AS “AKCIJU KOMERCBANKA “BALTIKUMS””
CONSOLIDATED AND BANK ANNUAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2007

CONTENTS

REPORT OF THE COUNCIL AND THE MANAGEMENT BOARD

Dear Shareholders, customers and partners!

In 2007 AS "Akciju komercbanka "Baltikums"" (thereafter the Bank, Komercbanka Baltikums) continued to develop in accordance with its strategy whose major emphasis was to offer a dynamic, modern and, what is the most important, exclusive service for its clients.

Similarly to previous years, the Bank developed in two clearly defined directions, namely, trade and shipping finance, as well as financial markets products and wealth management. In 2007 Komercbanka Baltikums put a considerable effort in keeping to satisfy the needs of its existing and potential clients by introducing one the most sought-after services nowadays, that is private banking. As a result, the Bank was able to offer several new products and services to its corporate clients and those clients who were interested in a range of investment and savings products.

Komercbanka Baltikums has managed to secure a rather strong position in its niches due to the fact that, on the one hand, the Bank has substantially strengthened its funding base, and on the other hand, has been successfully competing in its preferred segments of the market. The Bank's goals in the nearest future are primarily related to maintaining and consolidating its advantages within those segments.
In 2007 the Bank's profit amounted to EUR 2.9 million (LVL 2.0 million), meeting the estimates made earlier in the year, and exceeding the 2006 profit by 43 %. The Bank's assets have reached EUR 140.5 million (LVL 97.7 million) (a rise of 64% on an annual basis). The Bank's deposit base doubled during the year and reached EUR 102.6.million (LVL 72 million). Komercbanka Baltikums loan portfolio as of the end of the reporting period amounted to EUR 35.7 million (LVL 24.6 million).

In the first half of 2007, Komercbanka Baltikums successfully continued the program of raising long-term funding originally launched back in 2004. In February the Bank conducted the largest issue of bonds in its history with an issue size of 10 million EUR, an interest rate of 3 month EURIBOR + 3% p.a. and a maturity of three years. These funds allow the Bank to increase its loan portfolio and strengthen its position in the market segments it operates in. In the first half of 2007, the Bank continued to optimize its customer base. The related companies operating in Russia, Ukraine and Kazakhstan substantially contributed to the whole Group's operations by attracting a large number of new customers. Despite this increase in the number of customers, the Bank closely monitors customer operations by implementing the principles of "Know-Your-Client" and "Know-the-Business-of-Your-Client".

2007 also saw the continuing reorganization of the Baltikums Group, in which Komercbanka Baltikums is to have the central place. The shareholders of AS Baltikums Apdrošināšanas Grupa and AS Baltikums Bankas Grupa intend to restructure the Baltikums Group by consolidating financial and insurance companies within AS Baltikums Bankas Grupa.

In June 2007 AS Akciju komercbanka "Baltikums" divested its 100% stake in AS Pirmais Atklātais Pensiju Fonds. This step resulted from the fact that the Bank remained faithful to its earlier formulated strategy, which did not foresee involvement in retail banking and instead focusing on cost optimization.

We are grateful to all our clients for their cooperation and trust and express deep confidence in the continuing success of our mutually beneficial business relationships.

Aleksandrs Peškovs	Aldis Reims
Chairman of the Council	*Chairman of the Board*

31 March 2008

As at the date of signing the financial statements members of the Board and Council of the Bank were as follows:

THE SUPERVISORY COUNCIL AND BOARD OF THE BANK

Council as of 31 December 2007

Name	Position	Date of appointment
Aleksandrs Peškovs	Chairman of the Council	22 June 2001
Sergejs Peškovs	Member of the Council	22 June 2001
	Deputy Chairman of the Council	25 July 2002
Oļegs Čepuļskis	Member of the Council	22 June 2001
Andrejs Kočetkovs	Member of the Council	22 June 2001

There have been no changes in the Supervisory Council during the reporting year.

Management Board as of 31 December 2007

Name	Position	Date of appointment
Aldis Reims	Member of the Board	20 August 2001
	Acting Chairman of the Board	1 July 2002
	Chairman of the Board	25 April 2003
Dmitrijs Latiševs	Member of the Board	1 July 2002
	Deputy Chairman of the Board	25 April 2003
Leonarda Višņevska	Member of the Board	25 April 2003
Valdis Apaļka	Member of the Board	25 October 2005

There have been no changes in the Board during the reporting year.

On behalf of the Bank's management,

Aleksandrs Peškovs
Chairman of the Council

Aldis Reims
Chairman of the Board

31 March 2008

STATEMENT OF THE MANAGEMENT’S RESPONSIBILITIES

Riga

The Management of the AS “Akciju Komercbanka “Baltikums”” (Bank) is responsible for the preparation of the consolidated financial statements of the Bank and its subsidiaries (the Group) as well as for the preparation of the financial statements of the Bank.

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

The consolidated and Bank financial statements on pages 7 to 62 are prepared in accordance with the source documents and present fairly the financial position of the Group as at 31 December 2007 and the results of its performance and cash flows for the year ended 31 December 2007 as well as the financial position of the Bank as at 31 December 2007 and the results of its performance and cash flows for the year ended 31 December 2007.

The management of the Bank is responsible for the maintenance of a proper accounting system, safeguarding the Group’s assets, and prevention and detection of fraud and other irregularities in the Group. The management is also responsible for operating the Bank in compliance with the Law on Credit Institutions, regulations of the Finance and Capital Markets Commission and other legislation of the Republic of Latvia applicable to credit institutions.

On behalf of the Bank’s management,

Aleksandrs Peškovs
Chairman of the Council

Aldis Reims
Chairman of the Board

31 March 2008

AUDITOR'S REPORT

AUDITOR'S REPORT

INCOME STATEMENT

	Notes	2007		2006	
		Group	Bank	Group	Bank
		LVL'000	LVL'000	LVL'000	LVL'000
Interest income	4	4 970	4 868	2 835	2 777
Interest expense	5	(1680)	(1 684)	(965)	(974)
Net interest income		**3 290**	**3 184**	**1 870**	**1 803**
Fee and commission income	6	2 735	2 705	1 293	1 246
Fee and commission expense	7	(595)	(591)	(304)	(325)
Net commission and fee income		**2 140**	**2 114**	**989**	**921**
Net loss from financial instruments carried at fair value	8	(720)	(759)	(12)	(73)
Net foreign exchange gains	9	446	449	311	314
Gains arising from the disposal and revaluation of investment property	25	189	-	238	-
Net profit from insurance	10	20	-	27	-
Other operating income	11	161	123	120	56
Operating income		**5 526**	**5 111**	**3 543**	**3 021**
Administrative expenses	12	(2 732)	(2 424)	(1 784)	(1 554)
Amortization and depreciation	23, 24	(95)	(91)	(76)	(72)
Other operating expenses	13	(95)	(57)	(53)	(45)
Impairment of financial assets, net:	14	(99)	(87)	3	3
Allowance for impairment losses		*(108)*	*(88)*	*(12)*	*(11)*
Reversal of prior impairment loss allowance		*9*	*1*	*15*	*14*
Total operating expenses		**(3 021)**	**(2 659)**	**(1 910)**	**(1 668)**
Profit before income tax		**2 505**	**2 452**	**1 633**	**1 353**
Income tax expense	15	(488)	(488)	(222)	(221)
Profit for the period		**2 017**	**1 964**	**1 411**	**1 132**
Attributable to:					
Equity holders of the Bank		*2 009*	*1 964*	*1 393*	*1 132*
Minority interest		*8*	*-*	*18*	*-*
Profit for the period		**2 017**	**1 964**	**1 411**	**1 132**
Basic and diluted earnings per share (LVL)	38	**0.192**	**0.188**	**0.229**	**0.186**

The accompanying notes on pages 12 to 62 form an integral part of these financial statements.

The Council and Board of the Bank approve for issue to shareholders these financial statements as presented from page 7 to 62 on 31 March 2008 and the financial statements are signed on behalf of the Council and Board of the Bank by:

Aleksandrs Peškovs	Aldis Reims
Chairman of the Council	*Chairman of the Board*

31 March 2008

BALANCE SHEET

Assets	Notes	2007 Group LVL'000	2007 Bank LVL'000	2006 Group LVL'000	2006 Bank LVL'000
Cash and balances with the Bank of Latvia	16	11 816	11 816	7 065	7 063
Demand deposits with credit institutions	17	40 415	40 412	21 874	21 864
Financial assets at fair value through profit or loss	18	13 512	13 121	10 285	9 574
Fixed income securities		*13 235*	*12 892*	*9 665*	*9 515*
Investments in non-fixed income securities		*33*	-	*546*	-
Derivative financial instruments		*229*	*229*	*59*	*59*
Debt securities and other fixed income securities		*15*	-	*15*	-
Available-for-sale financial assets	19	2 126	10	1 931	10
Investments in fixed income securities		*2 116*	-	*1 921*	-
Investments in non-fixed income securities		*10*	*10*	*10*	*10*
Loans and receivables	20	25 076	24 584	16 863	16 293
Financial assets held-to-maturity	21	1 329	1 133	43	43
Investment in subsidiaries and associates	22	3 071	5 930	-	4 598
Intangible assets	23	212	81	237	82
Property, plant and equipment	24	359	352	108	97
Investment property	25	545	-	1 111	-
Other assets	26	274	268	376	362
Prepayments and accrued income		30	24	140	116
Total assets		**98 765**	**97 731**	**60 033**	**60 102**

The accompanying notes on pages 12 to 62 form an integral part of these financial statements.

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Aleksandrs Peškovs	Aldis Reims
Chairman of the Council	*Chairman of the Board*

31 March 2008

BALANCE SHEET

Liabilities and Equity	Notes	2007 Group LVL'000	2007 Bank LVL'000	2006 Group LVL'000	2006 Bank LVL'000
Due to credit institutions on demand	27	1 501	1 501	6 149	6 149
Derivatives	18	188	188	-	-
Financial liabilities carried at amortized cost		82 735	82 901	43 568	44 824
Term deposits due to credit institutions	*28*	-	-	*2 151*	*1 770*
Customers' deposits	*29*	*72 142*	*72 291*	*37 904*	*39 527*
Notes payable	*30*	*10 593*	*10 610*	*3 513*	*3 527*
Deferred income and accrued expenses	31	103	95	127	123
Provisions	32	65	52	23	14
Current tax liabilities		254	254	127	127
Other liabilities	33	170	149	183	181
Insurance liabilities	34	664	-	731	-
Total liabilities		**85 680**	**85 140**	**50 908**	**51 418**
Equity					
Share capital	35	10 525	10 525	7 450	7 450
Reserve capital	35	17	17	17	17
Retained earnings		2 361	2 049	1 484	1 217
Total equity attributable to shareholders		**12 903**	**12 591**	**8 951**	**8 684**
Minority interest		182	-	174	-
Total equity		**13 085**	**12 591**	**9 125**	**8 684**
Total liabilities and equity		**98 765**	**97 731**	**60 033**	**60 102**
Off balance sheet items					
Contingent liabilities and commitments	37				

The accompanying notes on pages 12 to 62 form an integral part of these financial statements.

