A/S REĢIONĀLĀ INVESTĪCIJU BANKA

ANNUAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2007

CONTENTS

AS Reģionālā Investīciju banka

J. Alunana Street 2, Riga, LV 1010, Latvia

Phone: (371) 7508989

Facsimile: (371) 7508988

Registration number: 4000 356 3375

REPORT OF THE MANAGEMENT

In 2007 the JSC "Reģionālā Investīciju Banka" (hereinafter – the Bank) continued its successful growth process, paying significant attention to the improvement and upgrading of the Bank's internal processes. During this period the Bank has also increased the number of its Customer, transaction volumes and all important financial indicators.

Performance of the Bank during the reporting period

In 2007 the Bank's financial indicators remained stable. The Bank's profits grew by 72% and totalled 1.007 million LVL, while the ROA profitability indicator was 1.29% and ROE 11.56%. In the reporting year the Bank's credit portfolio grew by 31%, while the assets grew by 22%.

In the reporting year, the Bank significantly increased its share capital, which currently totals 8.2 million LVL. Due to these changes the Bank's own capital also increased to 10,24 million LVL as of today.

In 2007 there were also several changes in the Bank's shareholders. In the result of these changes the Ukrainian joint-stock bank "Pivdenniy" became the biggest shareholder of the Bank owning 89.02% of the Bank's shares.

At the start of the year a new accounting program was introduced at the Bank. It ensures faster turnover of bank transactions, improved and optimised Customer service and increased data security.

In 2007 three new units were introduced in the Bank's organisational structure: Operational Conformity Control Department, Records Controlling Department and Remote Customers' Service Department. The Securities Department also started active operations. The number of the Bank's employees increased by 19% compared to 2006.

The Bank's dynamic growth and development is affirmed not just by the growth of the Bank's financial indicators, but also by the increasing number of Customers, increase by 24% in 2007.

In December the Bank opened a representative office in the Ukrainian city of Dnepropetrovsk, thereby facilitating future growth in the Bank's transactions and number of Customers in Ukraine.

Future perspectives

In the first half of 2008, the Bank is planning to offer its Customers financial instruments in the form of depository and brokerage services and to increase the number of payment cards. It is also planned to improve Customer service and internal control, and auditing processes, promote access to modern technologies, and upgrade the Bank's services and products. In 2008 the Bank is planning to open a branch in Bulgaria.

Haralds Āboliņš Chairman of the Board, President	Jurijs Rodins Chairman of the Council

Riga, 18 March 2008

THE SUPERVISORY COUNCIL AND THE BOARD OF DIRECTORS OF THE BANK

As at 31 December 2007 and as at the date of signing the accounts:

		Date of appointment
The Council		
Jurijs Rodins	Chairman of the Council	Re-elected – 22.06.2007
Marks Bekkers	Deputy Chairman of the Council	Re-elected – 22.06.2007
Dmitrijs Bekkers	Member of the Council	Re-elected – 22.06.2007
Vadims Morohovskis	Member of the Council	Elected – 22.06.2007
Arkādijs Fjodorovs	Member of the Council	Re-elected – 22.06.2007
Alla Vanecjancs	Member of the Council	Re-elected – 22.06.2007
The Board		
Haralds Āboliņš	Chairman of the Board and President	Re-elected – 17.04.2007
Oleksandr Kuperman	Member of the Board	Re-elected – 17.04.2007
Daiga Muravska	Member of the Board	Re-elected – 17.04.2007

STATEMENT OF RESPONSIBILITY OF THE MANAGEMENT

The Supervisory Council and the Board of Directors (hereinafter - the Management) of the Bank are responsible for the preparation of the financial statements of the Bank.

The financial statements on pages 7 to 45 are prepared in accordance with the source documents and present fairly the financial position of the Bank as at 31 December 2007 and the results of its operations and cash flows for the reporting year 2007.

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

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

Haralds Āboliņš	Jurijs Rodins
Chairman of the Board, President	Chairman of the Council

Riga, 18 March 2008

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers SIA
Kr. Valdemāra iela 19
Rīga LV 1010
Latvija
Telephone +371 709 4400
Facsimile +371 783 0055

INDEPENDENT AUDITORS' REPORT

To the Shareholders of A/S Reģionālā investīciju banka

Report on the Financial Statements

We have audited the accompanying financial statements of A/S Reģionālā Investīciju banka on pages 7 to 45 which comprise the balance sheet as of 31 December 2007 and the income statement, statement of changes in equity and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory notes.

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

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

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

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

Opinion
In our opinion, the accompanying financial statements give a true and fair view of the financial position of A/S Reģionālā Investīciju banka as of 31 December 2007, and of its financial performance and its cash flows for the year then ended in accordance with the requirements of International Financial Reporting Standards as adopted by the European Union.

Report on other legal and regulatory requirements

We have read the Management Report set out on page 3 and did not identify material inconsistencies between the financial information contained in the Management Report and that contained in the financial statements for 2007.

PricewaterhouseCoopers SIA
Audit company licence No. 5

Juris Lapshe
Member of the Board

Ilandra Lejina
Certified auditor
Certificate No. 168

Riga, Latvia
18 March 2008

INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2007

	Notes	2007 LVL	2006 LVL
Interest income	4	5,658,131	3,212,434
Interest expense	4	(1,983,814)	(1,112,267)
Net interest income	4	**3,674,317**	**2,100,167**
Fee and commission income	5	1,469,480	1,007,310
Fee and commission expense	5	(1,246,871)	(336,622)
Net fee and commission income	5	**222,609**	**670,688**
Profit on securities trading and foreign exchange, net	6	80,737	124,822
Other operating income		25,384	7,447
Impairment losses for loans and advances	11	(282,542)	(249,314)
Administrative expenses	7	(2,336,612)	(1,834,955)
Amortisation and depreciation charge	13, 14	(100,538)	(65,230)
Other operating expense		(64,148)	(46,124)
Profit before income tax		**1,219,207**	**707,501**
Income tax expense	8	(206,204)	(125,531)
Deferred tax	8	(6,279)	4,800
Net profit for the year		**1,006,724**	**586,770**

The financial statements on pages 7 to 45 have been approved by the Supervisory Council and the Board of Directors of the Bank and signed on their behalf by:

Haralds Āboliņš
Chairman of the Board, President

Jurijs Rodins
Chairman of the Council

Riga, 18 March 2008

The accompanying notes on pages 11 to 45 are an integral part of these financial statements.

BALANCE SHEET AS AT 31 DECEMBER 2007

	Notes	31.12.2007 LVL	31.12.2006 LVL
Assets			
Cash and balances with the Bank of Latvia	9	6,875,778	4,485,942
Balances due from banks	10	16,802,948	14,028,835
Loans and advances to customers	11	48,452,533	36,809,482
Financial assets at fair value through profit or loss	12	5,779,204	8,354,812
Derivative financial instruments	22	82,970	-
Intangible assets	13	263,758	58,108
Property and equipment	14	279,305	172,136
Other assets		437,371	239,956
Deferred expenses and accrued income	15	91,040	386,824
Current corporate income tax	33	45,317	58,964
Total assets		**79,110,224**	**64,595,059**
Liabilities			
Debt securities in issue	16	2,850,438	2,811,216
Balances due to banks	17	12,487,226	1,228,732
Due to customers	18	51,691,532	52,173,330
Derivative financial instruments	22	116,270	-
Other liabilities	19	160,326	70,892
Deferred income and accrued expenses	20	302,526	521,986
Deferred income tax liability	21	8,779	2,500
Total liabilities		**67,617,097**	**56,808,656**
Equity			
Share capital	23	8,200,000	5,500,000
Retained earnings		2,286,403	1,699,633
Profit for the year		1,006,724	586,770
Total shareholders' equity		**11,493,127**	**7,786,403**
Total liabilities and equity		**79,110,224**	**64,595,059**
Commitments and contingent liabilities			
Contingent liabilities	24	570,559	32,580
Financial commitments	24	11,598,598	7,999,836
Funds under trust management	24	1,674,335	2,377,319

The financial statements on pages 7 to 45 have been approved by the Supervisory Council and the Board of Directors of the Bank and signed on their behalf by:

Haralds Āboliņš
Chairman of the Board, President

Jurijs Rodins
Chairman of the Council

Riga, 18 March 2008

The accompanying notes on pages 11 to 45 are an integral part of these financial statements.

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE YEAR ENDED 31 DECEMBER 2007

	Paid-in share capital	Retained earnings	Total
	LVL	LVL	LVL
Balance at 31 December 2005	**3,300,000**	**1,699,663**	**4,999,633**
Net profit for the year	–	586,770	586,770
Increase of share capital	2,200,000	–	2,200,000
Balance at 31 December 2006	**5,500,000**	**2,286,403**	**7,786,403**
Net profit for the year	–	1,006,724	1,006,724
Increase of share capital*	2,700,000	–	2,700,000
Balance at 31 December 2007	**8,200,000**	**3,293,127**	**11,493,127**

* see Note 23.

The accompanying notes on pages 11 to 45 are an integral part of these financial statements.

CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2007

	Notes	2007 LVL	2006 LVL
Cash inflow from operating activities			
Profit before income tax		1,219,207	707,501
Amortisation and depreciation		100,539	65,230
(Decrease) / increase in provision for loan impairment		(251,812)	203,376
Loss from revaluation of foreign currency		35,667	91,310
Profit from disposal of fixed assets		522	1,461
Loss from revaluation of trading securities		210,706	145,944
Prepaid expenses and accrued income increase		(511)	(253,126)
Deferred income and accrued expense increase		159,933	345,406
(Increase) in other assets		(280,385)	(232,531)
Increase /(decrease) in other liabilities		205,704	(2,236)
Increase in cash and cash equivalents before changes in assets and liabilities, as a result of operating activities		**1,399,570**	**1,072,335**
Decrease/(increase) in trading securities		2,483,366	(4,646,354)
Decrease in balances due from banks		(1,026,782)	(997,150)
Increase in loans		(11,268,198)	(18,381,009)
(Decrease) / increase in deposits		(800,105)	26,859,408
(Decrease)/Increase in cash and cash equivalents from operating activities before income taxes		**(9,212,149)**	**3,907,230**
Income tax paid		(192,557)	(292,725)
Net cash and cash equivalents from operating activities		**(9,404,706)**	**3,614,505**
Cash outflow from investing activities			
Purchase of fixed assets and intangible assets		(413,880)	(120,649)
Decrease in cash and cash equivalents from investing activities		**(413,880)**	**(120,649)**
Cash inflow from financing activities			
Increase of share capital		2,700,000	2,200,000
Debt securities issue		-	2,811,216
Increase in cash and cash equivalents from financing activities		**2,700,000**	**5,011,216**
Net cash inflow for the period		**7,118,586**	**8,505,072**
Cash and cash equivalents at the beginning of the reporting period	25	**16,259,245**	**7,845,483**
Effect of exchange rates on cash and cash equivalents		(35,667)	(91,310)
Cash and cash equivalents at the end of the reporting period	25	**9,104,992**	**16,259,245**

The accompanying notes on pages 11 to 45 are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 INCORPORATION AND PRINCIPAL ACTIVITIES

Bank provides financial services to corporate clients and individuals. The Bank established its representative office in Odessa, Ukraine in 2005 and representative office in Dnepropetrovsk, Ukraine in 2007. The Bank has no subsidiaries and branches apart from the mentioned above.

