receivables to customers is LVL'000 5 919 (at 31 December 2007: LVL'000 1 215) of which LVL'000 5 276 (at 31 December 2007: LVL'000 855) represents allowance for impaired loans that have been made by using an individual valuation approach and the remaining amount of LVL'000 635 (at 31 December 2007: LVL'000 360) represents allowances that have been made for loan portfolios as groups of financial assets.

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

Group	At 31 December 2007	Increase in allowance for loans	Written off loans	Released from allowance	Foreign exchange	At 31 December 2008
	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000
Industrial loans	32	106	(138)	-	-	**-**
Commercial loans	36	537	(506)	(36)	-	**31**
Consumer loans	737	3 722	(273)	(249)	1	**3 938**
Credit cards	364	1 142	(434)	(67)	-	**1 005**
Finance leasing	30	14	(30)	-	-	**14**
Factoring	-	15	(15)	-	-	-
Mortgage loans	16	1 948	(1 904)	(16)	-	**44**
Reverse repo	-	883	-	-	(4)	**879**
Total provisions for loans and receivables	**1 215**	**8 367**	**(3 300)**	**(368)**	**(3)**	**5 911**
Other provisions	-	7	-	-	1	**8**
Total	**1 215**	**8 374**	**(3 300)**	**(368)**	**(2)**	**5 919**

	Individual impairment	Collective impairment	Total	Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance
	LVL'000	LVL'000	LVL'000	LVL'000
Industrial loans	-	-	**-**	**-**
Commercial loans	31	-	**31**	**1 093**
Consumer loans	3 415	523	**3 938**	**4 655**
Credit cards	893	112	**1 005**	**1 276**
Finance leasing	14	-	**14**	**65**
Factoring	-	-	**-**	**-**
Mortgage loans	44	-	**44**	**1 626**
Reverse repo	**879**	-	**879**	**3 072**
Total	**5 276**	**635**	**5 911**	**11 787**

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

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

Group	**2008**	**2007**
	LVL'000	**LVL'000**
Result from allowance for impairment losses	**(7 948)**	**(1 183)**
Increase in allowance	(8 374)	(1 449)
Released from allowance (loans)	368	78
Released from allowance (other)	-	-
Recovery of previously written-off assets	58	188

The total impairment allowance for Bank's loans and receivables to customers is LVL'000 5 753 (at 31 December 2007: LVL'000 1 119) of which LVL'000 5 263 (at 31 December 2007: LVL'000 855) represents the individually impaired loans and the remaining amount of LVL'000 482 (at 31 December 2007: LVL'000 264) represents the portfolio allowance.

Bank	**At 31 December 2007**	**Increase in allowance for loans**	**Written off loans**	**Released from allowance**	**Foreign exchange**	**At 31 December 2008**
	LVL'000	**LVL'000**	**LVL'000**	**LVL'000**	**LVL'000**	**LVL'000**
Industrial loans	32	106	(138)	-	-	**-**
Commercial loans	4	537	(506)	(4)	-	**31**
Consumer loans	689	3 545	(203)	(246)	-	**3 785**
Credit cards	364	1 142	(434)	(67)	-	**1 005**
Finance leasing	30	1	(30)		-	**1**
Factoring	-	15	(15)	-	-	-
Mortgage loans	-	1 948	(1 904)	-	-	**44**
Reverse repo	-	883			(4)	**879**
Total provisions for loans and receivables	**1,119**	**8,177**	**(3 230)**	**(317)**	**(4)**	**5 745**
Other provisions	-	7	-	-	1	**8**
Total	**1 119**	**8 184**	**(3 230)**	**(317)**	**(3)**	**5 753**

	Individual impairment LVL'000	Collective impairment LVL'000	Total LVL'000	Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance LVL'000
Industrial loans	-	-	**-**	-
Commercial loans	31	-	**31**	1 093
Consumer loans	3 415	370	**3 785**	4 655
Credit cards	893	112	**1 005**	1 276
Finance leasing	1	-	**1**	36
Factoring	-	-	**-**	-
Mortgage loans	44	-	**44**	1,626
Reverse repo	**879**	-	**879**	**3 072**
Total	**5 263**	**482**	**5 745**	**11 758**

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

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

Bank	**2008 LVL'000**	**2007 LVL'000**
Result from allowance for impairment losses	**(7 809)**	**(1 096)**
Increase in allowance	(8 184)	(1 362)
Released from allowance (loans)	317	78
Released from allowance (other)	-	-
Recovery of previously written-off assets	58	188

20. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	31.12.2008		31.12.2007	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Bonds and other fixed income securities	**27 650**	**27 650**	**971**	**971**
Latvian bonds	27 144	27 144	488	488
OECD country bonds	12	12	-	-
Other country bonds	494	494	483	483
Shares and other non-fixed income securities	**11 745**	**11 745**	**8 267**	**8 267**
EU country funds	11 745	11 745	8 267	8 267
Total	**39 395**	**39 395**	**9 238**	**9 238**

21. HELD-TO-MATURITY FINANCIAL ASSETS

	31.12.2008	
	Group LVL'000	Bank LVL'000
Bonds	**12 326**	**12 326**
Residents of the other countries	12 326	12 326

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 LVL'000	Bank's investments LVL'000	Bank's share capital %	Total equity value LVL'000	Goodwill LVL'000
JSC "NORVIK Ieguldījumu pārvaldes sabiedrība"	Latvia, Riga, E.Birznieka-Upīša str. 21	Finance	755	830	94.95	488	266
JSC "NORVIK" Universal Credit Organization	Armenia, Yerevan, Khanjyan str. 41	Finance	2 109	1 944	100	5 215	-
"NORVIK Līzings" SIA	Latvia, Riga, E.Birznieka-Upīša str. 21	Finance	700	700	100	262	-
"NORVIK TECHNOLOGY" SIA	Latvia, Riga, E.Birznieka-Upīša str. 21	IT service	100	100	100	41	-
				3 547			

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

23. GOODWILL AND OTHER INTANGIBLE ASSETS

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

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

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

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

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

Bank **LVL `000**	**Other intangible assets**	**Prepayments for other intangible assets**	**Total**
Historical cost			
At 31 December 2007	**1 204**	**8**	**1 212**
Additions	441	118	559
Disposals	(29)	(96)	(125)
At 31 December 2008	**1 616**	**30**	**1 646**
Amortisation			
At 31 December 2007	**612**	**-**	**612**
Charge	254	-	254
Disposals	(28)	-	(28)
At 31 December 2008	**838**	**-**	**838**
Net book value			
At 31 December 2007	**592**	**8**	**600**
At 31 December 2008	**778**	**30**	**808**

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

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:

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

Investment property is stated at fair value, which has been determined based on valuation performed by CJSC "Independent consulting group 2K Audit – Business consultations" *("ЗАО "Независимая консалтинговая группа «2К Аудит –Деловые консультации»*), an industry specialist in valuing these types of investment properties, at 24 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 LVL'000 432, at the same time the related property maintenance expense and real estate tax was LVL'000 121.

25. TANGIBLE FIXED ASSETS

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

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

LVL'000	Land and Buildings	Vehicles	Office equipment and other fixed assets	Prepayments for tangible fixed assets	Leasehold improvements	Total
Historical cost						
At 31 December 2007	**2 980**	**350**	**3 535**	**3**	**242**	**7 110**
Additions	-	34	610	326		**970**
Reclassification (Note 24)	-	-	-	-	-	**-**
Disposals		(7)	(193)	(297)	(172)	**(669)**
At 31 December 2008	**2 980**	**377**	**3 952**	**32**	**70**	**7 411**
Depreciation						
At 31 December 2007	**2 039**	**110**	**2 296**	**-**	**-**	**4 445**
Charge	281	42	552	-	-	**875**
Disposals	-	(5)	(193)	-	-	**(198)**
At 31 December 2008	**2 320**	**147**	**2 655**	**-**	**-**	**5 122**
Net book value						
At 31 December 2007	**941**	**240**	**1 239**	**3**	**242**	**2 665**
At 31 December 2008	**660**	**230**	**1 297**	**32**	**70**	**2 289**
Fair value	**4 108**	**-**	**-**	**-**	**-**	**-**

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

26. OTHER ASSETS

	31.12.2008		31.12.2007	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Deferred expenses	302	300	341	305
Accrued income	237	217	195	149
VAT	229	183	152	152
Cards transactions	86	86	89	89
Other debtors	452	368	416	390
Total	**1 306**	**1 154**	**1 193**	**1 085**

27. MANAGED TRUST ASSETS AND LIABILITIES

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

Managed trust liabilities	**29 956**	**29 956**	**43 157**	**43 157**
Private companies	29 741	29 741	26 137	26 137
Individuals	215	215	32 274	32 274

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

28. DUE TO THE CENTRAL BANK AND OTHER BANKS

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

29. CUSTOMER DEPOSITS

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

Fixed-term deposits	**204 899**	**205 691**	**299 681**	**300 053**
Residents of OECD countries	5 063	5 063	137 215	137 215
Residents of the other countries	91 047	91 047	83 235	83 235
Residents of Latvia	108 789	109 581	79 231	79 603
Total	**350 718**	**351 622**	**447 376**	**447 842**