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Aleksandrs Peškovs *Chairman of the Council*	Aldis Reims *Chairman of the Board*

31 March 2008

STATEMENT OF CHANGES IN EQUITY

GROUP

	Note	Share Capital LVL`000	Reserve Capital LVL`000	Retained earnings LVL`000	Equity attributable to shareholders LVL`000	Minority interest LVL`000	Total Equity LVL`000
Balance as at 31 December 2005		**5 100**	**17**	**596**	**5 713**	**-**	**5 713**
Dividends paid		-	-	(505)	(505)	-	(505)
Profit for the period		-	-	1 393	1 393	18	1 411
Minority interest		-	-	-	-	156	156
Issue of share capital		2 350	-	-	2 350	-	2 350
Balance as at 31 December 2006		**7 450**	**17**	**1 484**	**8 951**	**174**	**9 125**
Dividends paid		-	-	(1 132)	(1 132)	-	(1 132)
Profit for the period		-	-	2 009	2 009	8	2 017
Issue of share capital	35	3 075	-	-	3 075	-	3 075
Balance as at 31 December 2007		**10 525**	**17**	**2 361**	**12 903**	**182**	**13 085**

BANK

	Note	Share capital LVL'000	Reserve capital LVL'000	Retained earnings LVL'000	Total LVL'000
Balance as at 31 December 2005		**5 100**	**17**	**590**	**5 707**
Issue of share capital		2 350	-	-	2 350
Dividends paid		-	-	(505)	(505)
Profit for the period		-	-	1 132	1 132
Balance as at 31 December 2006		**7 450**	**17**	**1 217**	**8 684**
Dividends paid		-	-	(1 132)	(1 132)
Profit for the period		-	-	1 964	1 964
Issue of share capital	35	3 075	-	-	3 075
Balance as at 31 December 2007		**10 525**	**17**	**2 049**	**12 591**

The accompanying notes on pages 12 to 62 form an integral part of these financial statements.

The Council and Board of the Bank approve for issue to shareholders these financial statements as presented from page 7 to 62 on 31 March 2008, and the financial statements are signed on behalf of the Council and Board of the Bank by:

Aleksandrs Peškovs	Aldis Reims
Chairman of the Council	*Chairman of the Board*

31 March 2007

STATEMENT OF CASH FLOWS

	Notes	2007		2006	
		Group LVL'000	**Bank LVL'000**	**Group LVL'000**	**Bank LVL'000**
Cash flow from operating activities					
Profit before income tax		2 505	2 452	1 633	1 353
Amortization and depreciation		95	91	76	72
Impairment of financial assets, net		99	87	(3)	(3)
Loss on foreign exchange revaluation		272	273	328	327
Profit from the sale of property, plant and equipment		(53)	-	(2)	-
Investment property and other revaluation		(170)	(34)	(191)	22
Changes in cash and cash equivalents from operating activities before changes in assets and liabilities		**2 748**	**2 869**	**1 841**	**1 771**
Changes in loans and receivables		(8 319)	(8 378)	(2 784)	(2 404)
Changes in available-for-sale financial assets		(212)	-	617	(9)
Changes in financial assets classified as trading assets		(3 227)	(3 547)	(3 802)	(3 106)
Changes in financial assets at fair value through profit or loss		-	-	83	-
Changes in financial assets held-to-maturity		(78)	(78)	(43)	(43)
Changes in prepayments and accrued income		109	92	(84)	(89)
Changes in other assets		94	94	(83)	(100)
Changes in customers' deposits		34 239	32 764	15 178	16 528
Changes in financial liabilities held for trading		188	188	(1)	(1)
Changes in other and current tax liabilities		(164)	(135)	81	169
Changes in deferred income and accrued expense		(24)	(28)	97	97
Changes in cash and cash equivalents from operating activities before tax		**25 354**	**23 841**	**11 100**	**12 813**
Corporate income tax paid		(220)	(220)	(124)	(124)
Changes in cash and cash equivalents from operating activities		**25 134**	**23 621**	**10 976**	**12 689**
Cash flow used in investing activities					
Acquisition of property, plant and equipment and intangible assets		(351)	(345)	(130)	(126)
Proceeds from sale of property, plant and equipment		4	-	7	-
Acquisition of subsidiaries net of cash acquired		(3 077)	(1 332)	(2 331)	(4 068)
Proceeds from sale of subsidiaries net of cash disposed of		232	-	-	-
Other inflow from investment activities		191	-	-	-
Net cash used in investing activities		**(3 001)**	**(1 677)**	**(2 454)**	**(4 194)**
Proceeds from share issue		3 075	3 075	2 350	2 350
Proceeds from issue of notes		7 114	7 117	3 513	3 527
Redemption of notes		-	-	(2 710)	(2 710)
Dividends paid		(1 132)	(1 132)	(505)	(505)
Net cash from financing activities		**9 057**	**9 060**	**2 648**	**2 662**
Net changes in cash and cash equivalents		**31 190**	**31 004**	**11 170**	**11 157**
Cash and cash equivalents at the beginning of the year		**21 020**	**21 008**	**10 178**	**10 178**
Loss from foreign exchange revaluation		(272)	(273)	(328)	(327)
Cash and cash equivalents at the end of the year		**51 938**	**51 739**	**21 020**	**21 008**

The accompanying notes on pages 12 to 62 form an integral part of these financial statements.

The financial statements on pages 7 to 62 have been authorised by the Management of the Bank for issue and signed on its behalf by:

Aleksandrs Peškovs	Aldis Reims
Chairman of the Council	*Chairman of the Board*

31 March 2008

NOTES TO THE FINANCIAL STATEMENTS

1. GENERAL INFORMATION

The Bank was established on 22 June 2001, when it was incorporated in the Republic of Latvia as a joint stock company. The address of the Bank is Maza Pils iela 13, Riga, LV 1050. The Bank is a commercial bank specialising in the financing of export and import operations, trade and shipping finance as well as investment management. The Bank operates in accordance with Latvian legislation and the licence issued by the Bank of Latvia.

The ultimate beneficial owners of the JSC "Akciju komercbanka "Baltikums"" are 10 private persons; two of them own 24.83% each. The remaining amount is owned by two related groups of beneficial owners (24.83% each group) and one individual owns 0.68%. The immediate shareholder is AS "Baltikums bankas grupa".

The Bank is a majority shareholder in a number of subsidiaries located in Riga, Latvia which comprise Baltikums Group (the Group). AAS "Baltikums Dzīvība" is a life insurance company, SIA "Baltikums Līzings" specializes in finance leasing and lending, IPAS "Baltikums Asset Management" is an investment company managing funds and pension plans, AS "Pirmais atklātais pensiju fonds" is a pension fund, SIA "Nord Real Estate" is a property developer and SIA "Baltikums Direct" manages representative offices run by related companies in Russia, Ukraine and Kazakhstan.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(1) Statement of Compliance

The financial statements of the Bank and the Group have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union, and regulations of the Financial and Capital Market Commission in force as at the balance sheet date.

In preparing these financial statements, the Bank and Group have adopted *IFRS 7 Financial Instruments: Disclosures* and *IAS 1 Presentation of Financial Statements – Capital Disclosures* applicable for periods starting from 1 January 2007. The adoption of IFRS 7 and the amendments to IAS 1 impacted the type and amount of disclosures made in these financial statements, but had no impact on the reported profits or financial position of the Bank and Group.

(2) Basis for preparation of the financial statements

The accounting system of the Bank is organized in accordance with the legislation of the Republic of Latvia, including requirements applicable to credit institutions operating in Latvia. The financial year of the Bank and the Group coincides with the calendar year.

These consolidated and Bank financial statements are presented in Latvian lats, which is the Bank's functional currency. Except as indicated, financial information presented in Latvian lats has been rounded to the nearest thousand.

The financial statements have been prepared under the historical cost convention except for the following, which are at fair value: derivative financial instruments, financial assets and liabilities designated at fair value through profit and loss, financial assets available for sale except for those whose fair value cannot be reliably estimated and investment property. Other financial assets and liabilities, insurance reserves and non-financial assets and liabilities are carried at amortized cost or initial cost.

The accounting principles used in the preparation of the 2007 financial statements are consistent with those used in 2006.

The preparation of the financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances and the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

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

Judgments made by management in the application of IFRSs that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year relate to loan loss impairment allowances, fair value of financial instruments, insurance reserves and investment property.

(3) Foreign currency

Foreign exchange transactions are translated into lats (LVL) at the exchange rate set by the Bank of Latvia on the date of the respective transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated into Latvian lats according to the official Bank of Latvia exchange rates prevailing at the end of the period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value or cost are translated at the exchange rate at the date that the fair value or cost was determined. Profit or loss relating to fluctuations in the exchange rate on monetary assets and liabilities denominated in a foreign currency are recognized in the income statement in the period in which the fluctuation occurs.

The exchange rates for the most significant currencies used at reporting date are as follows:

	31 December 2007	31 December 2006
EUR	0,7028	0,7028
GBP	0,9630	1,0480
LTL	0,2040	0,2040
RUB	0,0197	0,0203
UAH	0,0958	0,1060
USD	0,4840	0,5360

(4) Consolidation

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Subsidiaries' financial statements are included in consolidation as at the date when control is obtained until the date control ceases. The accounting policies of subsidiaries have been changed where necessary to align them with the policies of the Group.

Intra-group balances, and any unrealized income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

(5) Financial instruments

a) Classification:

Non derivative financial instruments are classified into one of the following categories:

Financial instruments designated at fair value through profit or loss are held-for-trading financial instruments and financial assets and liabilities that the Bank and the Group initially defines as assets and liabilities designated at fair value through profit or loss.

A financial instrument is classified as held for trading if is acquired or incurred principally for the purpose of selling or repurchasing in the near term or is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking.

Derivatives are also categorized as held for trading unless they are designated as hedging instruments for hedge accounting purposes.

Held-to-maturity financial instruments are non-derivative financial assets with fixed or determinable payments and a fixed term with respect to which the Bank and the Group have a positive intent and ability to hold to maturity. Held-to-maturity financial instruments include certain debt securities.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than (a) those that the Bank and the Group intend to sell immediately or in the short-term, (b) those that the Bank and the Group upon initial recognition designate as at the fair value through profit or loss or as available for sale; or (c) those for which the holder may not recover substantially all of its initial investments, other than because of credit deterioration. Loans and receivables include amounts due from credit institutions on term, loans and receivables from customers and other financial assets which comply to these classification criteria.

Available for sale assets are those non-derivative financial assets classified at inception as available for sale or assets other than classified as held for trading, held to maturity or loans and receivables. Available-for-sale instruments include short term investments and certain debt and equity securities. Generally, this category is assigned by the Bank and the Group to financial assets that are held for an indeterminate period of time and may be sold based on liquidity or interest rate needs, or as a result of changes in exchange rates and share prices.