The Bank is a joint-stock company incorporated and domiciled in Riga, Republic of Latvia. It was registered within Commercial Register on 28 September 2001.

The Bank has issued bonds, with subsequent listing in Riga Stock Exchange.

These financial statements have been approved for issue by the Supervisory Council and the Board of Directors on 17 March 2008.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A summary of the significant accounting policies, all of which have been applied consistently throughout the years 2007 and 2006, are set out below:

(a) Reporting currency

The tabular amounts in the accompanying financial statements are reported in Latvian lats (LVL), unless otherwise stated.

(b) Basis of preparation

These financial statements are prepared in accordance with International Financial Reporting Standards (hereinafter - IFRS) as adopted in the European Union. The financial statements are prepared under the historical cost convention as modified by the fair valuation of financial assets held at fair value through the profit or loss and derivative financial instruments.

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

The accounting policies used in the preparation of the financial statements for the year ended 31 December 2007 are consistent with those used in the annual financial statements for the year ended 31 December 2006, except as referred to in Note 2 (bb) *Adoption of New or Revised Standards and Interpretations*.

(c) Income and expense recognition

Interest income and expense are recognised in the income statement for all interest bearing instruments on an accrual basis using the effective interest method. Interest income includes coupons earned on trading securities.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Income and expense recognition (continued)

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

Commissions received or incurred in respect of origination of financial assets or funding are deferred and recognised as an adjustment to the effective interest rate on the asset or liability. Other fees and commissions, including those related to trust activities, are credited and/or charged to the income statement as earned.

(d) Foreign currency translation

Transactions denominated in foreign currencies are recorded in lats at rates of exchange set forth by the Bank of Latvia at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into lats at the rate of exchange prevailing at the end of the period. Any gain or loss resulting from a change in rates of exchange subsequent to the date of the transaction is included in the income statement as a profit or loss from revaluation of foreign currency positions.

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

Reporting date	**USD**	**EUR**	**RUB**	**UAH**
As at 31 December 2007	0.484	0.702804	0.0197	0.0958
As at 31 December 2006	0.536	0.702804	0.0203	0.1060

(e) Income taxes

Income tax is calculated in accordance with Latvian tax regulations and is based on the taxable income reported for the taxation period.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. The deferred income tax is calculated based on currently enacted tax rates that are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled. The principal temporary differences arise from different rates of accounting and tax amortisation and depreciation on intangible and fixed assets, as well as accruals for employee vacation expenses. Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

(f) Cash and cash equivalents

For the purpose of presentation in the statement of cash flows, cash and cash equivalents are defined as the amounts comprising cash in hand, deposits held at call and with original maturities of three months or less with the Bank of Latvia and other credit institutions.

(g) Loans and allowances for loan impairment

Balances due from banks and loans and advances to customers are accounted for as loans and receivables. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in active markets.

Loans and receivables are recognised initially at fair value of consideration given to originate those loans plus transaction costs that are directly attributable to the acquisition of financial asset. Loans and receivables are subsequently carried at amortised cost using the effective interest method. All loans and receivables are recognised when cash is advanced to borrowers and derecognised on repayments.

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Loans and allowances for loan impairment (continued)

The Bank assesses at each balance sheet date whether there is objective evidence that loans and receivables are impaired, either individually or as a class if individually not significant. If any such evidence exists, the amount of the loss for loan impairment which has been incurred is measured as the difference between the asset's carrying amount and the recoverable amount, being the present value of expected cash flows (excluding future credit losses that have not been incurred), including amounts recoverable from guarantees and collateral, discounted at the original effective interest rate. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment. The carrying amount of the asset is reduced through the use of a provision account and the amount of the loss is recognised in the income statement. The assessment of the evidence for impairment and the determination of the amount of provision for impairment or its reversal require the application of Management's judgment and estimates. Management's judgments and estimates consider relevant factors including, but not limited to, the identification of non-performing loans and high risk loans, the Bank's past loan loss experience, known and inherent risks in the portfolio of loans, adverse situations that affects the borrowers' ability to repay, the estimated value of any underlying collateral and current economic conditions as well as other relevant factors affecting loan and advance recoverability and collateral values. These judgments and estimates are reviewed periodically, and historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. The Management of the Bank has made their best estimates of losses, based on objective evidence of impairment and believes those estimates presented in the financial statements are reasonable in light of available information. Nevertheless, it is reasonably possible, based on existing knowledge, that outcomes within the next financial year that are different from assumptions could require a material adjustment to the carrying amount of the asset or liability affected.

When loans and receivables cannot be recovered, they are written off and charged against provision for loan impairment losses. They are not written off until all the necessary legal procedures have been completed and the amount of the loss is finally determined.

(h) Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading and those designated at fair value through profit or loss at inception. The Bank does not designate any financial assets as at fair value through profit or loss at inception. Financial assets at fair value through profit or loss comprise debt securities held by the Bank for trading purposes. They are accounted for at fair value with all gains and losses from revaluation and trading reported in the income statement. Interest earned whilst holding trading securities is reported as interest income.

All regular way purchases and sales of financial assets held for trading are recognised at trade date, which is the date that the Bank commits to purchase or sell the asset.

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Bank has transferred substantially all risks and rewards of ownership.

(i) Sale and repurchase agreements of securities

Sale and repurchase agreements are accounted for as financing transactions. Under sale and repurchase agreements, where the Bank is a transferor, assets transferred remain on the Bank's balance sheets and are subject to the Bank's usual accounting policies, with the purchase price received included as a liability owed to the transferee.

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Sale and repurchase agreements of securities (continued)

Where the Bank is a transferee, the assets are not included in the Bank's balance sheet, but the purchase price paid by it to the transferor is included as an asset. Interest income or expense arising from outstanding sale and repurchase agreements is recognised in the income statement over the term of the agreement using the effective interest method.

(j) Derivative financial instruments

Derivative financial instruments include foreign exchange contracts, currency and interest rate swaps held by the Bank for trading purposes. Derivative financial instruments are recognised on trade date and categorised as financial assets at fair value through profit or loss. They are initially recognised in the balance sheet at fair value and subsequently measured at their fair value with all gains and losses from revaluation reported in the income statement. All derivatives are carried as financial assets when fair value is positive and as financial liabilities when fair value is negative.

(k) Fair values of financial assets and liabilities

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Fair values of financial assets or liabilities, including derivative financial instruments, in active markets are based on quoted market prices. If the market for a financial asset or liability is not active (and for unlisted securities), the Bank establishes fair value by using valuation techniques. These include the use of discounted cash flow analysis, option pricing models and recent comparative transactions as appropriate, and may require the application of management's judgment and estimates.

Where, in the opinion of the Management, the fair values of financial assets and liabilities differ materially from their book values, such fair values are separately disclosed in the notes to the accounts.

(l) Derecognition of financial assets

The Bank derecognises financial assets when (i) the assets are redeemed or the rights to cash flows from the assets otherwise expired or (ii) the Bank has transferred substantially all the risks and rewards of ownership of the assets or (iii) the Bank has neither transferred nor retained substantially all risks and rewards of ownership but has not retained control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the sale.

(m) Intangible assets

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

(n) Property and Equipment

All property and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(n) Property and Equipment (continued)

Depreciation is calculated using the straight-line method to allocate cost of the fixed assets to their residual values over their estimated useful lives, as follows:

Furniture and fittings	10 years
Computer equipment	3 years
Other fixed assets	5 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

Property and equipment are periodically reviewed for impairment. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use.

Gains or losses on disposals are determined by comparing carrying amount with proceeds and are charged to the profit and loss account during the period in which they are incurred.

(o) Operating lease – the Bank is a lessee

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any financial incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

(p) Borrowings

Borrowings are recognised initially at fair value of consideration received net of transaction costs incurred. Borrowings are subsequently stated at amortised cost and any difference between net proceeds and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

(q) Provisions

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

(r) Employee benefits

The Bank pays State compulsory social security contributions for state pension insurance and to the state funded pension scheme in accordance with Latvian legislation. State funded pension scheme is a defined contribution plan under which the Bank pays fixed contributions determined by the law and it will have no legal or constructive obligations to pay further contributions if the state pension insurance system or state funded pension scheme are not able to settle their liabilities to employees.

Short-term employee benefits, including salaries and State compulsory social security contributions, bonuses and paid vacation benefits, are included in Administrative expenses on an accrual basis.

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(s) Off-balance sheet instruments

In the ordinary course of business, the Bank utilises off-balance sheet financial instruments including commitments to extend loans and advances, financial guarantees and commercial letters of credit. Such financial instruments are recorded in the financial statements when they are funded or related fees are incurred or received. The methodology for provisioning against off-balance sheet instruments is given in paragraph (q) of Note 2 above.

(t) Trust operations

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

Accounting for trust operations is separated from the Bank's own accounting system thus ensuring separate accounting in a separate trust balance sheet for assets of each client, by client and by type of assets under management.