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

31. DEBT SECURITIES IN ISSUE

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

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

32. OTHER LIABILITIES

	31.12.2008		31.12.2007	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Payments collected on behalf of communal utilities providers	332	332	954	954
Accrued expenses	1 006	1 006	588	568
Cards transactions	15	15	457	457
Accruals for vacations	319	261	221	221
Suspense amounts	157	157	214	214
Deferred income	49	49	37	37
Other	951	692	677	503
Total	**2 829**	**2 512**	**3 148**	**2 954**

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

33. SHARE CAPITAL

	31.12.2008		31.12.2007	
	Quantity`000	LVL `000	Quantity`000	LVL `000
Registered and paid – in share capital	**40 500**	**40 500**	**40 500**	**40 500**

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 LVL'000	Number of shares	% of total shares	Paid up share capital LVL'000
"Straumborg Ehf."(Iceland)	20 705 879	51.13	20 706	20 705 879	51.13	20 706
J. Šapurovs	8 007 091	19.77	8 007	8 007 091	19.77	8 007
A. Svirčenkovs	8 007 089	19.77	8 007	8 007 089	19.77	8 007
Other (individually less than 10%)	3 779 869	9.33	3 780	3 779 869	9.33	3 780
Total	**40 499 928**	**100.00**	**40 500**	**40 499 928**	**100.00**	**40 500**

34. EARNINGS PER SHARE

Earnings per share are based on net profit attributable to ordinary equity holders of the parent divided by the weighted average number of issued shares. As of 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 (LVL'000)	6 997	6 217
Weighted average number of ordinary shares	40 500	26 500
Earnings per share (LVL)	**0.17**	**0.23**

35. CASH AND CASH EQUIVALENTS

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

36. COMMITMENTS AND CONTINGENCIES

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

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

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

37. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

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

Group	31.12.2008.			31.12.2007.		
	Carrying value LVL'000	Fair value LVL'000	Difference LVL'000	Carrying value LVL'000	Fair value LVL'000	Difference LVL'000
Financial assets						
Cash and balances with the central bank	58 621	58 621	-	42 157	42 157	-
Loans and receivables to banks	42 447	42 987	540	189 087	189 461	374
Trading financial assets	9 258	9 258	-	37 900	37 900	-
Financial assets designated at fair value through profit or loss	466	466	-	1 454	1 454	-
Derivative financial instruments	7 690	7 690	-	5 339	5 339	-
Loans to customer and receivables	330 278	340 173	9 895	324 462	330 902	6 440
Available-for-sale financial assets	39 395	39 395	-	9 238	9 238	-
Held-to-maturity investments	12 326	12 326	-			
Financial liabilities						
Due to the central bank and other banks	77 543	77 921	(378)	92 306	92 750	(444)
Derivative financial instruments	5 621	5 621	-	4 974	4 974	-
Customer deposits	350 718	351 240	(522)	447 376	448 431	(1 055)
Subordinated debt	8 972	8 972	-	8 502	8 502	-
Debt securities in issue	2 314	2 343	(29)	5 870	5 899	(29)
Total difference			**9 506**			**5 286**

Bank	31.12.2008. Carrying value LVL'000	31.12.2008. Fair value LVL'000	31.12.2008. Difference LVL'000	31.12.2007. Carrying value LVL'000	31.12.2007. Fair value LVL'000	31.12.2007. Difference LVL'000
Financial assets						
Cash and balances with the central bank	58 621	58 621	-	42 157	42 157	-
Loans and receivables to banks	40 741	41 281	540	188 919	189 293	374
Trading financial assets	9 258	9 258	-	37 900	37 900	-
Financial assets designated at fair value through profit or loss	466	466	-	1 454	1 454	-
Derivative financial instruments	7 690			5 339	5 339	-
Loans to customer and receivables	325 785			321 434	327 874	6 440
Available-for-sale financial assets	39 395			9 258	9 258	-
Held-to-maturity investments	12 326	12 326	-	-	-	-
Financial liabilities						
Due to the central bank and other banks	76 367	76 745	(378)	92 306	92 750	(444)
Derivative financial instruments	5 621	5 621	-	4 974	4 974	-
Customer deposits	351 622	352 144	(522)	447 842	448 897	(1 055)
Subordinated debt	8 972	8 972	-	8 502	8 502	-
Debt securities in issue	2 314	2 343	(29)	5 870	5 899	(29)
Total difference			**9 506**			**5 286**

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

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

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	Valuation techniques – market observable inputs	Valuation techniques – non-market observable inputs	Total
	LVL’000	LVL’000	LVL’000	LVL’000
Financial assets	**36 442**	**8 622**	**11 745**	**56 809**
Trading financial assets	9 258		-	**9 258**
Financial assets designated at fair value through profit or loss	-	466	-	**466**
Derivative financial instruments	28	7 662	-	**7 690**
Available-for-sale financial assets	27 156	494	11 745	**39 395**
Financial liabilities	**-**	**5 621**	**-**	**5 621**
Derivatives financial instruments	-	5 621	-	**5 621**