Financial liabilities carried at amortized cost represent financial liabilities of the Bank and the Group other than financial instruments designated at fair value through profit or loss. This category includes due to credit institutions on term, customer deposits and other financial liabilities.

Derivative financial instruments. The fair value of currency swaps is estimated by discounting the contractual cash flows to be received and to be paid in appropriate foreign currencies for the residual maturity, and translating the difference of the discounted cash flows into lats, applying the exchange rate set by the Bank of Latvia. EURIBOR and LIBOR interest rates are used as benchmark for risk-free interest rate for discounting purposes.

Repo transactions are recognized as financing transactions. When the Bank or the Group is the seller of securities, securities are continued to be recognized on the balance sheet. Proceeds from the sale are recognized as a liability to the purchaser of the securities. When the Bank or the Group is the purchaser of securities, the purchased securities are not recognized on the balance sheet. The amount paid for securities is recognized as a loan provided to the seller. The Bank and the Group is involved in two types of such transactions – classic *repo* and *buy/sell back* transactions. The result of *repo* and *buy/sellback* transactions is recognized in the profit and loss statement as interest income or expense according to the accrual principle.

b) Recognition

Financial instruments are recognized in the balance sheet on a settlement date basis. Loans and receivables are recognized on the date that they are advanced to the borrower. All regular transactions of purchase and sales of financial assets are recognized in the balance sheet on the transaction date representing the date when the Bank and the Group has accepted the liabilities of asset acquisition or sale.

c) Measurement

Financial instruments are initially measured at fair value plus for instruments not at fair value through profit or loss any directly attributable transaction costs.

Subsequent to initial measurement, all financial assets and liabilities designated at fair value through profit or loss and all available for sale financial assets are measured at fair value except those instruments which have no quoted market price in an active market or for which no reliable fair value measurement is possible; such instruments are carried at cost less transaction costs and impairment.

All financial liabilities, loans and receivables and held-to-maturity assets are measured at amortized cost using the effective interest rate method. All instruments are subject to revaluation when impaired.

Profit or loss arising from changes in the fair value of financial instruments designated through profit and loss are recognized in the income statement. Profit or loss arising from changes in the fair value of available-for-sale financial instruments is recognized through equity.

d) Derecognition

Recognition of a financial asset is discontinued when the Bank and the Group have lost control over the rights connected with respective financial instruments. Such control is lost if the Bank and the Group realize the rights to benefits specified in the contract, the rights expire, or the Bank and the Group surrender those rights. A financial liability is derecognized when it is extinguished or discharged.

(6) Investment in subsidiaries

Investments in subsidiaries are carried at the initial cost, less impairment if any in the Bank financial statements. The Bank recognizes income from the investment only to the extent that the Bank receive distributions from accumulated profits of the subsidiary arising after the date of acquisition.

(7) Fair value measurement

The determination of fair values of financial assets and financial liabilities is based on quoted market prices or dealer price quotations for financial instruments traded in active markets. For all other financial instruments fair value is determined by using discounted cash flow technique, or by comparison to similar instruments for which observable market prices exist.

The recoverable amount of the Bank and the Group's investments in held-to-maturity securities is determined as the present value of future cash flows discounted at the effective interest rate. The recoverable amount of financial instruments designated at fair value through profit and loss, and available for sale investments is their fair value.

The recoverable amount of a non-financial asset is the greater of its fair value less costs to sell and value in use. The value in use is calculated by discounting the future cash flows by their present value at a pre-tax discount rate which reflects the current market assessment of time value of money and risks characteristic of this asset. The recoverable amount of assets that do not generate cash inflows that are largely independent from those of other assets is determined for the cash-generating unit to which the asset belongs.

(8) Impairment of financial assets

Loans are stated in the balance sheet at the amount of the principal outstanding, less any impairment allowances. Impairment losses and recoveries are recognized monthly based on regular loan reviews. Allowances during the period are reflected in the income statement.

The carrying amounts of the Bank and the Group's assets, other than deferred tax assets, are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the assets' recoverable amounts are estimated.

An impairment loss is recognized whenever the carrying amount of an asset exceeds its recoverable amount. All impairment losses are recognized in the income statement.

(9) Impairment of non-financial assets

The carrying amounts of the Bank and the Group's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated.

An impairment loss is recognized if the carrying amount of an asset exceeds its recoverable amount. The recoverable amount of an asset is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

In respect of assets, other than goodwill, impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

(10) Investment property

Investment property is property held either to earn rental income or for capital appreciation or for both.

When the use of a property changes such that it is reclassified as property, plant and equipment, its fair value at the date of reclassification becomes its cost for subsequent accounting.

Investment property is initially recognized in the balance sheet at its acquisition cost. Subsequently, the investment property is revalued and accounted for at its fair value based on its market price. Fair market value for land plots, buildings and other real property items is determined on the basis of annual property appraisals from certified appraisers. Gain or loss from the change in the value is recorded in the income statement and reported under the item "Gain or loss on revaluation of investment property".

(11) Property, Plant and Equipment

Items of property, plant and equipment are measured at acquisition cost including direct costs, net of accumulated depreciation and impairment losses, if any. Depreciation is calculated on a straight-line basis. Based on the useful life and residual value of the respective item of property, plant and equipment, the following annual depreciation rates are applied:

Furniture and equipment	20%
Computers	25%
Other	20%

Gains and losses on disposals of property, plant and equipment are recognized in the income statement in the period of disposal. Repair and maintenance costs are charged to the income statement as incurred. Capital repairs of property, plant and equipment are added to property, plant and equipment at cost, while useful life is extended.

Depreciation methods, useful lives and recoverable amounts are reviewed at each reporting date.

(12) Intangible assets

Intangible assets are identifiable non-monetary assets without physical substance (licenses, software that is separately identifiable from electronic devices, and others) held for rendering of services or other purposes if it is expected that an economic benefit attributable to these assets will flow to the Group and the Bank.

Intangible assets are recorded at acquisition cost less accumulated amortization and amortized to the income statement in equal amounts over the useful life of the intangible asset. The amortization rate for software is 20%

(13) Investments in associates

Associates are those entities in which the Group has significant influence, but no control, over the finanancial and operating policies. The consolidated financial statements include the Group's share of the total recognised gains and losses of associates on an equity accounted basis, from the date that significant influence commences until the date that significant influence ceases. When the Group's share of losses exceeds its interest in associate, the Group's carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of an associate.

(14) Income and expense recognition

All significant income and expense categories, including interest income and expenses, are recognized on an accrual basis.

Interest income and expenses are recognized in the income statement based on the effective interest rate of the asset/liability. Interest income and expenses include discount or premium amortization or other difference between the book value of an interest bearing instrument and its value on the maturity date calculated based on the effective interest rate method. In case of impairment of interest bearing assets, interest continues to be accrued on the net carrying amount using the effective interest method.

Fees and commission (excluding commission for long-term loans issued) are accounted for when collected or incurred. Income and expense that refers to the accounting period are reflected in the income statement regardless of the date of receipt or payment. Commission for long-term loans issued is recognized using the effective interest rate method over the life of the loan.

Income from finance leases is recognized over the period of lease on the net investment on a basis which reflects a constant periodic rate of return on the net investment amount. Income from operating leases is recognized over the period of lease on a straight line basis.

(15) Taxes

Income tax comprises current and deferred tax. Income tax is recognised in the consolidated and Bank income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is calculated in accordance with Latvian tax regulations in the amount of 15% (2006:15%) of the taxable profit reported for the taxation period.

Deferred tax is provided using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax recognized is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. The principal temporary differences arise from the differing rates and methods used for accounting and tax depreciation on property, plant and equipment, accruals and impairment losses.

Deferred tax assets are only recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

(16) Cash and cash equivalents

Cash and cash equivalents comprise cash and deposits with the Bank of Latvia and other credit institutions with original maturity of less than 3 months less balances due to the Bank of Latvia and credit institutions with original maturity of less than 3 months. The balances under sale and repurchase agreements are not included in the cash and cash equivalents.

(17) Leases

Finance lease

A finance lease is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset. Title may or may not eventually be transferred. When assets are leased out under a finance lease, the net investment in finance lease is recognized as a receivable. The net investment in finance lease represents the difference between the gross receivable and unearned finance income.

Operating lease

An operating lease is a lease other than a finance lease. Assets leased out under an operating lease, are presented within property, plant and equipment in the balance sheet, less accumulated depreciation. They are depreciated over their expected useful lives on a basis consistent with similar owned property, plant and equipment.

(18) Segment reporting

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

(19) Provisions

Provisions are recognized when the Bank and the Group has 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.

(20) Short-term employee benefits

Short-term employee benefits are measured on an undiscounted basis and are expensed as the related service is provided. Neither the Bank nor the Group have any pension obligations to its retired employees.

All provisions are recognized at the amount expected to be paid under short-term profit sharing plans if the Bank and the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

(21) Off-balance sheet items

Off-balance-sheet items include guarantees, letters of credit and unused credit lines provided to customers as well as unused limits on credit cards.

(22) Assets under management

Assets managed by the Bank and the Group on behalf of customers are not treated as assets of the Bank and the Group. The Bank and the Group assumes no risk on the assets.

(23) Insurance contracts

The contract where one of the parties (insurer) assumes a significant insurance risk from the other party (policy holder) by committing to compensate losses incurred by the policy holder (insured person) where there is a certain unpredictable event (insurance event) which has an adverse impact on the policy holder (insured person) is considered an insurance contract. All the Group's insurance contracts are classified as insurance contracts.

Insurance contracts which expose the insurer to a significant insurance risk are classified in accordance with the following lines of insurance:

- Life insurance contracts;
- Personal accident insurance;
- Health insurance.

Reinsurance contracts

A reinsurance contract is a type of insurance contract where the potential risk of financial loss is transferred to a reinsurer. During the course of business, the Group signs reinsurance contracts that transfers the risk to reinsurers.

Insurance premiums and premium income

Gross written premiums include all premiums written on insurance contracts that had become effective during the reporting year irrespective of whether these premiums are received, and decrease by the amounts cancelled and suspended. If an insurance contract is signed for several insurance years, the premium of the respective year is reflected at the beginning of each year. For all life insurance contracts with non regular payments, premiums written are recognized as at date of receiving and are equal to received premiums. Reinsurers' share in written premiums is calculated in accordance with reinsurance contracts in force.

Claims incurred

Claims incurred include claims attributable to the reporting period. An insurance claim is the insurance amount, part of it or another amount payable for an insurance case or services to be provided in accordance with the insurance contract. Claims paid include insurance claims paid during the reporting year.

Net profit from insurance

Net profit from insurance includes earned insurance premiums, changes in life insurance reserves less reinsurer's share in such changes in life insurance reserves, and insurance claims paid less reinsurer's share in such insurance claims paid.

Net premiums earned are calculated as premiums underwritten less the amounts ceded to reinsurers and changes in unearned premium reserves. For life insurance policies with regular premium payments, premiums underwritten are equal to the total premium for the current year irrespective of the premium payment term. Premiums underwritten are decreased by the premiums cancelled and terminated over the accounting year.