(u) Comparatives

In 2007 reclassification of separate items in the balance was made, comparatives for 2006 were restated accordingly. The following changes were made in the result of reclassification:

31.12.2007.	**Before restatement LVL**	**Restated amounts LVL**	**After restatement LVL**
Loans and advances to customers	48,242,657	209,876	48,452,533
Balances due from banks	16,735,176	67,772	16,802,948
Financial assets at fair value through profit or loss	5,665,981	113,223	5,779,204
Deferred expenses and accrued income	481,911	(390,871)	91,040
Debt securities in issue	2,811,216	39,222	2,850,438
Balances due to banks	12,465,362	21,864	12,487,226
Due to customers	51,485,259	206,273	51,691,532
Deferred income and accrued expenses	569,885	(267,359)	302,526

31.12.2006.	**Before restatement LVL**	**Restated amounts LVL**	**After restatement LVL**
Loans and advances to customers	36,809,482	123,041	36,932,523
Balances due from banks	14,028,835	54,790	14,083,625
Financial assets at fair value through profit or loss	8,354,812	118,464	8,473,276
Deferred expenses and accrued income	386,824	(296,295)	90,529
Debt securities in issue	2,811,216	34,679	2,845,895
Balances due to banks	1,228,732	914	1,229,646
Due to customers	52,173,330	318,307	52,491,637
Deferred income and accrued expenses	521,986	(353,900)	168,086

In 2007 income from loan origination was reclassified from commission income to interest income to reflect interest income on loans in accordance with effective interest method. The result of reclassification was decrease of commission income and increase of interest income by Ls 82 thousand and Ls 103 thousand in 2007 and 2006 respectively.

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(v) Offsetting of Financial Assets and Liabilities

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

(w) Debt securities in issue

Debt securities in issue include bonds issued by the Bank. Debt securities are stated at amortised cost. If the Bank purchases its own debt securities in issue, they are removed from the balance sheet and the difference between the carrying amount of the liability and the consideration paid is included in gains arising from retirement of debt.

(z) Segment reporting

The Bank operates in one business segment – corporate banking.
A geographical segment is engaged in providing services within a particular economic environment that are subject to risks and returns different from those of segments operating in other economic environments.

(aa) Critical accounting estimates

Loan impairment

The Bank reviews its loan portfolios to assess impairment at least on a quarterly basis. In determining whether an impairment loss should be recorded in the income statement, the Bank makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio.

This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Initial recognition of related party transactions

In the normal course of business the Bank enters into transactions with its related parties. IAS 39 requires initial recognition of financial instruments based on their fair values. Management judgement is applied in determining if transactions are priced at market or non-market interest rates, where there is no active market for such transactions. The basis for judgement is pricing for similar types of transactions with unrelated parties and effective interest rate analysis.

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(bb) Adoption of new or revised standards and interpretations

Certain new IFRS became effective for the Bank from 1 January 2007. Listed below are those new or amended standards or interpretations which are relevant to the Bank's operations and the nature of their impact on the Bank's accounting policies.

- IFRS 7, *Financial Instruments: Disclosures and a complementary Amendment* to IAS 1 *Presentation of Financial Statements - Capital Disclosures* (effective from 1 January 2007). The IFRS introduced new disclosures to improve the information about financial instruments, including about quantitative aspects of risk exposures and the methods of risk management. The new quantitative disclosures provide information about the extent of exposure to risk, based on information provided internally to the entity's key management personnel.

  Qualitative and quantitative disclosures cover exposure to credit risk, liquidity risk and market risk including sensitivity analysis to market risk. IFRS 7 replaced IAS 30, Disclosures in the Financial Statements of Banks and Similar Financial Institutions, and some of the requirements in IAS 32, Financial Instruments: Disclosure and Presentation. The Amendment to IAS 1 introduced disclosures about the level of an entity's capital and how it manages capital. The new disclosures are made in these financial statements.
- IFRIC 7, *Applying the Restatement Approach* under IAS 29 (effective for periods beginning on or after 1 March 2006).
- IFRIC 8, *Scope of IFRS 2* (effective for periods beginning on or after 1 May 2006).
- IFRIC 9, *Reassessment of Embedded Derivatives* (effective for annual periods beginning on or after 1 June 2006).
- IFRIC 10, *Interim Financial Reporting and Impairment* (effective for annual periods beginning on or after 1 November 2006).

The new IFRIC interpretations 7 to 10 did not significantly affect the Bank's financial statements.

Certain new standards and interpretations have been published that become effective for the accounting periods beginning on or after 1 January 2008 or later periods and which the Bank has not early adopted:

- IFRS 8, *Operating Segments* (effective for annual periods beginning on or after 1 January 2009). The Standard applies to entities whose debt or equity instruments are traded in a public market or that file, or are in the process of filing, their financial statements with a regulatory organisation for the purpose of issuing any class of instruments in a public market. IFRS 8 requires an entity to report financial and descriptive information about its operating segments and specifies how an entity should report such information.
- IAS 23, *Borrowing Costs* (revised March 2007; effective for annual periods beginning on or after 1 January 2009). The revised IAS 23 was issued in March 2007. The main change to IAS 23 is the removal of the option of immediately recognising as an expense borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale. An entity is, therefore, required to capitalise such borrowing costs as part of the cost of the asset. The revised Standard applies prospectively to borrowing costs relating to qualifying assets for which the commencement date for capitalisation is on or after 1 January 2009.
- IFRS 3, *Business combinations (revised on 10 January 2008; effective for annual periods beginning on or after 1 July 2009).* The standard continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with some contingent payments subsequently remeasured at fair value through income. Goodwill may be calculated based on the parent's share of net assets or it may include goodwill related to the minority interest. All transaction costs will be expensed.
- IAS 27, *Consolidated and separate financial statements* (revised on 10 January 2008; effective for annual periods beginning on or after1 July 2009). IAS 27 (revised) requires the effects of all transactions with noncontrolling interests to be recorded in equity if there is no change in control. They will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is remeasured to fair value and a gain or loss is recognised in profit or loss.

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(bb) Adoption of new or revised standards and interpretations (continued)

- Amendment to IFRS 2 dealing with vesting conditions and cancellations (effective for annual periods beginning on or after 1 January 2009, subject also to EU adoption for certain territories). It clarifies that only service conditions and performance conditions are vesting conditions. As such these features need to be included in the grant date fair value for transactions with employees and do not impact the number of awards expected to vest or the valuation subsequent to grant date. It also specifies that all cancellations, should receive the same accounting treatment.
- IFRIC 11, IFRS 2 - *Group and Treasury Share Transactions* (effective for annual periods beginning on or after 1 March 2007);
- IFRIC 12, Service Concession Arrangements (effective for annual periods beginning on or after 1 January 2008);
- IFRIC 13, *Customer Loyalty Programmes* (effective for annual periods beginning on or after 1 July 2008);
- IFRIC 14, IAS 19 - *The Limit on a Defined Benefit Asset*, Minimum Funding Requirements and their Interaction (effective for annual periods beginning on or after 1 January 2008).

The new standards and interpretations are not expected to significantly affect the Bank's financial statements.

NOTE 3 FINANCIAL RISK MANAGEMENT

Risk Management

Risk management is one of the Bank's strategic tasks. Risk management strategy has been developed for the Bank's risk management, which covers management of the following risks: credit risk and residual risk, operational risk, market risk, interest rate risk, foreign currency risk, liquidity risk, concentration risk, and country risk.
For the purpose of managing these risks, internal risk management policies and procedures have been developed which are approved by the Bank's Council and/or Board and implemented by the responsible units of the bank.
The Board of the Bank is responsible for the development and effective functioning of the risk management system and ensuring the identification and management of the bank's risks, including estimation, evaluation, oversight and preparation of risk reports through implementing the risk identification and management policy set by the Bank's Council and other documents connected with risk management.
The main unit responsible for determination, evaluation and oversight of the risks is the Risk Management Department, which is an independent unit whose functions are separated from the functions of the business units.
The risk management system is being constantly improved in accordance with the Bank's activities and external conditions influencing these activities, and regular oversight of this process is performed by the Internal Audit Department.

a) Credit risk

Credit risk is the risk of incurring losses in the event that a borrower (debtor) or a business partner is unable to fulfil its obligations to the bank in accordance with the provisions of the contract. Credit risk is present in the bank's operations where the bank makes claims against another person and which are reflected in the bank's balance sheet and off-balance sheet items.
The Bank's principles for evaluation, oversight and acceptance of credit risk are described and approved in its Loan Policy, Business Partner Policy and Investment Policy.
The Bank divides up and oversees its credit risk by setting limits of various types and categories: acceptable risk limits for each borrower, group of related borrowers, geographical regions, business sectors, type and value of collateral, currency, term and ratings granted by international agencies.

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 3 FINANCIAL RISK MANAGEMENT (continued)

Risk Management (continued)

a) Credit risk (continued)

Credit risk exposures are monitored on a revolving basis through regular assessments of borrowers' ability to meet interest and capital repayments and limits are adjusted as appropriate. The Bank's exposure to credit risk is managed and minimised by obtaining collaterals and guarantees against credit exposures that are registered in the name of the Bank. The fair values of those are also reviewed on a regular basis.

The table below shows credit risk exposures relating to on-balance sheet assets and off-balance sheet items before collateral held or other credit enhancements:

	31.12.2007. LVL	31.12.2006. LVL
Credit risk exposures relating to on-balance sheet assets are as follows:		
Due from credit institutions	16,802,948	14,083,625
Loans to customers	48,452,533	36,932,523
Trading securities		
Investment securities at fair value through profit or loss	5,779,204	8,473,276
Investment securities – available for sale		
Derivative financial instruments		
Other assets	437,371	239,956
Credit risk exposures relating to off-balance sheet items are as follows:		
Contingent liabilities	570,559	32,580
Financial commitments	11,598,598	7,999,836

b) Market risk

The Bank takes on exposure to market risks. Market risks arise from open positions in interest rate and currency, all of which are exposed to general and specific market movements.

The Bank manages market risks by the diversification of financial instruments portfolio, limits set for different types of financial instruments and performance of sensitivity tests which show the impact of particular risks on the Bank's assets and equity.

c) Currency risk

The Bank has exposure to the effects of fluctuations in prevailing foreign currency exchange rates as a result of its financial position and cash flows. The Bank seeks to match assets and liabilities denominated in foreign currencies in order to avoid foreign currency exposures. The Board has set limits on the level of exposure by currency, which is monitored on a daily basis. The Latvian banking legislation requires that open positions in each foreign currency may not exceed 10% of the Bank's equity and that the total foreign currency open position may not exceed 20% of the equity. During the year 2007 the Bank was in compliance with those limits (see Note 28).