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

39. CAPITAL ADEQUACY CALCULATION

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

	Group LVL’000	Bank LVL’000
Tier 1		
Paid in share capital	40 500	40 500
Reserve capital	7	7
Retained earnings for previous years	15 437	14 772
Minority interest	25	-
Revaluation reserve of available for sale financial assets	(1 188)	(1 188)
Revaluation reserve of foreign currency		

Retained earnings	5 516	5 090
Goodwill	(266)	-
Other intangible assets	(745)	(808)
Investment property revaluation earnings	(1 555)	(1 555)
Total tier 1		
Tier 2		
Subordinated capital	5 445	5 445
45% from investment property revaluation earnings	700	700
Total tier 2	**6 145**	**6 145**
Total capital	**63 876**	**62 963**
Summary		
Credit risk capital	28 767	27 138
Currency risk capital	339	336
Position risk capital	1 033	1 033
Operational risk	3 012	3 012
Total capital requirement for market risks	1 372	1 369
Capital adequacy rate as of 31.12.2008	**15.41%**	**15.98%**
Capital adequacy rate as of 31.12.2007	**14.13%**	**14.06%**
Minimal capital adequacy ratio (%) 2008 and 2007	**8.00%**	**8.00%**

40. RELATED PARTIES

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

Group	Average interest rate %	Amount LVL'000	Off-balance sheet items LVL'000	31.12.2008 Total LVL'000	31.12.2007 Total LVL'000
Assets		**8 579**	**206**	**8 785**	**27 931**
Loans and receivables, net		**8 579**	**206**	**8 785**	**27 931**
Related undertakings and Individuals	7.03	8 424	127	**8 551**	**27 752**
Council and Board	7.77	24	75	**99**	**52**
Other senior executives	4.2	131	4	**135**	**127**
Liabilities		**10 759**	**-**	**10 759**	**16 884**
Deposits		**3 527**	**-**	**3 527**	**9 910**
Related undertakings and Individuals	1.41	2 590	-	**2 590**	**9 287**
Council and Board	3.02	931	-	**931**	**616**
Other senior executives	0.00	6	-	**6**	**7**
Subordinated debt		**7 232**	**-**	**7 232**	**6 974**
Related undertakings and Individuals	9.05	5 389	-	**5 389**	**5 131**
Council and Board	8.19	1 843	-	**1 843**	**1 843**

Bank	Average interest rate %	Amount LVL’000	Off-balance sheet items LVL’000	31.12.2008 Total LVL’000	31.12.2007 Total LVL’000
Assets		**56 638**	**1 938**	**58 576**	**48 576**
Loans and receivables, net		**56 638**	**1 938**	**58 576**	**48 576**
Related undertakings and Individuals	7.03	8 424	127	**8 551**	27 752
Subsidiaries	4.56	48 181	1 732	**49 913**	20 750
Council and Board	7.77	24	75	**99**	53
Other senior executives	7.04	9	4	**13**	21
Liabilities		**11 632**	**-**	**11 632**	**17 322**
Deposits		**4 400**	**-**	**4 400**	**10 348**
Related undertakings and Individuals	1.41	2 590	-	**2 590**	9 287
Subsidiaries	8.96	873	-	**873**	438
Council and Board	3.02	931	-	**931**	616
Other senior executives	0.00	6	-	**6**	7
Subordinated debt		**7 232**	**-**	**7 232**	**6 974**
Related undertakings and Individuals	9.05	5 389	-	**5 389**	5 131
Council and Board	8.19	1 843	-	**1 843**	1 843

As at 31 December 2008, the amount of the Bank’s exposure transactions with related parties is LVL`000 2 332 or 3.7% of the sum tier 1 and tier 2 capital. According to the Law on Credit Institutions of the Republic of Latvia the total amount of exposure transactions with persons that are associated with the bank may not exceed 15 % of the sum tier 1 and tier 2 capital of the Bank.

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

	2008		2007	
	Group LVL’000	Bank LVL’000	Group LVL’000	Bank LVL’000
Interest income	929	2 202	438	1 221
Interest expense	(710)	(767)	(384)	(403)
Net interest income	**219**	**1 435**	**54**	**818**

41. SUBSEQUENT EVENTS

In January 2008 it was decided to establish a 75% owned subsidiary company “NORVIK Alternative Investments” Ltd. (Latvia) with the share capital of LVL`000 135.

In February 2008 it was decided to establish a 100% owned subsidiary company “LEGAL CONSULTING” Ltd. (Latvia) with the share capital of LVL`000 2.

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