Insurance receivables (the difference between underwritten and received premiums) are recognized in other assets on the balance sheet.

Claims paid are calculated as claims paid less reinsurers' share in claims paid and the change in non-life insurance claim reserves.

The Group continuously holds investment assets to cover liabilities that result from insurance contracts. Investment assets include investment securities, classified as valued at fair value with changes in the value recognized in the profit and loss account, and investment properties. Income from investment assets is included in the profit and loss account. Insurance sales commissions that are paid to insurance sales agents and brokers are included in expenses for the period when they occur. These are included commission expenses. Administrative expenses, including the payments to the Financial and Capital Market Commission and in the Insured Protection Fund, as well as depreciation, are included in the respective positions of the profit and loss account.

Maximum interest rate for recalculation of technical reserves

Insurance liabilities are calculated applying a discount rate in accordance with the Latvian legislation and regulations of the Financial and Capital Market Commission which require that the discount rate should not be higher than lower of the following rates: 3% or 60% of the yield on the Latvian long term government bonds, or 66% of ROI of the life insurance company in the previous reporting period. The discount rate fluctuates depending on the changes in the return on Latvian long term government bonds.

The Company has identified the following embedded derivatives in its insurance contracts:

- Perspective and straight line indexation option – this ratio indicates the policy holder's rights to increase the insurance premium, as well as the coverage each year without underwriting additional medical risk.
- Contract termination option – provides rights to terminate the insurance contract during its validity and withdraw the redemption amount.

The characteristics and risks of these derivatives are closely connected with the risk of the basic contract therefore they are not classified as embedded derivatives which should be separated from the basic contract according to IAS 39.

Insurance receivables

Insurance receivables are amounts payable within less than one year and they are disclosed in the balance sheet less allowances for doubtful debts. Allowances for doubtful debts are recognized by an individual assessment of the recoverability of each receivable. Receivables are written off when their recoverability is considered impossible. No impairment allowances are recognized in respect of amounts that have not yet become due if no portion of the premium is taken to income. Overdue amounts are monitored on a regular basis and policies are cancelled and appropriate amounts deducted from the premium income. Insurance receivables are included in loans and receivables.

(24) Insurance liabilities

Insurance liabilities arising in respect of life and accident insurance contracts comprise the reserves for life insurance, the reserves for unearned premiums and unexpired risks and the reserves for outstanding claims. The determination of the amount of insurance liabilities requires the application of management's judgment and assumptions. Principal assumptions are described below.

Life technical reserves

The reserves for life insurance represents the current obligations to policyholders relating to life insurance contracts. The reserves for life insurance are stated based on actuarial calculations for each life insurance agreement.

Life technical reserves include outstanding claim reserve from life insurance contracts. Changes in the key assumptions may cause changes in the amount of liabilities and result in profit or loss that to be recognised in the profit and loss account. Liabilities to policyholders are determined employing assumptions that are based on mortality tables, morbidity assumptions and discount rates applied.

Depending on the type of product, the Group uses mortality tables by the Latvian Central Statistics Bureau for 2000 and 1992, statistics by the Health Care Ministry of the Republic of Latvia and the Agency of Medical Technologies for 1992, as well as own mortality tables for years 1992 – 1994. For morbidity the Health Care Ministry's of the Republic of Latvia and the Agency's of Medical Technologies statistics for 1992 is used.
Liabilities to policyholders are calculated by employing discount rates consistent with the rules set by the Financial and Capital Market Commission.

Unearned premium reserves (UPR)

The reserves for unearned premiums represent deferred income arising on non-life insurance contracts in respect of that part of the gross written premium attributable to the period from the balance sheet date to the date of expiry of the insurance agreement. Unearned premium reserves for life insurance contracts are included in life insurance technical reserves.

Unexpired risk reserve (URR)

URR is provided when it is expected that the unearned premium reserve will not be sufficient to cover all claims and expenses arising on policies in force.

Outstanding claims technical reserve

The deferred claims technical reserve at the year end represents the estimated amount of claims incurred but unpaid during the reporting year. The technical provision for outstanding claims consists of the aggregate of the following technical reserves:

- Reported but not settled (RBNS) claims technical reserve. This reserve is created to cover claims for insurance cases that have occurred and have been reported to the company by reporting date. The RBNS reserve is created in the correct or estimated amount of the claim including loss adjustment expenses;

- Incurred but not reported (IBNR) claims technical reserve is created for those insurance cases that have occurred by reporting date but have not yet been reported to the company and the amount of claim is unknown. Amounts set aside are based on management judgement and historical experience.

Reported but not settled claim technical reserve for life insurance contracts is included in life insurance technical reserve.

(25) Fair values of assets and liabilities

A number of the Bank and the Group's accounting policies and disclosures require the determination of fair value for financial assets and liabilities. The methods described below have been used for the determination of fair values. When applicable, further information about the assumptions made in determining fair values is disclosed in the respective notes.

Due from other credit institutions

The fair value of placements on demand, overnight deposits and floating rate placements is their carrying amount. The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using prevailing money-market interest rates for debts with similar credit risk and remaining maturity.

Loans to customers

The estimated fair value of loans represents the discounted amount of estimated future cash flows expected to be received. The interest rated used to discount estimated cash flows are based on the prevailing money-market interest rates curve plus an adequate credit spread.

Shares and other securities with non-fixed income

The fair value of shares and other securities with non-fixed income is determined by reference to their quoted bid price at the reporting date, if available. For non-material amount of non-listed shares, where disposal is limited, the assumption was made that the reliable estimate of fair value is not possible.

The fair value of S.W.I.F.T shares was determined based on the "transfer amount" approved for the respective year by the shareholders' meeting, that represents the price for new share allocation and participants quit price.

Derivative financial instruments

The fair value of currency swaps is estimated by discounting the contractual cash flows to be received and to be paid in appropriate foreign currencies for the residual maturity, and translating the difference of the discounted cash flows into lats, applying the exchange rate set by the Bank of Latvia. EURIBOR and LIBOR interest rates are used as a benchmark for risk-free interest rate for discounting purposes.

Due to other credit institutions and customers

The estimated fair value of deposits with no stated maturity, which includes non-interest-bearing deposits, is the amount repayable on demand. The estimated fair value of overnight deposits is their carrying amount. The estimated fair value of fixed interest-bearing deposits not quoted in the active market is based on discounted cash flows using interest rates for new debts with similar remaining maturity.

(26) New standards and interpretations not yet effective

A number of new standards, amendments to standards and interpretations are not yet effective or not yet adopted by the EU for the year ended 31 December 2007, and have not been applied in preparing these financial statements:

- IFRS 8 *Operating Segments* requires segment disclosure based on the components of the entity that management monitors in making decisions about operating matters. Operating segments are components of an entity about which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. IFRS 8 is currently being assesed by management to identify if it will have any impact on the financial statements.
- IFRIC 11 *IFRS 2 – Group and Treasury Share Transactions* requires a share-based payment arrangement in which an entity receives goods or services as consideration for its own equity-instruments to be accounted for as an equity-settled share-based payment transaction, regardless of how the equity instruments needed are obtained. It also provides guidance on whether share-based payment arrangements, in which suppliers of goods or services of an entity are provided with equity instruments of the entity's parent, should be accounted for as cash-settled or equity-settled in the entity's financial statements. IFRIC 11 is not relevant to the Bank and the Group's operations as the Bank and the Group have not entered into any share-based payments arrangements.
- IFRS 2 *Share-based Payment* – the revised Standard will clarify the definition of vesting conditions and non-vesting conditions. Revised IFRS 2 is not relevant to the Bank and the Group's operations as the Bank and the Group do not have any share-based compensation plans.
- IFRIC 12 *Service Concession Arrangements* provides guidance to private sector entities on certain recognition and measurement issues that arise in accounting for public-to-private service concession arrangements. IFRIC 12 is not relevant to the Bank and the Group's operations as the Bank and the Group have not entered into any service concession arrangements.
- IFRIC 13 *Customer Loyalty Programmes* addresses the accounting by entities that operate, or otherwise participate in, customer loyalty programmes for their customers. It relates to customer loyalty programmes under which the customer can redeem credits for awards such as free or discounted goods or services. IFRIC 13 is not relevant to the Bank and the Group's operations as the Bank and the Group do not have such customer loyalty programmes.
- Revised IAS 23 *Borrowing Costs* removes the option to expense borrowing costs borrowing costs and requires that an entity capitalise borrowing costs directly attributable to the acquisition, construction or

production of a qualifying asset as part of the cost of that asset. Revised IAS 23 is not relevant to the Bank and the Group's operations as the Bank and the Group have not entered into any acquisition, construction or production, for which specific borrowing would be attracted.

- IFRIC 14 IAS 19 – *The limit on a defined Benefit Asset, Minimum funding Requirements and their interaction* clarifies when refunds or reductions in future contributions in relation to defined assets should be regarded as available and provides guidance on the impact of minimum funding requirements (MFR) on such assets. IFRIC 14 is not relevant to the Bank and the Group's operations as the Bank and the Group have not entered into long term employee benefit plans.
- IFRS 3 *Business Combinations* – has been amended and the definition of a business has been expanded, while introducing also other significant changes to the standard for accounting of business combinations. Revised IFRS 3 is not expected to have any impact on the financial statements.
- IAS 1 *Presentation of Financial Statements* – revised Standard requires information in financial statements to be aggregated on the basis of shared characteristics and introduces a statement of comprehensive income. The Bank and the Group are currently evaluating whether to present a single statement of comprehensive income, or two separate statements.
- IAS 27 *Consolidated and Separate Financial Statements* – in the revised Standard the term minority interest has been replaced by non-controlling interest, and is defined as "the equity in a subsidiary not attributable, directly or indirectly, to a parent". Revised IAS 27 is not expected to have any impact on the financial statements.

3. RISK MANAGEMENT

Within the framework of internal control system, the Bank and the Group have developed and follow the Risk Management Policy or fundamental principles which are defined below:

1) general guidelines observed by the Bank and the Group in its activities aimed at decreasing all types of risks which may lead to losses;
2) description of risk transactions and other risks to which the Bank and the Group is exposed;
3) general daily control of risk transactions and management of transaction related risks.

The Risk Management Policy describes and determines the aggregate of measures to ensure that the possibility to suffer losses is minimized in the event the invested resources are not repaid in due time or the Bank or the Group suffer other losses. The Board and the Council of the Bank have approved the Risk Management Policy. The Board and the Council of the Bank have also approved all other policies listed below related to risk management. The Bank's Board supervises the Risk Management System, but the structural units of the respective sectors are responsible for the daily activities. The Risk Management System controlled by the Internal Audit Division on a regular basis is being continuously developed pursuant to the development of the Bank and the Group and activities in the financial markets.

(1) Credit risk

Credit risk is the risk of potential loss resulting from the non-fulfillment of contractual obligations by the Bank and the Group's debtor or counterparty.