The Bank's foreign currency risk evaluation is based on the following main principles:
- evaluation is made of changes to the Bank's assets, liabilities and off-balance sheet items as a result of exchange rate fluctuations;
- how the Bank's revenue/costs change with exchange rate fluctuations;
- performance of currency risk stress tests.

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 3 FINANCIAL RISK MANAGEMENT (continued)

Risk Management (continued)

c) Currency risk (continued)

The main elements of currency risk management:
- currency risk evaluation;
- setting of limits and restrictions;
- monitoring of adherence to internal limits;
- performance of exchange rate stress tests and analysis of obtained results;
- entering into hedging relationships if necessary.

Sensitivity Analysis

The following table shows the sensitivity of profit/loss and equity to currency exchange rate fluctuations during the reporting period, with other conditions constant:

31.12.06	**Effect on equity**		**Effect on profit/loss**		**31.12.07**	**Effect on equity**		**Effect on profit/loss**	
	+100 bps	**-100 bps**	**+100 bps**	**-100 bps**		**+100 bps**	**-100 bps**	**+100 bps**	**-100 bps**
USD	202	-202	27	-27	**USD**	137	-137	29	-29
EUR	-10	10	4	-4	**EUR**	48	-48	2	-2
LVL	100	-100	2	-2	**LVL**	102	-102	1	-1
Total	**292**	**-292**	**33**	**-33**	**Total**	**287**	**-287**	**32**	**-32**

The following table shows the average sensitivity of profit/loss and equity to currency exchange rate fluctuations during the reporting period, with other conditions constant:

31.12.06	**Effect on equity**		**Effect on profit/loss**		**31.12.07**	**Effect on equity**		**Effect on profit/loss**	
	+100 bps	**-100 bps**	**+100 bps**	**-100 bps**		**+100 bps**	**-100 bps**	**+100 bps**	**-100 bps**
Total	**172**	**-172**	**25**	**-25**	**Total**	**217**	**-217**	**30**	**-30**

d) Interest rate risk

Interest rate risk is the sensitivity of the financial position of the Bank to a change in market interest rates. In the normal course of business, the Bank encounters interest rate risk as a result of differences within maturities or interest re-fixing dates of respective interest-sensitive assets and liabilities. The risk is controlled by the Bank's Asset and Liability Committee, which sets limits on the level of mismatch of interest rate reprising and evaluates interest rate risk undertaken by the Bank (see Note 30).

In order to evaluate interest rate risk, evaluation is made of the impact of interest rate changes on the Bank's and economic value, including evaluation of interest rate risk from the revenue perspective and the economic value perspective. In addition, interest rate risk stress testing is performed.

The main elements of interest rate risk management:
- evaluation of interest rate risk sensitivity;
- setting of internal limits (limit of reduction in economic value and for total duration of securities portfolio);
- monitoring of adherence to internal limits;
- performance of interest rate stress tests and analysis of obtained results;
- entering into hedging relationships if necessary.

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 3 FINANCIAL RISK MANAGEMENT (continued)

Risk Management (continued)

d) Interest rate risk (continued)
The following changes in interest rates are applied to the sensitivity analysis: all items except for deposits are subject to rate changes of +/-100 base points, while deposits are subject to rate changes of +/-50 base points.

The following table shows the sensitivity of profit/loss and equity to interest rate fluctuations with other conditions constant:

31.12.06	**Effect on equity**		**Effect on profit/loss**		**31.12.07**	**Effect on equity**		**Effect on profit/loss**	
	+100 bps	**-100 bps**	**+100 bps**	**-100 bps**		**+100 bps**	**-100 bps**	**+100 bps**	**-100 bps**
USD	-64	64	225	-225	USD	-300	300	96	-96
EUR	-16	16	7	-7	EUR	-23	23	56	-56
LVL	-54	54	53	-53	LVL	-90	90	26	-26
Total	**-134**	**-134**	**285**	**-285**	**Total**	**-413**	**413**	**178**	**-178**

The following table shows the average annual sensitivity of profit/loss and equity to interest rate fluctuations, with other conditions constant:

31.12.06	**Effect on equity**		**Effect on profit/loss**		**31.12.07**	**Effect on equity**		**Effect on profit/loss**	
	+100 bps	**-100 bps**	**+100 bps**	**-100 bps**		**+100 bps**	**-100 bps**	**+100 bps**	**-100 bps**
Total	**-2**	**2**	**186**	**-186**	**Total**	**-317**	**317**	**268**	**-268**

e) Liquidity risk

The Bank is exposed to daily calls on its available cash resources from short-term liquid investments. The relationship between the maturity of assets and liabilities, as well as off-balance sheet items is indicative of liquidity risk and the extent to which it may be necessary to raise funds to meet outstanding obligations.

The Bank does not maintain cash resources to meet all of these needs, as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty. The Board sets limits on the minimum proportion of maturing funds available to meet such calls and on the minimum level of inter-bank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand.

It is unusual for banks to be completely matched, as transacted business is often of uncertain term and of different types (see Note 29). An unmatched position potentially enhances profitability, but also increases the risk of losses.

The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature are important factors in assessing the liquidity of the Bank and its exposure to changes in interest rates and exchange rates.

The matching and controlled mismatching of the maturities of assets and liabilities is fundamental to the daily liquidity management of the Bank.

The Bank uses the following methods for evaluation of liquidity risk:
- preparation of maturity analysis (for all currencies and separately for individual currencies);
- calculation of the liquidity ratio, monitoring of adherence to liquidity ratio regulations;
- stress testing.

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 3 FINANCIAL RISK MANAGEMENT (continued)

e) Liquidity risk (continued)

The following are the main elements of liquidity risk management:
- being in compliance with liquidity ratio regulations;
- setting of the liquidity net position limit;
- setting of restriction for attracting deposits;
- monitoring of adherence to liquidity limits;
- conducting liquidity stress tests and analysis of results obtained;
- recommendations for resolving liquidity problems.

In accordance with FCMC requirements, the Bank maintains sufficient liquid assets to meet its liabilities in the amount which is not less than 30% of the Bank's current liabilities.

f) Capital adequacy

Capital adequacy refers to the sufficiency of the Bank's capital resources to cover credit risks and market risks arising from the portfolio of assets of the Bank and the exposure from off-balance sheet items of the Bank.

The international Basel I risk-based capital adequacy ratio as at 31 December 2007 was 21.52% (31 December 2006: 15.65%), which is above the minimum ratio recommended by the 1988 Basel Committee guidelines of 8%.

In 2007 the Bank continued working on the Basel II project which includes the preparation for introduction of new EU capital adequacy rules.

In accordance with the Latvian Financial and Capital Market Commission's (FCMC) requirements, the Bank's risk based capital adequacy ratio as at 31 December 2007 was 21.64% (31 December 2006: 15.14%), which is above the minimum required by the FCMC guidelines 2004. FCMC requires Latvian banks to maintain a capital adequacy ratio of 8% of risk weighted assets and off-balance sheet items which are calculated in accordance with the rules set by FCMC (see also note 27).

g) Operational risk

Operational risk is the possibility of incurring losses as a result of inadequate or unsuccessful developments in the Bank's internal processes, human and systemic actions, or influence of external conditions. Operational risk is defined as the risk of a reduction in the Bank's revenue/ incurring of additional costs (and a resulting reduction of the equity) due to erroneous transactions with Customers/business partners, information processing, adoption of ineffective decisions, insufficient human resources or insufficient planning for the influence of external conditions.

Self-evaluation of operational risk is used to evaluate operational risk – a process in the course of which the Bank evaluates the operations it has performed in the context of operational risk types to identify the Bank's strengths and weaknesses in operational risk management.
The Bank has established and maintains an Operational Risk Event and Loss database in which internal data on operational risk events and associated losses are collected, processed and organised.

The main elements of operational risk management are:
- operational risk monitoring;
- operational risk control and minimisation:
  - development of internal regulatory documents which prevent/reduce the likelihood of operational events;
  - segregation of duties;
  - control over internal limits;
  - adherence to the procedures in the use of IT and other Bank's resources;
  - appropriate training of employees;
  - regular review of supporting documents for transactions and account balances.

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 3 FINANCIAL RISK MANAGEMENT (continued)

h) Concentration of geographical region risk

Country risk – country partner risk – is the possibility of incurring losses if the Bank's assets are located in a country where, due to changes in its economic and political factors, the Bank may experience problems in recovering its assets within the agreed time and amount. The reasons of default by partners and issuers are primarily currency devaluation, unfavourable legislative changes, creation of new restrictions and barriers as well as other, including *force majeure*, factors.
International rating organisations (including credit ratings and their dynamics), economic indicators of the country and other relevant information is used for risk analysis.

The main elements of risk control:
- setting of internal limits for regions, countries, and by transaction types in individual countries;
- monitoring of adherence to internal limits;
- analysis and monitoring of country risk;
- review of internal limits.

Asset, liability and off-balance sheet country risk applies to the country which is considered to be the primary country where the client conducts its business activities. If a loan is granted to a resident of another country using collateral which is physically located in a country other than the resident country of the legal entity, the state risk is transferred to the country where the loan collateral is actually located.

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 4 INTEREST INCOME AND EXPENSE

	2007 LVL	2006 LVL
Interest income		
Loans	3,199,068	2,189,139
Credit institutions	2,018,812	632,502
Trading securities	440,251	389,314
Other	-	1,479
Total interest income	**5,658,131**	**3,212,434**
Interest expense		
Deposits	(1,519,148)	(919,716)
Credit institutions	(134,016)	(80,716)
Guarantee fund	(125,014)	(77,156)
Other	(205,636)	(34,679)
Total interest expense	**(1,983,814)**	**(1,112,267)**
Net interest income	**3,674,317**	**2,100,167**

The Bank's cash flow during the year to 31 December 2007 arising from interest received was LVL 5,558 thousand (2006: LVL 2,607 thousand) and arising from interest paid was LVL 2,070 thousand (2006: LVL 763 thousand).