Credit risk is managed in accordance with the Credit risk management policy approved by the Council. This policy details the basic principles of credit risk management, identification, assessment, restriction and control.

The management of risks related to ordinary loans involves the assessment of the potential borrower's credit standing that is performed by the Financial Analysis and Risk Management Department. Decisions on granting loans are made by the Credit Committee based on the above analysis and evaluation of collateral. Subsequent to loan granting, the Financial Analysis and Risk Management Department performs a regular analysis of the borrower's financial position, which enables the Bank and the Group to take prompt action in the case of deterioration of the borrower's financial position.

Credit risk that is related to inter-bank operations (or operations with financial institutions), including the credit risk related to inter-bank settlements, is controlled by the Asset and Liability Committee that sets limits for transactions with each counter party.

The Bank and the Group monitor the concentration of significant balance sheet and off balance items' credit risk by geographical regions (i.e., countries, groups of countries, specific regions within the countries etc), client groups (i.e., central governments, local authorities, state enterprises, private enterprises, private individuals, etc) and industries.

(2) Foreign exchange risk

Foreign exchange risk is the risk of potential loss as a result of the revaluation of balance sheet and off-balance sheet items denominated in foreign currencies due to change in exchange rates.

The Bank and the Group continuously monitor the open positions of foreign currencies and regularly assesses the structure of assets and liabilities by currency. In order to improve the currency structure of its balance sheet, the Bank and the Group issued bonds in EUR currency, taking into account the increasing share of EUR denominated assets. The lat is pegged to the EUR.

The Asset and Liability Committee sets limits for the open position in each currency providing an acceptable overall level of foreign currency risk.

(3) Interest rate risk

Interest rate risk is the risk of potential loss the Bank and the Group may incur as a result of interest rate fluctuations.
For the purpose of controlling the interest rate risk, the Asset and Liability Committee performs regular analysis of assets and liabilities by maturity and type of interest.

(4) Liquidity risk

Liquidity risk is the risk of potential loss as a result of sales of assets or acquisition of resources at unfavourable prices in order for the Bank and the Group to fulfill its liabilities to creditors and depositors.

Liquidity risk management is based on the analysis of the structure of assets and liabilities performed by the Bank's Financial Analysis and Risk Management Department. That includes the analysis of dynamics in customer funds by customer group and assessment of the possibilities of external borrowing. Based on this information, the Asset and Liability Committee monitors the Bank and the Group's ability to fulfil all its commitments. Operating short-term liquidity management, i.e. attraction and placement of resources, in the Bank and the Group is performed by the Resources Department of the Bank and the Group based on the short-term liquidity forecast.

(5) Country risk

Country risk is the risk of potential losses arising from transactions with residents of foreign countries (or their securities) due to changes in the economic, political, and legal environment of the respective countries.

Before entering into transactions with residents of foreign countries, the Bank and the Group performs an assessment of the influence of economic, social, political and legal circumstances on the residents' ability to fulfil their obligations.

(6) Operational risks

The Bank and the Group's organizational structure, precise job specifications, clear division of responsibilities as well as control procedures allow the Bank and the Group to monitor operational risks. The Bank has also developed an action plan for various crisis situations. The Bank and the Group has set up an independent "Internal audit service" (IAS) with its main functions to ensure that the Bank's and the Group's activities comply with existing legislation, approved plans, policies and other internal Bank and the Group documents and to monitor the compliance of the Bank's and the Group's department activities with internal control procedures.

(7) Reputational risk

The Bank and the Group recognise the importance of the prevention of money laundering and prevention of terrorism financing. Reputation risk management department was set up in the Bank to implement an internal control system, which monitors the timely control of clients and their business partners. IAS regularly monitors execution of money laundering and terrorism financing prevention policy and procedures.

(8) Capital adequacy calculation

According to the requirements of the Financial and Capital Market Commission, the capital adequacy ratio should be maintained at least at 8%. As of 31 December 2007, the Bank and the Group were in compliance with the law "On Credit Institutions" and the requirements of the Financial and Capital Market Commission for capital adequacy and minimum equity.

(9) Insurance risks and risk management

Technical insurance risks represent the Company's exposure to potential risks of loss related to meeting the liabilities set in the insurance agreements, personnel errors in insurance and reinsurance operations. For the purposes of insurance risk management the Company has implemented a risk underwriting and reinsurance policy. Risk underwriting is performed in accordance with the insurance agreement signing procedures of AAS Baltikums Dzīvība. All reinsurance agreements are signed in accordance with AAS Baltikums Dzīvība Reinsurance program.

Biometric risks

Premiums are calculated using carefully selected actuarial methods, thus ensuring the Company's long-term ability to meet future obligations. The calculation of technical provisions is based on biometric calculation principles. They are fixed at the beginning of the contract and contain sufficient safety margins to compensate for any adverse developments. There is a possibility that the calculation principles may not be adequate when time passes. The Company reduces this risk by checking the calculations and testing the adequacy of the liabilities.

Guaranteed interest rate risk

The calculation of insurance tariffs is based on the guaranteed interest rate. The guaranteed interest rate is regulated by the legislation and management of the insurance company.

The amount of the guaranteed interest rate is regulated by the return on the financial investment. Return on investment is calculated by an actuary in accordance with the legislation and the actuary expresses an opinion on the sufficiency of return on investment for covering future liabilities calculated in accordance with the guaranteed interest rate.

Liability adequacy test

On each reporting date, the insurer prepares the liability adequacy test by assessing whether the insurance liabilities recognized during the reporting year for valid policies are adequate by comparing reserves set aside to the present value of future contractual cash flows arising from the insurance contracts. If the assessment proves that the book value of insurance liabilities (less related deferred customer acquisition costs and related intangible assets) is not adequate based on the assessment of future cash flows, the resulting difference is charged to the profit or loss.

The Company sets the liability calculation methods at the date of signing the insurance agreement. These assumptions are used for calculating the insurance premiums and remain constant over the entire term of the insurance agreement.

Sensitivity analysis

Sensitivity analysis is based on the liability adequacy test on the condition that the assumptions underlying the liability adequacy test remain constant. Sensitivity analysis is prepared in view that there are changes in one of the variables (mortality rate, agreement termination rate and others) while other assumptions remain constant.

Reinsurance

In order to ensure a protected and balanced insurance portfolio AAS Baltikums Dzīvība believes in developing an optimum reinsurance concept. Reinsurance operations of AAS Baltikums Dzīvība are compliant with the Latvian legislation regulating the insurance companies and reinsurance operations. The Company has signed proportional and excess of risk reinsurance agreements and in order to achieve maximum efficiency in protecting and diversifying the insurance portfolio AAS Baltikums Dzīvība uses the optional risk reinsurance.

Reinsurance contracts

AAS Baltikums Dzīvība has developed risk reinsurance concepts for the following lines of insurance:

- Personal accident insurance;
- Term insurance;
- Life insurance.

Technical reserves for ceded and accepted reinsurance agreements are calculated in line with the insurance agreement conditions.

(10) Know-your-Client policies

Primary goals of Bank’s KYC policy: well-established customer identification program includes ascertainment of beneficial owners, client business and client partners.

Bank’s KYC policy includes, apart from obligatory identification of the customer, an interview and filling the customer’s form. Based on this information new basic profile of the customer emerges, which becomes a keystone for the customer’s file.

The main objective of this stage is to understand the business and profile of the customer. All activities of the Bank and the Group are aimed at the increase of the financial transaction security level. In future such attitude will allow the Bank and the Group to develop the optimum service configuration for each customer. Additionally, the Bank and the Group sharply decrease the risk of emerging unusual and suspicious financial operations in future.

As the working process between the customer and the Bank goes on, further understanding of the customer’s business continues. Along with this the customer’s profile and basic information about the customer takes place: it should contain detailed information, business description and transaction type. Knowing the customers’ business and their transactions allows the Bank and the Group to prevent any efforts of unauthorized money transfers, access to the accounts information about and other crimes.

4. INTEREST INCOME

	2007		2006	
	Group LVL'000	**Bank LVL'000**	**Group LVL'000**	**Bank LVL'000**
Interest income on assets at amortized cost:	3 808	3 769	2 076	2 056
Credit institutions	*1 712*	*1 701*	*582*	*582*
Loans	*2 096*	*2 068*	*1 494*	*1 474*
Interest income from available-for-sale securities	57	-	29	-
Interest income from securities at fair value through profit or loss	1 098	1 096	705	702
Other interest income	7	3	25	19
	4 970	**4 868**	**2 835**	**2 777**

5. INTEREST EXPENSE

	2007		2006	
	Group LVL'000	**Bank LVL'000**	**Group LVL'000**	**Bank LVL'000**
Interest expense from liabilities measured at amortized cost:	1 557	1 561	908	913
Credit institutions	*133*	*133*	*167*	*172*
Customers deposits	*698*	*702*	*374*	*374*
Notes payable	*726*	*726*	*367*	*367*
Other interest expense	123	123	57	61
	1 680	**1 684**	**965**	**974**

6. FEE AND COMMISSION INCOME

	2007		2006	
	Group LVL'000	**Bank LVL'000**	**Group LVL'000**	**Bank LVL'000**
Fee and commission income from:				
Payment transactions	2 213	2 213	816	816
Corporate banking fee income	315	315	273	271
Securities transactions	22	22	24	24
Account servicing	84	84	50	50
Trust operation	8	8	34	19
Management of investment funds and plans	28	-	30	-
Other	65	63	66	66
	2 735	**2 705**	**1 293**	**1 246**

7. FEE AND COMMISSION EXPENSE

	2007		2006	
	Group LVL'000	**Bank LVL'000**	**Group LVL'000**	**Bank LVL'000**
Fee and commission expense from:				
Correspondent accounts	479	479	209	209
Cash transactions, payment card transaction	50	50	39	39
Customer acquisition and distribution of fund shares	50	46	40	62
Securities transactions	16	16	16	15
	595	**591**	**304**	**325**

8. NET PROFIT/ (LOSS) FROM FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH PROFIT AND LOSS

	2007		2006	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Loss from trading of financial assets and liabilities at fair value through profit or loss	-	-	(8)	-
Gain/(loss) on revaluation of financial assets and liabilities at fair value through profit or loss	(1)	-	4	-
Profit/ (loss) from trading on financial assets and liabilities held-for-trading	93	5	(9)	(9)
Gain/(loss) on revaluation of financial assets and liabilities held-for-trading	(812)	(764)	1	(64)
Net profit/loss from financial assets and liabilities at fair value through profit and loss	**(720)**	**(759)**	**(12)**	**(73)**

9. NET FOREIGN EXCHANGE GAINS

	2007		2006	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Net gain on foreign exchange trading	718	722	639	641
Loss on foreign exchange revaluation	(272)	(273)	(328)	(327)
	446	**449**	**311**	**314**

10. NET PROFIT FROM INSURANCE

The following table reflects the net profit of the Group's life insurance company from insurance before investment income and operating expenses:

	2007 Group LVL'000	2006 Group LVL'000
Earned premiums		
Gross premiums underwritten	298	79
Reinsurance amount in premiums written	(8)	-
Changes in unearned premium and risk reserves (Note 34)	(3)	18
Net earned premiums	**287**	**97**
Change in the life insurance net reserves (Note 34)	58	13
Other technical income, net	10	(1)
Gross claims	(337)	(87)
Change in reserves for non-life insurance claims (Note 34)	2	5
Net claims incurred	**(267)**	**(70)**
Net profit from insurance	**20**	**27**

Other revenues of the insurance Company amounted to TLVL 287 in 2007, resulting in total revenues of TLVL 574 (2006: other revenues of TLVL 354 and total revenues of TLVL 451). Other revenues in 2007 consisted of net income from sales of financial assets, interest income from bonds and income from revaluation of real estate. Other revenues in 2006 consisted of revaluation of real estate and interest income from bonds. Net income from other operating activities of insurance Company amounted to TLVL 105, resulting in total net income of TLVL 125 in 2007 (net income from other operating activities amounted to TLVL 243 and total net income amounted to TLVL 270 in 2006).