NOTE 5 FEE AND COMMISSION INCOME AND EXPENSE

	2007 LVL	2006 LVL
Fee and commission income		
Money transfers	1,248,848	702,563
Loan related fees	27,696	36,815
Trust activities	15,764	126,530
Accounts servicing	59,079	59,666
Letters of credit	20,580	39,594
Certificates of deposit	13,993	12,863
Cession agreements	2,507	-
Other	81,013	29,279
Total fee and commission income	**1,469,480**	**1,007,310**
Fee and commission expense		
Money transfers	(509,886)	(304,129)
Other	(736,985)	(32,493)
Total fee and commission expense	**(1,246,871)**	**(336,622)**
Net fee and commission income	**222,609**	**670,688**

NOTE 6 PROFIT ON SECURITIES TRADING AND FOREIGN EXCHANGE, NET

	2007 LVL	2006 LVL
Profit from trading with securities		
Gains from trading with securities	(3,813)	-
Loss from revaluation of securities		
Loss from securities revaluation	(210,706)	(145,944)
Loss on securities trading and revaluation, net	**(214,519)**	**(145,944)**
Foreign exchange		
Gain from trading with foreign currencies	364,223	362,076
Loss from foreign currency revaluation	(35,667)	(91,310)
Loss from derivatives revaluation	(33,300)	**-**
Profit on foreign exchange, net	**295,256**	**270,766**
Profit on securities trading and foreign exchange, net	**80,737**	**124,822**

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 7 ADMINISTRATIVE EXPENSE

	2007 LVL	2006 LVL
Remuneration paid to personnel	853,211	594,167
Office rent and maintenance	305,476	286,334
Remuneration paid to the members of the Council and the Board	263,450	218,980
State compulsory social insurance contributions	231,464	170,995
Communication expense	132,399	110,823
Ukraine representative office maintenance expense	140,100	99,082
Consulting and professional fees	91,215	80,894
Set-up and maintenance costs of information systems	37,323	45,343
Business trips	39,918	37,434
Introduction of credit cards	4,822	29,988
Transportation	45,971	24,320
Sponsorship	22,826	19,059
Health insurance	18,375	10,482
Advertising and marketing	12,303	3,484
Personnel training in connection with EU structural funds	4,788	1,160
Penalties	5,010	2
Other administrative expense	127,961	102,408
	2,336,612	**1,834,955**

The average number of staff employed by the Bank in 2007 was 77 (2006: 61).

NOTE 8 INCOME TAX EXPENSE

Corporate income tax for the reporting year	206,204	125,531
Increase / (decrease) of provision for deferred tax (Note 21)	6,279	(4,800)
Total corporate income tax	**212,483**	**120,731**

Corporate income tax differs from the theoretically calculated taxation at the 15% rate as stipulated by the law (see below):

Profit before income tax	**1,219,207**	**707,501**
Theoretically calculated tax at a tax rate of 15%	182,881	106,125
Expenses not deductible for tax purposes	49,004	26,839
Tax discount for donations	(19,402)	(12,233)
Corporate income tax expense	**212,483**	**120,731**

NOTE 9 CASH AND BALANCES WITH THE BANK OF LATVIA

	31.12.2007 LVL	31.12.2006 LVL
Cash	602,708	570,998
Balances on demand with the Bank of Latvia	6,273,070	3,914,944
	6,875,778	**4,485,942**

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

Demand deposits with the Bank of Latvia include an obligatory reserve maintained in accordance with Bank of Latvia regulations. The regulations specify the minimum level of the average balance to be maintained on the Bank’s correspondent account with the Bank of Latvia during each month, whilst allowing funds in the account to be used in an unrestricted manner on individual days.

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 10 BALANCES DUE FROM BANKS

	31.12.2007 LVL	31.12.2006 LVL
Due from Republic of Latvia credit institutions	7,898,225	6,285,768
Due from non-OECD credit institutions	2,231,352	594,368
Due from OECD credit institutions	6,605,599	7,148,699
Accrued interest receivable	67,772	54,790
	16,802,948	**14,083,625**

At 31 December 2007, the Bank had correspondent relationships with 3 (31.12.2006: 3) credit institutions registered in the OECD area, 8 (31.12.2006: 7) credit institutions registered in Latvia and 3 (31.12.2006: 3) financial institutions incorporated in non-OECD countries. The largest placement with a single credit institution at the end of the period was LVL 6,273 thousand representing total outstanding balance held with a bank incorporated in OECD country. The effective interest rates during the reporting year were between 0% and 6.75%.

The following table discloses balances due from banks between demand and term deposits:

On demand	11,194,576	10,832,035
Balances with maturity of three months or less	3,500,000	2,170,000
Other balances due from banks	2,040,600	1,026,800
Accrued interest receivable	67,772	54,790
Total due from banks	**16,802,948**	**14,083,625**

The following table discloses balances due from banks according to their ratings as at 31 December 2007 and 31 December 2006:

	31.12.2007		**31.12.2006**	
Rating	**Due from banks LVL**	**%**	**Due from banks LVL**	**%**
From Aaa to Aa3	8,430,021	50.17%	2,039,123	14.5%
From A1 to A3	1,337,695	7,96%	5,110,525	36.4%
From Baa1 to Baa3	3,189,991	18,98%	-	0.0%
From Ba1 to Ba3	1,364	0.01%	1,626,059	11.6%
From B1 to B3	2,252,026	13.4%	594,368	4.2%
	15,211,097	**90.52%**	**9,370,075**	**66.7%**
Without rating	1,591,851	9.48%	4,713,550	33.3%
	16,802,948	**100.0%**	**14,083,625**	**100.0%**

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 11 LOANS AND ADVANCES TO CUSTOMERS

(a) Analysis of loans by client type and by products

	31.12.2007 LVL	31.12.2006 LVL
Loans to legal entities:		
Corporate loans	2,426,078	27,233,592
Mortgages	32,735,109	3,956,144
Other	9,307,710	2,916,308
Overdrafts	57,687	1,221,749
	44,526,584	**35,327,793**
Loans to private individuals:		
Mortgages	143,018	994,901
Consumer loans	4,113,253	775,174
	4,256,271	**1,770,075**
Gross loans	**48,782,855**	**37,097,868**
Less: provisions for loan impairment losses	(540,198)	(288,386)
Accrued interest receivable	209,876	123,041
Net loans	**48,452,533**	**36,932,523**

The average effective interest rate as at 31 December 2007 is 9.44% (31.12.2006: 10.14%). 72.8% (31.12.2006: 83%) of loans are issued to non-residents.

The following table presents geographical profile of the portfolio of loans and advances to customers analysed by the place of customers' business operations:

Latvia	13,259,680	6,284,993
Other European Union countries	7,702,160	1,064,718
Non-OECD area countries	27,821,015	29,748,157
Gross loans	**48,782,855**	**37,097,868**
Less: provisions for loan impairment losses	(540,198)	(288,386)
Accrued interest receivable	209,876	123,041
Net loans	**48,452,533**	**36,932,523**

The extent of loan and advance concentration with respect to individual non-bank customers with total credit exposures equal to or exceeding LVL 500 thousand is presented below:

Number of customers	32	19
Total credit exposure to customers	39,149,142	25,238,570
Percentage of gross portfolio of loans and advances	80%	68%

The Latvian banking legislation requires that any credit exposure to a non-related entity or group of non-related entities may not exceed 25% of a credit institution's equity and the total credit exposure to all related parties may not exceed 15% of equity. As at 31 December 2007 the Bank was in compliance with the legal requirement set for credit exposure.

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 11 LOANS AND ADVANCES TO CUSTOMERS (continued)

(b) Analysis of loans by industry

	31.12.2007 LVL	31.12.2006 LVL
Retail trade and wholesale distribution	16,905,415	13,769,198
Financial intermediaries	7,505,265	11,175,064
Real estate	3,281,297	3,432,465
Shipping and logistics	5,341,815	3,335,097
Manufacturing	562,012	2,068,938
Private individuals	5,236,444	1,770,075
Other	9,950,607	1,547,031
Gross loans	**48,782,855**	**37,097,868**
Less: provisions for loan impairment losses	(540,198)	(288,386)
Accrued interest receivable	209,876	123,041
Net loans	**48,452,533**	**36,932,523**

(c) Analysis of loans by the exposure to interest rate risk

Loans with fixed interest rate	40,186,710	33,680,402
Loans with floating interest rate	8,596,145	3,417,466
Gross loans	**48,782,855**	**37,097,868**
Less: provisions for loan impairment losses	(540,198)	(288,386)
Accrued interest receivable	209,876	123,041
Net loans	**48,452,533**	**36,932,523**

(d) Movements in allowances for impairment on loans and accrued income are as follows:

	Loans LVL	Accrued income LVL	Total LVL
Balance as at 31 December 2005	**49,321**	**-**	**49,321**
Increase during the year 2006	261,423	891	262,314
Decrease during the year 2006	(13,000)	-	(13,000)
Write-off from allowances during the year 2006	-	(891)	(891)
Foreign exchange difference	(9,358)	-	(9,358)
Balance as at 31 December 2006	**288,386**	**-**	**288,386**
Increase during the year 2007	316,383	-	316,383
Decrease during the year 2007	(33,841)	-	(33,841)
Foreign exchange difference	(30,730)	-	(30,730)
Balance as at 31 December 2007	**540,198**	**-**	**540,198**

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 11 LOANS AND ADVANCES TO CUSTOMERS (continued)

(e) Loans and advances to customers by interest accrual

The following table provides the division between loans where the original terms of payment are met and loans where interest or principal is more than 30 days overdue at the end of the period:

	31.12.2007 LVL	31.12.2006 LVL
Interest accrual profile:		
Loans where the original terms of payment are met	47,656,886	36,621,456
Loans where interest or principal is more than 30 days overdue	1,125,969	476,412
Total gross loans and advances to customers	**48,782,855**	**37,097,868**
Less: provisions for loan impairment losses	(540,198)	(288,386)
Accrued interest receivable	209,876	123,041
Total net loans and advances to customers	**48,452,533**	**36,932,523**

(f) Loans and advances to customers by quality

The following table provides the division of loans and advances to customers by quality:

Loans that are not past due and not impaired	43,324,995	36,293,866
Loans that are past due but not impaired	4,812,586	65,939
Loans that are past due and impaired	645,274	738,063
Gross loans	**48,782,855**	**37,097,868**
Less: provisions for loan impairment losses	(540,198)	(288,386)
Accrued interest receivable	209,876	123,041
Net loans	**48,452,533**	**36,932,523**

(g) Fair value of collateral for past due loans

The following table discloses fair value of collateral for loans past due but not impaired and for loans past due and impaired:

Fair value of collateral for loans that are past due but not impaired		
residential property	386,681	2,250
other properties	5,427,744	-
money deposits	-	31,088
other assets	4,483,963	327,503
Fair value of collateral for impaired loans		
other properties	522,720	578,880
other assets	466,944	-
Total	**11,288,052**	**939,721**

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 11 LOANS AND ADVANCES TO CUSTOMERS (continued)

(h) Types of collateral

The following table discloses types of collateral as at 31 December 2007 and 31 December 2006:

	31.12.2007 LVL	31.12.2006 LVL
Loans and advances to customers without collateral	106,013	1,230,968
Loans and advances to customers with collateral:		
- residential property	2,517,355	4,040,399
- other properties	30,360,772	13,468,346
- available for sale securities	980,672	56,250
- money deposits	8,488,244	11,610,899
- other assets	6,329,799	6,691,006
Total loans and advances to customers	**48,782,855**	**37,097,868**

NOTE 12 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT AND LOSS

	31.12.2007 LVL	31.12.2006 LVL
Latvian government securities	2,283,249	5,504,256
Non-OECD region corporate debt securities	2,420,836	2,433,884
Latvian corporate debt securities	1,075,119	535,136
	5,779,204	**8,473,276**

All securities were purchased for trading purposes and are carried at their fair value. Latvian government debt securities and Latvian corporate debt securities are listed on the Riga stock exchange. Non-OECD region corporate debt securities are listed on the respective region stock exchanges.

The following table discloses debt securities by issuers' ratings as at 31 December 2007 and 31 December 2006:

	31.12.2007.		31.12.2006.	
Rating	**Securities LVL**	**%**	**Securities LVL**	**%**
From A1 to A3	2,282,843	39.5%	5,504,255	65.0%
From Baa1 to Baa3	357,209	6.2%	829,714	9.8%
From Ba1 to Ba3	1,364,099	23.6%	1,827,981	21.6%
From B1 to B3	1,056,737	18.3%	135,219	1.6%
	5,060,888	**87.6%**	**8,297,169**	**98,00%**
Without rating	718,316	12.4%	176,107	2,0%
	5,779,204	**100.0%**	**8,473,276**	**100.0%**

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 13 INTANGIBLE ASSETS

	2007		2006	
	Software LVL	**Total LVL**	**Software LVL**	**Total LVL**
Cost				
As at the beginning of the year	185,566	185,566	157,333	157,333
Additions	243,140	243,140	28,233	28,233
As at end of the year	**428,706**	**428,706**	**185,566**	**185,566**
Amortisation				
Accumulated amortisation at the beginning of the year	127,458	127,458	95,234	95,234
Charge for the year	37,490	37,490	32,224	32,224
Accumulated amortisation at the end of the year	**164,948**	**164,948**	**127,458**	**127,458**
Net book value at the beginning of the year	**58,108**	**58,108**	**62,099**	**62,099**
Net book value at the end of the year	**263,758**	**263,758**	**58,108**	**58,108**

NOTE 14 PROPERTY AND EQUIPMENT

The following changes in the Bank's property, plant and equipment took place during the year ended 31 December 2007

	Transport LVL	**Computers LVL**	**Office equipment LVL**	**Total LVL**
Cost				
31.12.2006	-	161,682	106,763	268,445
Additions	16,750	123,076	29,216	169,042
Disposals	-	-	(522)	(522)
Advance payments	-	-	1,697	1,697
31.12.2007	**16,750**	**248,758**	**137,154**	**438,662**
Depreciation				
31.12.2006	-	66,678	29,631	96,309
Charge for 2007	1,954	46,874	14,220	63,048
31.12.2007	**1,954**	**113,552**	**43,851**	**159,357**
Net book value 31.12.2006	**-**	**95,004**	**77,132**	**172,136**
Net book value 31.12.2007	**14,796**	**171,206**	**93,303**	**279,305**

NOTES TO THE FINANCIAL STATEMENTS (continued)

14 PROPERTY AND EQUIPMENT (continued)

The following changes in the Bank's property, plant and equipment took place during the year ended 31 December 2006

	Computers	Office equipment	Total
	LVL	LVL	LVL
Cost			
31.12.2005	92,390	86,991	179,381
Additions	69,292	22,406	91,698
Disposals	-	(2,634)	(2,634)
31.12.2006	**161,682**	**106,763**	**268,445**
Depreciation			
31.12.2005	44,042	21,152	65,194
Charge for 2006	22,636	10,370	33,006
Disposals	-	(1,891)	(1,891)
31.12.2006	**66,678**	**29,631**	**96,309**
Net book value 31.12.2005	**48,348**	**65,839**	**114,187**
Net book value 31.12.2006	**95,004**	**77,132**	**172,136**

NOTE 15 DEFERRED EXPENSES AND ACCRUED INCOME

	31.12.2007	31.12.2006
	LVL	LVL
Deferred expenses	**91,040**	**90,529**

NOTE 16 DEBT SECURITIES IN ISSUE

Debt securities issued	2,811,216	2,811,216
Accrued interest payable	39,222	34,679
	2,850,438	**2,845,895**

The Bank has not issuing bonds in 2007. On 27 October 2006 the Bank issued 40,000 bonds with nominal value 100 EUR. Total issue amounts to 4,000,000 EUR. Repayment of bonds is due 27 October 2008. The bonds are quoted on Riga Stock Exchange.

Annual coupon rate for the bonds is set 6 months Euribor + 3.25%. Payments of coupon interest are due 27 April and 27 October of each respective year. As at 31 December 2007 interest rate of the bonds issued comprise 7.848% (31 December 2006: 6,939%).

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 17 BALANCES DUE TO BANKS

	31.12.2007 LVL	31.12.2006 LVL
Loans against security pledge	1,887,600	702,804
Term deposit of bank Pivdenny	27,621	525,928
Loans against LVL pledge	4,065,600	-
Loans from interbank market	3,539,200	-
Other interbank transactions	2,945,341	-
Accrued interest payable	21,864	914
	12,487,226	**1,229,646**

NOTE 18 DUE TO CUSTOMERS

Maturity profile:		
Demand deposits	28,286,420	25,347,997
Term deposits	23,198,839	26,825,333
Accrued interest payable	206,273	318,307
Total due to customers:	**51,691,532**	**52,491,637**
Sector profile:		
Private companies	41,109,981	43,555,761
Private individuals	7,906,823	6,932,949
Financial institutions	2,428,897	1,675,229
Non-profit institutions	37,172	7,223
Central government	2,386	2,168
Accrued interest payable	206,273	318,307
Total due to customers:	**51,691,532**	**52,491,637**
Geographical profile:		
Residents	10,999,564	11,456,600
Non-residents	40,485,695	40,716,730
Accrued interest payable	206,273	318,307
Total due to customers:	**51,691,532**	**52,491,637**

During the year ended 31 December 2007 average interest rate on term deposits due to customers was 4.8% (2006: 4.8%) and an average interest rate on demand deposits was 0% to 3% (2006: 0% - 3%). All deposits have fixed interest rates.

NOTE 19 OTHER LIABILITIES

Liabilities in clearance	10,820	58,788
Settlements on behalf of a closed bank	11,656	11,656
VAT settlements	748	448
Other creditors	137,102	-
	160,326	**70,892**

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 20 DEFERRED INCOME AND ACCRUED EXPENSE

	31.12.2007 LVL	31.12.2006 LVL
Accrued annual leave expenses	129,926	102,050
Accrual for guarantee fund and FCMC financing	30,331	24,249
Accrued commission expenses	61,361	-
Other accrued expenses	80,908	41,787
	302,526	**168,086**

NOTE 21 DEFERRED INCOME TAX

The movement on the deferred income tax account is as follows:

	2007 LVL	2006 LVL
Deferred tax liability at the beginning of the year	2,500	7,300
Increase / (decrease) of deferred tax liability during the year (see Note 8)	6,279	(4,800)
Deferred tax liability at the end of the year	**8,779**	**2,500**

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same taxation authority.

Deferred tax is calculated from the following temporary differences between the book values of the assets and liabilities and their tax calculation:

	31.12.2007 LVL	31.12.2006 LVL
Deferred income tax liability:		
Temporary difference from fixed assets	28,268	17,807
Deferred income tax assets:		
Temporary difference from accrued annual leave expenses	(19,489)	(15,307)
Total net deferred tax liability	**8,779**	**2,500**

NOTE 22 DERIVATIVE FINANCIAL INSTRUMENTS

The Bank uses the following derivative financial instruments: currency forwards representing commitments to purchase foreign and domestic currency, currency swaps representing commitments to exchange one set of cash flows for another. Swaps result in an economic exchange of currencies.

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 22 DERIVATIVE FINANCIAL INSTRUMENTS (continued)

The Bank's notional amounts and fair values of derivative instruments held for trading are set out in the following table:

	31.12.2007			31.12.2006		
	Contract / notional amount	Fair value		Contract / notional amount	Fair value	
		Assets	Liabilities		Assets	Liabilities
Currency swaps	6,384,800	59,980	-		-	-
Currency forwards	13,418,549	22,990	(116,270)		-	-
Total		**82,970**	**(116,270)**		**-**	**-**

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

	Up to 1 month	1 to 3 months	Total
Derivatives settled on a gross basis	**LVL**	**LVL**	**LVL**
Foreign exchange derivatives:			
inflow	7,021,349	12,710,000	**19,731,349**
outflow	(7,043,274)	(12,722,400)	**(19,765,674)**

NOTE 23 SHARE CAPITAL

Issued and fully paid share capital as at 31 December 2006 was LVL 5,500,000 and consisted of 5,500,000 ordinary shares with the nominal value of LVL 1 per share of which 3,399,447 was shares with voting rights.

On 31 May 2007 Alla Vanecjanca sold 16% of the Bank's shares to Ukraine bank Pivdenniy. On 11 June 2007 Mark Becker, Jurijs Rodin, Tamara Rodin and Levon Vanecjancs sold 10.7% of the Bank's shares to Ukraine bank Pivdenniy. 19 September 2007 Dmitrijs Becker sold 9.3% of Bank's shares to Ukraine bank “Pivdenniy”. In November 2007 the Bank issued additional 2,700,000 shares with a nominal value of LVL 1 each. Share capital increase was fully paid in cash and registered with Commercial Register on 14 November 2007.

Issued and fully paid share capital as at 31 December 2007 comprise LVL 8,200,000. Share capital consists of 8,200,000 ordinary shares with the nominal value of LVL 1 per share of which 8,200,000 are shares with voting rights with the total nominal value of LVL 8,200,000.