NOTES TO THE FINANCIAL STATEMENTS

11. OTHER OPERATING INCOME

	2007		2006	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Penalties received	108	108	29	29
Fee on real estate management	31	-	81	-
Gain on sale of a building	4	-	-	15
Dividends received	18	15	10	12
	161	**123**	**120**	**56**

12. ADMINISTRATIVE EXPENSES

	2007		2006	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Remuneration to the Council and Board	235	191	233	162
Salaries and remuneration to the staff	895	779	577	499
Social tax expense	250	213	179	148
Other staff costs	97	95	45	44
Communications and transport	150	138	123	109
Professional services	430	415	246	231
Rent, utilities and maintenance	478	411	250	244
Computer network	54	54	39	39
Advertising and marketing	32	27	28	28
Taxes	59	58	31	31
Insurance	18	18	5	5
Other	34	25	28	14
	2 732	**2 424**	**1 784**	**1 554**

The average number of employees in the Bank in 2007 was 80 (2006: 67).

13. OTHER OPERATING EXPENSES

	2007		2006	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Membership fees	26	23	19	15
Fee on real estate management	-	-	22	-
Write-off of goodwill (Note 23)	32	-	-	-
Other	37	34	12	30
	95	**57**	**53**	**45**

14. IMPAIRMENT OF FINANCIAL ASSETS, NET

Impairment of financial assets for the Bank

	Loans LVL’000
Total allowance as of 31 December 2005	**13**
Increase in allowances	11
Release of previously established allowances	(14)
Total allowance as of 31 December 2006	**10**
Increase in allowances	88
Release of previously established allowances due to currency fluctuations	(6)
Release of previously established allowances	(1)
Total allowance as of 31 December 2007	**91**

Impairment of financial assets for the Group

	Loans LVL’000	Other assets LVL’000	Total LVL’000
Total allowance as of 31 December 2005	**33**	**1**	**34**
Increase in allowances	12	-	12
Release of previously established allowances	(15)	-	(15)
Change of allowance due to write-offs	(3)	-	(3)
Total allowance as of 31 December 2006	**27**	**1**	**28**
Increase in allowances	109	(1)	108
Release of previously established allowances	(9)	-	(9)
Release of previously established allowances due to currency fluctuations	(8)	-	(8)
Total allowance as of 31 December 2007	**119**	**-**	**119**

15. INCOME TAX EXPENSE

	2007		2006	
	Group LVL’000	Bank LVL’000	Group LVL’000	Bank LVL’000
Current year tax expense	488	488	222	221
	488	**488**	**222**	**221**

The table below shows the reconciliation between the current tax expense and theoretically calculated tax amount using basic tax rate, which was 15% in 2007 and 2006.

	2007		2006	
	Group LVL’000	Bank LVL’000	Group LVL’000	Bank LVL’000
Profit before tax	2 505	2 452	1 633	1 353
Theoretically calculated tax at rate 15%	376	368	245	203
Non-deductible expenses and exempt income net	113	120	(23)	18
Effect of tax losses utilized, not previously recognized	(1)	-	-	-
Income tax expense	**488**	**488**	**222**	**221**

No deferred tax arises as at 31 December 2007 (2006: nil).

16. CASH AND BALANCES WITH THE BANK OF LATVIA

	2007		2006	
	Group LVL'000	**Bank LVL'000**	**Group LVL'000**	**Bank LVL'000**
Cash	331	331	282	280
Balance with the Bank of Latvia	11 485	11 485	6 783	6 783
	11 816	**11 816**	**7 065**	**7 063**

According to the regulations of the Financial and Capital Markets Commission, the total amount of funds on the account with the Central Bank should not be less than the amount of the obligatory reserves calculated from the average amount of customer deposits during the month. During 2007 the Bank complied with these requirements.

17. DEMAND DEPOSITS WITH CREDIT INSTITUTIONS

	2007		2006	
	Group LVL'000	**Bank LVL'000**	**Group LVL'000**	**Bank LVL'000**
Credit institutions registered in Latvia	524	521	11 193	11 182
Credit institutions registered in OECD countries	27 894	27 894	8 944	8 944
Credit institutions of other countries	11 997	11 997	1 737	1 738
	40 415	**40 412**	**21 874**	**21 864**

As at 31 December 2007, the Bank had correspondent accounts with 34 Banks (2006: 39). As at 31 December 2007 the largest account balances the Bank had due from Sberbank (Russia) – (LVL 11 350 thousand) and Raiffeisen Zentralbank Oesterreich – (LVL 8 815 thousand). As at 31 December 2006 the largest account balance was with Hansabanka (LVL 5 360 thousand) and Raiffeisen Zentralbank Oesterreich (LVL 5 597 thousand).

As at 31 December 2007 and 2006 the Bank had amounts due from 4 banks and 3 financial institutions, respectively, which exceeded 10% of total due from credit institutions. The aggregate value of these balances as of 31 December 2007 and 2006 were LVL 34 022 thousand and LVL 15 132 thousand respectively.

The average effective interest rate on due amounts from credit institutions was 3.91% in 2007 (2006: 3.05%).

18. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2007		2006	
	Group LVL’000	**Bank LVL’000**	**Group LVL’000**	**Bank LVL’000**
Fixed income securities				
Latvian government debt securities	305	-	112	-
Eurobonds issued by Latvian credit institutions	1 000	962	752	714
Eurobonds issued by companies and credit institutions of other countries	11 930	11 930	8 801	8 801
Investments in non-fixed income securities				
Shares of private non-financial companies	33	-	442	-
Investments in mutual funds	-	-	104	-
Derivative financial instruments	229	229	59	59
Latvian government debt securities	15	-	15	-
	13 512	**13 121**	**10 285**	**9 574**

As on 31 December 2007 the Bank had 61 foreign exchange forward contracts outstanding with the total notional amount of LVL 49 696 thousand in assets and LVL 49 655 thousand in liabilities. Fair value of 29 contracts was positive- LVL 229 thousand, fair value of 32 contracts was negative- LVL 188 thousand. As on 31 December 2006 the Bank had 31 foreign exchange forward contract outstanding with the total notional amount of LVL 19 620 thousand in assets and LVL 19 679 thousand in liabilities. Fair value of the contracts was LVL 59 thousand.

19. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2007		2006	
	Group LVL’000	**Bank LVL’000**	**Group LVL’000**	**Bank LVL’000**
Fixed income securities				
Debt securities issued by private companies	2 115	-	1 920	-
Debt securities issued by financial institutions	1	-	1	-
Investments in non-fixed income securities				
SWIFT shares	10	10	10	10
Total financial assets available-for-sale	**2 126**	**10**	**1 931**	**10**

20. LOANS AND RECEIVABLES

(a) Loans

	2007		2006	
	Group LVL'000	**Bank LVL'000**	**Group LVL'000**	**Bank LVL'000**
Financial institutions	608	601	1 087	1 086
Private companies	23 420	22 962	14 721	14 185
Individuals	1 167	1 112	1 082	1 032
Total loans	**25 195**	**24 675**	**16 890**	**16 303**
Loan loss impairment (Note 14)	(119)	(91)	(27)	(10)
Net loans	**25 076**	**24 584**	**16 863**	**16 293**

(b) Analysis of loans by type

	2007		2006	
	Group LVL'000	**Bank LVL'000**	**Group LVL'000**	**Bank LVL'000**
Loan portfolio				
Commercial loans	16 358	16 358	7 911	7 911
Industrial loans	3 369	3 369	4 502	4 502
Payment cards loans	60	60	36	36
Mortgage loans	662	662	1 058	934
Other loans	2 593	2 077	896	439
Accrued interest	217	213	159	153
Total Loan portfolio	**23 259**	**22 739**	**14 562**	**13 975**
Securities loans				
Reverse repo	1 934	1 934	485	485
Other loans *(buy/sellback)*	-	-	1 841	1 841
Accrued interest	2	2	2	2
Total securities loans	**1 936**	**1 936**	**2 328**	**2 328**
Total loans	**25 195**	**24 675**	**16 890**	**16 303**
Impairment losses (Note 14)	(119)	(91)	(27)	(10)
Loans net	**25 076**	**24 584**	**16 863**	**16 293**

(c) Average loans balance:	**Group Loan portfolio LVL'000**	**Bank Loan portfolio LVL'000**	**Group Securities loans LVL'000**	**Bank Securities loans LVL'000**
I quarter 2006	10 665	10 665	3 789	3 789
II quarter 2006	15 020	15 020	2 747	2 747
III quarter 2006	12 309	12 309	2 070	2 070
IV quarter 2006	15 174	15 174	2 425	2 425
I quarter 2007	16 264	16 264	2 214	2 214
II quarter 2007	17 108	17 108	2 708	2 708
III quarter 2007	18 137	18 137	2 976	2 976
IV quarter 2007	19 976	19 976	2 039	2 039

(d) Geographical segmentation of the loans	**2007**		**2006**	
	Group LVL'000	**Bank LVL'000**	**Group LVL'000**	**Bank LVL'000**
Loans to residents of Latvia	7 037	6 544	5 320	4 746
Loans to residents of OECD countries	5 386	5 370	5 753	5 753
Loans to residents of the other countries	12 555	12 548	5 658	5 649
Accrued interest	217	213	159	155
Total loans	**25 195**	**24 675**	**16 890**	**16 303**
Impairment assets (Note 14)	(119)	(91)	(27)	(10)
Loans net	**25 076**	**24 584**	**16 863**	**16 293**

The average interest rate on the loan portfolio was 11.37 % in 2007 (2006– 10.13%). The average interest rate on securities loans was 4.93% in 2007 (2005 – 5.44%).

As at 31 December 2007 and at 31 December 2006 the Bank had none group of related borrowers, whose loan balances exceeded 10% of loans to customers.