NOTES TO THE FINANCIAL STATEMENTS (continued)

23 SHARE CAPITAL (continued)

As at 31 December 2007 the Bank's shareholders were as follows:

	31.12.2007		**31.12.2006**	
	Paid-in share capital	**% of total paid-in capital**	**Paid-in share capital**	**% of total paid-in capital**
	LVL		**LVL**	
Pivdenniy bank	7,299,670	89.02	1,617,000	29.40
Alla Vanecjancs	-	-	1,333,996	24.25
Dmitrijs Bekkers	-	-	766,557	13.94
Marks Bekkers	-	-	440,000	8.00
Haralds Āboliņš	400,100	4.88	400,110	7.27
HRG Ieguldījumi	400,000	4.88	400,000	7.27
Tamara Rodina	-	-	198,470	3.61
Levons Vanecjancs	-	-	148,000	2.69
Valdis Spāre	100,000	1.22	100,000	1.82
Jurijs Rodins	-	-	95,647	1.74
Daiga Muravska	110	0.001	110	0.01
Oleksandr Kuperman	110	0.001	110	0.01
	8,200,000	**100.00**	**5,500,000**	**100.00**

NOTE 24 COMMITMENTS AND CONTINGENT LIABILITIES

Contingent liabilities

The following table discloses contingent liabilities:

	31.12.2007. LVL	**31.12.2006. LVL**
Guarantee	32,580	32,580
Warranties	537,979	-
	570,559	**32,580**

The Bank has issued a guarantee on behalf of a Latvian company in the amount of LVL 32,580. This guarantee is secured by a deposit placed within the Bank.
The Bank has issued warranties in the amount of LVL 537,979. These warranties are secured by deposits placed with the Bank or money resources in the security accounts.

The tax authorities have the right to inspect the tax computations for the last three taxation years. The company has not been subject to a full tax audit in 2005 to 2007 so potentially the tax computations may be reassessed by the tax authorities. The Company's management is not aware of any circumstances which may give rise to a potential material liability in this respect.

Financial commitments

The following table discloses the contractual amounts of the Bank's commitments to extend credit.

	31.12.2007 LVL	**31.12.2006 LVL**
Letters of credit	2,144,551	199,216
Loans	9,453,766	7,800,620
Other	281	-
	11,598,598	**7,999,836**

NOTES TO THE FINANCIAL STATEMENTS (continued)

24 COMMITMENTS AND CONTINGENT LIABILITIES (continued)

Commitment under operating lease agreement
The Bank has entered into an operating lease agreement for its office premises. The lease agreement expires in June 2025. Annual lease payments amount to LVL 161 thousand.

Funds under trust management

	31.12.2007 LVL	31.12.2006 LVL
Assets under trust		
Loans	1,674,335	2,377,319
	1,674,335	**2,377,319**
Liabilities under trust		
Private individuals	604,411	163,480
Private companies	1,069,924	2,213,839
	1,674,335	**2,377,319**

NOTE 25 CASH AND CASH EQUIVALENTS

	31.12.2007 LVL	31.12.2006 LVL
Cash and balances on demand with the Bank of Latvia	6,875,778	4,485,942
Due from other credit institutions	16,802,948	14,083,625
Due to other credit institutions	(12,487,226)	(1,229,646)
	11,191,500	**17,339,921**

Demand deposits with the Bank of Latvia include an obligatory reserve maintained in accordance with Bank of Latvia regulations. The regulations specify the minimum level of the average balance to be maintained on the Bank's correspondent account with the Bank of Latvia during each month, whilst allowing funds in the account to be used in an unrestricted manner on individual days. The Bank was in compliance with the reserve requirement of Bank of Latvia during the reporting period.

NOTE 26 SEGMENT ANALYSIS

The Bank operates in two main geographical areas: Latvia, which is the home country of the Bank and Ukraine.
With the exception of Latvia and Ukraine, no other individual country.
Revenue from external customers is based on the country in which the customer is located. Assets are shown by the geographical location of the assets.
Capital expenditure is shown by the geographical area in which the buildings and equipment are located.

	Revenues LVL	Total assets LVL	Capital expenditure LVL
At 31 December 2007			
Latvia	1,620,995	33,920,353	168,326
Ukraine	4,156,423	34,625,224	-
Other OECD countries	1,161,769	8,774,681	-
Other countries	188,424	1,661,677	-
Unallocated assets	-	128,289	-
	7,127,611	**79,110,224**	**168,326**
As at 31 December 2006			
Latvia	766,005	23,560,467	91,698
Ukraine	3,065,163	30,321,600	-
Other OECD countries	358,579	8,220,143	-
Other countries	29,997	2,433,885	-
Unallocated assets	-	58,964	-
	4,219,744	**64,595,059**	**91,698**

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 27 CAPITAL ADEQUACY

The Bank's calculation of the capital adequacy ratio according to Finance and Capital Market Commission Guidelines as at 31 December 2007 has been set in the table below:

	LVL	LVL	LVL
Capital base calculation is as follows:			
Paid-in share capital	8,200	-	-
Retained earnings	2,286	-	-
Intangible assets	264	-	-
Total	**10,222**	-	-
Capital adequacy calculation is as follows:	**LVL**	**Risk weighting %**	**Risk weighted assets LVL**
Cash and cash equivalents	603	-	-
Claims on A zone Central Governments and Central Banks	6,273	-	-
Claims secured by deposit, emitted certificate of deposit or other equal financial instruments owned by Bank	9,504	-	-
Total	**16,380**	**-**	**-**
Claims on A zone credit institutions, except claims forming their equity	14,504	20	2,901
Total	**14,504**	**-**	**2,901**
Deferred expenses and accrued income, not related to particular transaction partner	369	50	185
Total	**369**	**-**	**185**
Claims on B zone credit institutions	1,215	100	1,215
Claims on borrowers who are not A zone and B zone credit institutions, Central Governments, Central Banks, Local Governments, European Community, International development Banks except for claims with a lower risk weighting considering their collateral	39,754	100	39,754
Property and equipment	279	100	279
Other assets	566	100	566
Total	**41,814**	**-**	**41,814**
Total assets	**73,067**	**-**	**44,899**
Memorandum items			
Guarantees to third parties			
100% adjustment weighted	571	-	-
Other financial commitments	-	-	-
0% adjustment weighted	9,301	-	-
20% adjustment weighted	2,145	-	-
50% adjustment weighted	153	100	77
Total memorandum items	**12,170**	**-**	**77**
Total Banks portfolio weighted asset	**85,237**	**-**	**44,976**
Calculation of capital requirements	-	-	**3,780**
Capital requirement for the Bank's portfolio credit risk	**-**	**-**	***3,598***
Capital requirement for the foreign exchange	-	-	70
Capital requirement for the **risk** of **Bank's position**	-	-	111
Capital requirement for the Bank's market risk	**-**	**-**	***182***
Capital requirement covering with equity 2007	-	-	**6,442**
Capital adequacy ratio 2007	-	-	**21.64**
Capital adequacy ratio 2006	-	-	**15.14**
Regulation	**-**	**-**	**8.00**

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 27 CAPITAL ADEQUACY (continued)

The Bank's calculation of the capital adequacy ratio according to Basle Capital Accord Guidelines as at 31 December 2007 has been set in the table below:

	2007 LVL	2006 LVL
Equity to be utilised in the capital adequacy ratio	10,222	7,812
Weighted assets and off-balance sheet items	47,508	49,917
Capital adequacy ratio	**21.52%**	**15.65%**

NOTE 28 CURRENCY ANALYSIS

The following table provides the analysis of the Bank's assets, liabilities and shareholders' equity as well as off-balance sheet items outstanding as at 31 December 2007 by currency profile:

	LVL LVL	USD LVL	EUR LVL	Other currencies LVL	Total LVL
Assets					
Cash and deposits with the Bank of Latvia	6,263,929	137,061	474,180	608	**6,875,778**
Balances due from banks*	4,501,135	8,366,994	3,500,737	366,310	**16,735,176**
Loans and advances to customers*	2,407,762	33,855,760	11,979,135	-	**48,242,657**
Financial assets at fair value through profit or loss*	2,238,365	2,368,273	1,059,343	-	**5,665,981**
Intangible assets	263,758	-	-	-	**263,758**
Property and equipment	277,609	-	-	1,696	**279,305**
Other assets*	274,425	350,533	383,404	39,207	**1,047,569**
Total assets	**16,226,983**	**45,078,621**	**17,396,799**	**407,821**	**79,110,224**
Liabilities and equity					
Balances due to banks**	1,712,440	10,752,922	-	-	**12,465,362**
Due to customers**	3,331,787	34,229,520	13,726,802	197,149	**51,485,259**
Other liabilities	367,496	191,237	287,570	178	**846,481**
Emitted debt securities**	-	-	2,811,216	-	**2,811,216**
Deferred income tax liability	8,779	-	-	-	**8,779**
Equity	11,493,127	-	-	-	**11,493,127**
Total liabilities and equity	**16,913,629**	**45,173,679**	**16,825,588**	**197,327**	**79,110,224**
Net long / (short) position on balance sheet	*(686,646)*	*(95,058)*	*571,211*	*210,494*	-
Off-balance sheet claims arising from foreign exchange					
Spot foreign exchange receivable	-	3,533,200	3,488,169	-	**7,021,369**
Forward foreign exchange receivable	6,385,100	-	6,325,236	-	**12,710,336**
Total foreign exchange receivable	**6,385,100**	**3,533,200**	**9,813,405**	**-**	**19,731,705**
Off-balance sheet liabilities arising from foreign exchange					
Spot foreign exchange payable	-	3,533,200	3,510,094	-	**7,043,294**
Forward foreign exchange payable	6,397,200	-	6,325,236	-	**12,722,436**
Total foreign exchange payable	**6,397,200**	**3,533,200**	**9,835,330**	**-**	**19,765,730**
Net long / (short) position on foreign exchange	*(12,100)*	-	*(21,925)*	-	*(34,025)*
Net long / (short) position	*(674,546)*	*(95,058)*	*593,136*	*210,494*	*(34,025)*
As at 31 December 2006					
Total assets	**17,181,117**	**39,817,028**	**7,348,115**	**248,799**	**64,595,059**
Total liabilities and shareholders' equity	**15,027,438**	**35,624,828**	**13,784,416**	**158,377**	**64,595,059**
Net long / (short) position on balance sheet	*2,153,679*	*4,192,200*	*(6,436,301)*	*90,422*	*(1,611)*

* Accrued interest receivable has been included in "Other assets".
** Accrued interest payable has been included in "Other liabilities".

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 29 LIQUIDITY RISK AND ANALYSIS OF ASSETS AND LIABILITIES BY MATURITY PROFILE

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

	Overdue	Within 1 month	1 – 3 months	3 – 6 months	6 –12 months	1–5 years	Over 5 years and undated	Total
	LVL	LVL	LVL	LVL	LVL	LVL	LVL	LVL
Assets								
Cash and balances with the Bank of Latvia	-	6,875,778	-	-	-	-	-	**6,875,778**
Balances due from banks	-	11,204,279	4,568,107	1,030,562	-	-	-	**16,802,948**
Loans and advances to customers	512,020	5,769,848	3,443,673	4,656,192	15,623,734	17,881,863	565,203	**48,452,533**
Financial assets at fair value through profit or loss	-	5,779,204	-	-	-	-	-	**5,779,204**
Intangible assets	-	-	-	-	-	263,758	-	**263,758**
Property and equipment	-	-	-	-	-	-	279,305	**279,305**
Derivates	-	82,970	-	-	-	-	-	**82,970**
Deferred expenses	-	-	-	-	91,040	-	-	**91,040**
Income tax	-	-	45,317	-	-	-	-	**45,317**
Other assets	-	437,371	-	-	-	-	-	**437,371**
Total assets	**512,020**	**30,149,450**	**8,057,097**	**5,686,754**	**15,714,774**	**18,145,621**	**844,508**	**79,110,224**
Liabilities and equity								
Balances due to Banks	-	10,775,601	1,711,625	-	-	-	-	**12,487,226**
Due to customers	-	36,938,409	3,803,228	4,152,592	5,629,386	1,167,917	-	**51,691,532**
Emitted debt securities	-	39,222	-	-	2,811,216	-	-	**2,850,438**
Derivates	-	116,270	-	-	-	-	-	**116,270**
Deferred income and accrued expenses	-	-	-	-	302,526	-	-	**302,526**
Other liabilities	-	160,326	-	-	-	-	-	**160,326**
Deferred income tax liability	-	-	-	-	8,779	-	-	**8,779**
Equity	-	-	-	-	-	-	11,493,127	**11,493,127**
Total liabilities and equity	**-**	**48,029,828**	**5,514,853**	**4,152,592**	**8,751,907**	**1,167,917**	**11,493,127**	**79,110,224**
Net liquidity	**512,020**	**(17,880,378)**	**2,542,244**	**1,534,162**	**6,962,867**	**16,977,704**	**(10,648,619)**	**-**
As at 31 December 2006								
Total assets	**476,412**	**28,448,116**	**4,734,607**	**6,514,733**	**7,893,123**	**14,830,174**	**1,697,894**	**64,595,059**
Total liabilities and equity	**-**	**41,169,615**	**828,392**	**3,347,282**	**7,218,228**	**3,908,139**	**8,123,403**	**64,595,059**
Net liquidity	**476,412**	**(12,721,499)**	**3,906,215**	**3,167,451**	**674,895**	**10,922,035**	**(6,425,509)**	**-**

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 29 LIQUIDITY RISK AND ANALYSIS OF ASSETS AND LIABILITIES BY MATURITY PROFILE (continued)

The table below allocates the Bank's financial liabilities cash flows as at 31 December 2006:

	Overdue	Within 1 month	1 – 3 months	3 – 6 months	6 –12 months	1–5 years	Over 5 years and undated	Total
	LVL	LVL	LVL	LVL	LVL	LVL	LVL	LVL
Balances due to Banks	-	1,228,873	-	-	-	-	-	1,228,873
Due to customers	-	39,808,268	766,915	3,647,458	7,765,103	1,455,059	380,928	53,823,731
Emitted debt securities	-	-	-	103,558	103,558	3,031,840	-	3,238,956
Other liabilities	-	70,892	-	-	168,086	-	-	238,978
Deferred income tax liability	-	-	-	-	2,500	-	-	2,500
Equity	-	-	-	-	-	-	7,786,403	7,786,403
Total liabilities	**-**	**41,108,033**	**766,915**	**3,751,016**	**8,039,247**	**4,486,899**	**8,167,331**	**66,319,441**

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

	Overdue	Within 1 month	1 – 3 months	3 – 6 months	6 –12 months	1–5 years	Over 5 years and undated	Total
	LVL	LVL	LVL	LVL	LVL	LVL	LVL	LVL
Balances due to Banks	-	10,781,059	1,700,431	-	-	-	-	**12,481,490**
Due to customers	-	36,943,501	3,853,144	4,276,542	5,947,561	1,414,520	1,790	**52,437,058**
Emitted debt securities	-	-	-	105,196	2,916,412	-	-	**3,021,608**
Other liabilities	-	276,596	-	-	302,526	-	-	**579,122**
Deferred income tax liability	-	-	-	-	8,779	-	-	**8,779**
Equity	-	-	-	-	-	-	11,493,127	**11,493,127**
Total liabilities	**-**	**48,001,156**	**5,553,575**	**4,381,738**	**9,175,278**	**1,414,520**	**11,494,917**	**80,021,184**

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 30 RE-PRICING MATURITY OF ASSETS AND LIABILITIES

The table below allocates the Bank's assets and liabilities to maturity groupings as at 31 December 2007 based on the time remaining from the balance sheet date to the earlier of maturity and contractual re-pricing dates.

	Within 1 month	1–3 months LVL	3–6 months LVL	6–12 months LVL	1–5 years LVL	Over 5 years LVL	Non - interest bearing LVL	Total LVL
Assets								
Cash and balances with the Bank of Latvia	-	-	-	-	-	-	6,875,778	6,875,778
Balances due from banks	-	3,500,000	1,024,200	-	-	-	12,210,976	16,735,176
Loans and advances to customers	6,579,287	5,848,136	7,199,378	15,087,299	13,466,118	62,440	-	48,242,658
Financial assets at fair value through profit or loss	9,704	-	594,572	685,699	4,498,934	-	-	5,788,909
Intangible assets	-	-	-	-	-	-	263,758	263,758
Property and equipment	-	-	-	-	-	-	279,305	279,305
Other assets	-	-	-	-	-	-	924,640	924,640
Total assets	**6,588,991**	**9,348,136**	**8,818,150**	**15,772,998**	**17,965,052**	**62,440**	**20,554,457**	**79,110,224**
Liabilities								
Balances due to banks	7,792,401	1,700,000	-	-	-	-	2,972,961	12,465,362
Due to customers	9,563,855	2,774,141	4,113,554	5,585,457	1,161,832	-	28,286,420	51,485,259
Debt securities in issue	-	-	-	2,811,216	-	-	-	2,811,216
Other liabilities	-	-	-	-	-	-	846,481	846,481
Deferred income tax liability	-	-	-	-	-	-	8,779	8,779
Total liabilities	**17,356,256**	**4,474,141**	**4,113,554**	**8,396,673**	**1,161,832**	**-**	**32,114,641**	**67,617,097**
Equity	**-**	**-**	**-**	**-**	**-**	**-**	**11,493,127**	**11,493,127**
Total liabilities and equity	**17,356,256**	**4,474,141**	**4,113,554**	**8,396,673**	**1,161,832**	**-**	**43,607,768**	**79,110,224**
On balance sheet interest sensitivity analysis	**(10,767,265)**	**4,873,995**	**4,704,596**	**7,376,325**	**16,803,220**	**62,440**	**(23,053,311)**	**-**
As at 31 December 2006								
Total assets	**17,443,954**	**4,562,157**	**6,231,820**	**7,799,247**	**14,772,066**	**1,525,758**	**12,260,057**	**64,595,059**
Total liabilities and equity	**14,862,137**	**914,000**	**3,266,000**	**7,052,000**	**3,908,216**	**337,000**	**34,255,706**	**64,595,059**
On balance sheet interest sensitivity analysis	**2,581,817**	**3,648,157**	**2,965,820**	**747,247**	**10,863,850**	**1,188,758**	**(21,995,649)**	**-**

NOTE 31 RELATED PARTY TRANSACTIONS

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 31 RELATED PARTY TRANSACTIONS (continued)

The following balances were held with related parties arising in respect of key management personnel as at 31 December 2007:

	Terms %	31.12.2007 LVL	31.12.2006 LVL
Total loan exposure	**11**	**3,236**	**608**
Total deposit	**5.90**	**209,063**	**-**

Balances due from related credit institutions are analysed as follows:

	31.12.2007 LVL	31.12.2006 LVL
Correspondent accounts with Pivdenniy bank	1,214,952	594,368
Money market credit due from financial institutions	1,016,400	-
	2,231,352	**594,368**

Balances due to related credit institutions are analysed as follows:

Pivdenniy bank correspondent accounts with Bank	**27,621**	**525,928**

The Bank's income / expenses from transactions with its related companies are analysed as follows:

	2007 LVL	2006 LVL
Interest income from money market transactions	798,105	13,043
Interest income from securities	11,088	12,863
Interest income from balances due from credit institutions	25,278	27,325
Interest expense on deposits	(1,663)	(5,413)
Commission expense	(18,520)	(6,631)
	814,288	**41,187**

As at 31 December 2007 balances under trust include LVL 110,770 with related parties (31 December 2006: LVL 631,329).

NOTE 32 FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

In respect of financial assets and liabilities held in the balance sheet at carrying values other than fair value, in the opinion of Management the fair value of those financial assets and liabilities differ from their carrying values as follows:

	2007		2006	
	Book value	Fair value	Book value	Fair value
Assets				
Loans to customers	48,452,533	52,765,773	36,809,482	41,308,511
Liabilities				
Debt securities in issue	2,850,438	2,817,000	2,811,216	2,812,000

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 33 TAXES

	Balance 31.12.2006 LVL	**Calculated in 2007 LVL**	**Paid in 2007 LVL**	**Balance 31.12.2007 LVL**
Corporate income tax	(58,964)	101,815*	(88,168)	(45,317)
State compulsory social insurance contributions	-	231,191	(231,191)	-
Personal income tax	-	242,266	(242,266)	-
Value added tax*	448	17,357	(17,057)	748
(Overpaid)	**(58,964)**			**(45,317)**
Liabilities	**448**			**748**

* CIT calculated is reduced by the amount of tax paid abroad – LVL 104,389.