(e) Financial Assets that are either Past Due or Impaired

Bank **LVL'000**	Carrying amount	Of which neither impaired nor past due on the reporting date	Of which not impaired on the reporting date and past due in the following periods: Less than 30 days	Between 30 and 60 days	Between 61 and 90 days	Between 91 and 180 days	Between 181 and 360 days	More than 360 days
	31 Dec 2007							
Loans	24 675	24 429	16	3	9	1	208	9
	31 Dec 2006							
Loans	16 303	16 294	-	-	-	-	-	9

Group LVL '000	Carrying amount	Of which neither impaired nor past due on the reporting date	Of which not impaired on the reporting date and past due in the following periods: Less than 30 days	Between 30 and 60 days	Between 61 and 90 days	Between 91 and 180 days	Between 181 and 360 days	More than 360 days
	31 Dec 2007							
Loans	25 195	24 827	19	3	9	1	209	127
	31 Dec 2006							
Loans	16 890	16 752	-	-	-	1	10	127

21. FINANCIAL INVESTMENTS HELD-TO-MATURITY

	2007		2006	
	Group LVL'000	**Bank LVL'000**	**Group LVL'000**	**Bank LVL'000**
Term deposits due from credit institutions registered in Latvia	1 329	1 133	43	43
	1 329	**1 133**	**43**	**43**

22. INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES

(a) Investments in subsidiaries

In 2003 the Bank acquired 100% of the share capital in IPAS "Baltikums Asset Management" and SIA "Baltikums Līzings". In 2005 the Bank acquired 99.24% of the share capital in AS "Pirmais atklātais pensiju fonds". In 2006 The Bank's subsidiary, IPAS "Baltikums Asset Management", acquired 93.46 % of the share capital in AAS "Baltikums Dzīvība" and the Bank acquired 100% of the share capital in "Nord Real Estate". On 29 March 2007 the Bank sold 100% the investment in AS "Pirmais atklātais pensiju fonds" and on 21 June 2007 the Bank sold 100% of "Nord Real Estate". AS "Pirmais atklātais pensiju fonds" was sold for LVL 32 thousand gaining LVL 1 thousand. "Nord Real Estate" was sold for LVL 206 thousand with no gain or loss. In 2007 the Bank acquired 100% of the share capital in SIA "Baltikums Direct". Consolidated financial statements as of 31 December 2007 include the financial statements of the Bank and financial statements of the these companies as set out below.

The cost to the Bank and the share in equity acquired is reflected in the table below:

Company	**Share in equity**	**2007 Cost LVL'000**	**2006 Cost LVL'000**	**2005 Cost LVL'000**
SIA "Baltikums Līzings"	100,00 %	345	345	345
IPAS "Baltikums Asset Management"	100,00 %	5 578	4 016	154
AS "Pirmais atklātais pensiju fonds"	99,24%	-	31	31
SIA "Nord Real Estate"	100,00%	-	206	-
SIA "Baltikums Direct"	100,00%	7	-	-
		5 930	**4 598**	**530**

Subsidiaries of IPAS "Baltikums Asset Management" included in consolidation

Company	**Share in equity**	**2007 Cost LVL'000**	**2006 Cost LVL'000**	**2005 Cost LVL'000**
AAS „Baltikums Dzīvība"	93,00 %	2 352 537	2 352 537	-
		2 352 537	**2 532 537**	**-**

Details of consolidated entities, acquisitions and disposals in the year are detailed below.

SIA "Baltikums Līzings"

Main business activity of the Company is leasing and other financing services. For the year ending 31 December 2007 the net profit of SIA "Baltikums Līzings" was nil (2006: TLVL 1). On 31 December 2007 the equity and reserves of SIA "Baltikums Līzings" were TLVL 336 (2006: TLVL 336).

IPAS "Baltikums Asset Management"

Baltikums Asset Management was granted a licence permitting it to operate as a mutual fund manager. Baltikums Asset Management has founded several open-end mutual funds - Baltic Index Fund, Government bond fund and International Equity Fund of Funds. Baltikums Asset Management has also received a license to manage state pension system funds. None of hese funds are not considered to be special purpose entities and are not consolidated in these financial statements. In 2007 the investment in IPAS "Baltikums Asset Management" was increased from TLVL 4 016 to TLVL 5 578 by decision of the shareholders of the Bank. The first increase of TLVL 1 452 was performed in January 2007 and the second, TLVL 110, in June 2007. For the year ended 31 December 2007 the net profit of IPAS "Baltikums Asset Management" was TLVL 66 (2006: nil). On 31 December 2007 the equity and reserves of IPAS "Baltikums Asset Management" were TLVL 5 646 (2006: TLVL 4 014).

AS "Pirmais atklātais pensiju fonds"

In May 2007, the Bank sold its subsidiary AS "Pirmais atklātais pensiju fonds" to JS "Ieguldījumu pārvaldes sabiedrība "Astra Krajfondi"". The subsidiary managed three pension plans - „Privātā pensija", „Vecumdienas" and „Baltikums Universālais". Details of disposal of the subsidiary are as follows:

Balance sheet	**LVL'000**
Long-term investments	-
Loans to customers and debtors	-
Current assets (including cash)	27
Long-term liabilities	-
Current liabilities	(2)
Net assets disposed	**25**
Proceeds of sale	32
Profit on disposal	**7**

SIA "Nord Real Estate"

The main activity of the Company is management and rental of real estate. SIA "Nord Real Estate" was acquired in September 2006 and at the date of acquisition had the following financial position:

Balance sheet	**LVL'000**
Long-term investments	565
Loans to customers and debtors	7
Current assets	5
cash	*4*
Long-term liabilities	(382)
Current liabilities	(21)
Net assets acquired	**174**
Goodwill	32
Total consideration, paid in cash	206
Cash acquired	4
Net cash outflow	**(202)**

The management of the Group assessed that there were no differences between carrying amounts and fair values on acquisition for the assets of the subsidiary SIA "Nord Real Estate" at the date of acquisition.

SIA "Nord Real Estate" was disposed in June 2007 and at the date of disposal had the following financial position:

Balance sheet	**LVL'000**
Long-term investments	564
Loans to customers and debtors	20
Current assets (including cash)	-
Long-term liabilities	(382)
Short-term liabilities	(2)
Net assets disposed	**200**
Proceeds of sale	206
Profit on disposal	**6**

SIA "Baltikums Direct"

SIA "Baltikums Direct" operates as coordinator of activities of related parties to other Group companies operating in Russia, Ukraine and Kazakhstan which attract clients and represents the Bank's and Group's interests in those countries.

SIA "Baltikums Direct" was acquired in September 2007 and at the date of acquisition had the following financial position:

Balance sheet	**LVL'000**
Property, plant and equipment	3
Loans to customers and debtors	3
Current assets	1
Current liabilities	(8)
Net assets acquired	**(1)**
Goodwill	8
Total consideration, paid in cash	7
Cash acquired	1
Net cash outflow	**(6)**

The management of the Group concluded that there were no differences between fair value and preacquisition carrying amounts at the date of acquisition.

AAS “Baltikums Dzīvība”

On July 14, 2006 IPAS “Baltikums Asset Management acquired 51% of AAS “Baltikums Dzīvība” for LVL 1 284 thousand. On August 25, 2006 IPAS “Baltikums Asset Management acquired further shares to increase its shareholding to 93%, for a total investment of LVL 2 353 thousand.

AAS “Baltikums Dzīvība” at the date of acquisition had the following financial position:

Balance sheet	**LVL’000**
Assets	
Cash and amounts due from credit institutions	109
Fixed income securities	2 061
Investments in non-fixed income securities	521
Loans and receivables	45
Held-to-maturity financial assets	115
Property, Plant and Equipment	5
Investment property	335
Technical reserves	(765)
Long-term liabilities	(14)
Current liabilities	(23)
Net assets	**2 389**
Minority interest	(156)
Net assets acquired	**2 233**
Goodwill	120
Total consideration, paid in cash	2 353
Cash acquired	224
Net cash outflow	**(2 129)**

The management of the Group concluded that there were no differences between the fair value and preacquisition carrying amounts of net assets of the acquired subsidiary at the date of acquisition.

(b) Investments in associates

In January 2007 Baltikums Asset Management acquired 49% of the share capital in AS „Baltikums Apdrošināšanas Grupa” (a non-life insurance company operating in Latvia), and in August 2007 - 25% of LLC „Baltikums Trust” (company providing popularization of Group’s services in Russia).

Company	**Share in equity**	**2007 Cost LVL’000**	**2006 Cost LVL’000**
AS „Baltikums Apdrošināšanas Grupa”	49%	3 071	-
LLC „Baltikums Trust”	25%	-	-
Total (rounded)		**3 071**	**-**

The share of results post acquisition of the associates was immaterial for consolidation purposes.

23. INTANGIBLE ASSETS

	Group LVL'000	Bank LVL'000
Acquisition cost		
As of 31 December 2005	**165**	**159**
Additions	52	52
Goodwill as a result of acquisition of subsidiaries	152	-
As of 31 December 2006	**369**	**211**
Acquired	36	36
Goodwill as a result of acquisition of subsidiaries	8	-
Disposal of goodwill on sale of subsidiary	(32)	-
As of 31 December 2007	**381**	**247**
Amortisation		
As of 31 December 2005	**93**	**92**
Amortisation	39	37
As of 31 December 2006	**132**	**129**
Amortisation	37	37
As of 31 December 2007	**169**	**166**
Net book value		
As of 31 December 2005	**72**	**67**
As of 31 December 2006	**237**	**82**
As of 31 December 2007	**212**	**81**

The amounts of goodwill in the table above are shown at their gross amounts and there are no accumulated impairment losses.

24. ROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements LVL'000		Vehicles LVL'000		Office equipment LVL'000		Total LVL'000	
	Group	**Bank**	**Group**	**Bank**	**Group**	**Bank**	**Group**	**Bank**
Acquisition cost	-	-						
As of 31 December 2005	**-**	**-**	**9**	**9**	**272**	**258**	**281**	**267**
Additions	-	-	30	30	48	44	78	74
Additions as a result of acquisition of subsidiaries	-	-	-	-	11	-	11	-
Disposals	-	-	-	-	(15)	(6)	(15)	(6)
As of 31 December 2006	**-**	**-**	**39**	**39**	**316**	**296**	**355**	**335**
Additions	169	169	41	41	100	99	310	309
Additions as a result of acquisition of subsidiaries	-	-	-	-	5	-	5	
Disposals	-	-	-	-	(1)	(1)	(1)	(1)
As of 31 December 2007	**169**	**169**	**80**	**80**	**420**	**394**	**669**	**643**
Depreciation								
As of 31 December 2005	**-**	**-**	**7**	**7**	**209**	**202**	**216**	**209**
Depreciation	-	-	2	2	35	33	37	35
Accumulated depreciation as a result of acquisition of subsidiaries	-	-	-	-	4	-	4	-
Disposals	-	-	-	-	(10)	(6)	(10)	(6)
As of 31 December 2006	**-**	**-**	**9**	**9**	**238**	**229**	**247**	**238**
Depreciation	11	11	9	9	39	34	59	54
Accumulated depreciation as a result of acquisition of subsidiaries	-	-	-	-	5	-	5	-
Disposals	-	-	-	-	(1)	(1)	(1)	(1)
As of 31 December 2007	**11**	**11**	**18**	**18**	**281**	**262**	**310**	**291**
Net book value								
As of 31 December 2005	**-**	**-**	**2**	**2**	**63**	**56**	**65**	**58**
As of 31 December 2006	**-**	**-**	**30**	**30**	**78**	**67**	**108**	**97**
As of 31 December 2007	**158**	**158**	**62**	**62**	**139**	**132**	**359**	**352**

25. INVESTMENT PROPERTY

The investment property of the Group consists of the following property items:

	2007		2006	
	Group LVL’000	**Bank LVL’000**	**Group LVL’000**	**Bank LVL’000**
Land and building on Sporta street, Riga	-	-	562	-
Land plots in Latvia	545	-	549	-
	545	**-**	**1 111**	**-**

	Group LVL’000
As of 31 December 2005	**-**
Aquisition	873
Revaluation	238
As of 31 December 2006	**1 111**
Disposal of Land and building on Sporta street , Riga on sale of subsidiary	(562)
Disposal of several Land Plots	(140)
Revaluation of remaining Land plots	136
As of 31 December 2007	**545**

The land and building on Sporta street was owned by SIA “Nord Real Estate”. As a result of the sale of 100% of SIA “Nord Real Estate”on 21 June 2007, the property of TLVL 562 was excluded from Group’s assets. During year 2007 5 land plots in Kekavas district have been sold for TLVL 192, resulting in net profit of TLVL 53. The remaining plots of land were revalued as at 31 December 2007.

The fair value of the investment property as on 31 December 2006 and 31 December 2007 was determined based on the appraisal by an independent appraiser - SIA " VCG Ekspertu grupa".

26. OTHER ASSETS

	2007		2006	
	Group LVL’000	**Bank LVL’000**	**Group LVL’000**	**Bank LVL’000**
Security deposit for MasterCard	-	-	88	88
MasterCard receivable	2	2	-	-
Cash with brokers for securities settlements	121	121	123	123
Taxes receivable	83	80	49	49
Other debtors	69	65	117	102
	275	**268**	**377**	**362**
Impairment loss (Note 14)	(1)	-	(1)	-
	274	**268**	**376**	**362**

27. DUE TO CREDIT INSTITUTIONS ON DEMAND

	2007		2006	
	Group LVL’000	Bank LVL’000	Group LVL’000	Bank LVL’000
Credit institutions registered in Latvia	1 501	1 501	6 149	6 149
	1 501	**1 501**	**6 149**	**6 149**

The average interest rate on amounts due to credit institutions registered in Latvia in 2007 was 7.05 % (4.31% in 2006).

As at 31 December 2006 amounts due to credit institutions included LVL 3 514 thousand were attracted against the collateral of the Bank assets. As at 31 December 2007 Bank had no amounts due to credit institutions attracted against the collateral of the Bank assets.

As at 31 December 2007 and 31 December 2006 the Bank had respectively 1 and 3 banks and financial institutions which account balances exceeded 10% of total due to credit institutions (LVL 1 501 thousand and LVL 6 149 thousand respectively).

28. TERM DEPOSITS FROM CREDIT INSTITUTIONS

	2007		2006	
	Group LVL’000	Bank LVL’000	Group LVL’000	Bank LVL’000
Credit institutions registered in Latvia	-	-	2 151	1 770
	-	**-**	**2 151**	**1 770**

Liabilities to credit institutions as on December 31, 2006 included a long-term loan in the amount of LVL 1 770 thousand with Libor + 1.25% interest rate. On 31 December 2006 liabilities to credit institutions in the amount of LVL 1 770 were secured with the pledge of the Bank’s assets.

29. FINANCIAL LIABILITIES CARRIED AT AMORTISED COST: CUSTOMERS DEPOSITS

	2007		2006	
	Group LVL’000	Bank LVL’000	Group LVL’000	Bank LVL’000
Current accounts:				
Private financial institutions	1 321	1 337	1 616	3 212
Private enterprises	64 349	64 349	29 778	29 778
Private persons	1 283	1 283	789	789
	66 953	**66 969**	**32 183**	**33 779**
Term deposits:				
Private financial institutions	123	256	370	397
Private enterprises	4 507	4 507	4 610	4 610
Private persons	559	559	741	741
	5 189	**5 322**	**5 721**	**5 748**
Deposits total	**72 142**	**72 291**	**37 904**	**39 527**

The average term deposits rate was 4.69% in 2007 (3.73% in 2006). The average demand deposits rate was 1.10% in 2007 (1.10% in 2006).
On 31 December 2007 the Bank had one customer/customer group with deposits exceeding 10% of the total customer deposits and on December 31, 2006 the Bank did not have any such customers/customer groups. On 31 December 2007 such customers/customer groups balances were LVL 7 901 thousand.

30. FINANCIAL LIABILITIES CARRIED AT AMORTISED COST: NOTES PAYABLE

On 29 December 2006 the Bank repaid its first bonds issue in the amount of EUR 3 856 thousand (LVL 2 710 thousand). The issue was carried out in 2004 and had a floating interest rate of 6 month Euribor + 3.5%.

In April 2006 the Bank carried out the second issue of bonds. The maturity date of the bonds is 20 April 2009, size of the issue is EUR 5 000 thousand (LVL 3 514 thousand), and coupon rate is 6.875%.

In February 2007 the Bank carried out the third issue of bonds with maturity date on 2 February 2010, size of the issue EUR 10 000 thousand (LVL 7 028 thousand), and floating coupon rate of 3 month Euribor + 3.0%.

	2007		2006	
	Group LVL'000	**Bank LVL'000**	**Group LVL'000**	**Bank LVL'000**
Notes payable	10 661	10 678	3 547	3 561
Non-amortized commission on issue	(68)	(68)	(34)	(34)
	10 593	**10 610**	**3 513**	**3 527**

31. DEFERRED INCOME AND ACCRUED EXPENSES

	2007		2006	
	Group LVL'000	**Bank LVL'000**	**Group LVL'000**	**Bank LVL'000**
Prepaid income	26	26	7	7
Accrued expenses	77	69	120	116
	103	**95**	**127**	**123**

32. PROVISIONS

	Group LVL'000	**Bank LVL'000**
As of 31 December 2005	**9**	**9**
Increase in provisions	14	5
As of 31 December 2006	**23**	**14**
Increase in provisions	42	38
As of 31 December 2007	**65**	**52**

Provisions consist of provisions for unused vacations of employees.

33. OTHER LIABILITIES

	2007		2006	
	Group LVL’000	**Bank LVL’000**	**Group LVL’000**	**Bank LVL’000**
Suspense liabilities	10	10	101	101
Funds in transit	27	27	27	27
Settlements related to credit cards	23	23	11	11
Unrealised loss from spot transactions	63	63	37	37
Other creditors	47	26	7	5
	170	**149**	**183**	**181**

34. INSURANCE LIABILITIES

The balance in the balance sheet is composed of:

31 December 2007

	Gross LVL’000	**Reinsurance LVL’000**	**Net LVL’000**
Life insurance			
Life technical reserves	648	(1)	647
Non-life insurance (health, accident)			
Unearned premium and unexpired risk reserve	7	-	7
Outstanding claim reserve	10	-	10
	665	**(1)**	**664**

31 December 2006

	Gross LVL’000	**Reinsurance LVL’000**	**Net LVL’000**
Life insurance			
Life technical reserves	709	-	709
Unit-linked reserve	10	-	10
Non-life insurance (health, accident)			
Unearned premium and unexpired risk reserve	10	(1)	9
Outstanding claim reserve	3	-	3
	732	**(1)**	**731**

Insurance liabilities on the Group’s balance sheet relate to the insurance company AAS “Baltikums Dzīvība”.

In the following tables changes in life insurance reserves for the period included in the profit and loss account are shown:

	Gross LVL'000	Reinsurance LVL'000	Net LVL'000
As on 31 December 2005	**-**	**-**	**-**
Acquisition of AAS "Baltikums Dzīvība"	729	-	729
Net decrease during the period	(13)	-	(13)
As on 31 December 2006	**709**	**-**	**709**
Net decrease for the period	(61)	(1)	(62)
As on 31 December 2007	**648**	**(1)**	**647**

In the following tables changes in unearned premium and unexpired risk reserves are shown for the period included in the profit and loss account:

	Gross LVL'000	Reinsurance LVL'000	Net LVL'000
As on 31 December 2005	**-**	**-**	**-**
Acquisition of AAS "Baltikums Dzīvība"	35	(5)	30
Net increase for the period	(25)	4	(21)
As of 31 December 2006	**10**	**(1)**	**9**
Adjustments related to 2006	(3)	-	(3)
Net increase for the period	-	1	1
As of 31 December 2007	**7**	**-**	**7**

In the following table changes in outstanding claim reserves are shown for the period included in the profit and loss account:

	Gross LVL'000	Reinsurance LVL'000	Net LVL'000
As on 31 December 2005	**-**	**-**	**-**
Acquisition of AAS "Baltikums Dzīvība"	8	-	8
Net increase for the period	(5)	-	(5)
As on 31 December 2006	**3**	**-**	**3**
Net increase for the period	7	-	7
As on 31 December 2007	**10**	**-**	**10**

35. SHARE CAPITAL AND RESERVES

As of 31 December 2007 the authorized share capital comprised 10.525 millions ordinary shares (2006: 7.45 million). All these shares have a par value of LVL 1. All issued shares are fully paid. The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at shareholders meetings. All shares rank equally with regard to the Bank's residual assets.
The only shareholder of the Bank is AS "Baltikums bankas grupa".

	2007		2006	
	Quantity	**LVL**	**Quantity**	**LVL**
Share capital				
Ordinary shares with voting rights	10 525 000	10 525 000	7 450 000	7 450 000
	10 525 000	**10 525 000**	**7 450 000**	**7 450 000**

During the year 3 075 000 shares were issued at LVL 1 per share.

NOTES TO THE FINANCIAL STATEMENTS

Reserve capital amounting to LVL 17 thousand represents a historically-established reserve accumulated from retained earnings in accordance with the legislation of the Republic of Latvia. The reserve capital is not subject to any restrictions and can be distributed to the shareholders upon the appropriate decision.

36. CASH AND CASH EQUIVALENTS

	2007		2006	
	Group LVL'000	**Bank LVL'000**	**Group LVL'000**	**Bank LVL'000**
Cash	331	331	282	280
Due from the Bank of Latvia	11 485	11 485	6 783	6 783
Due from credit institutions on demand and within 3 months	41 623	41 424	21 874	21 864
Due to credit institutions on demand and within 3 months	(1 501)	(1 501)	(7 919)	(7 919)
	51 938	**51 739**	**21 020**	**21 008**

37. CONTINGENT LIABILITIES AND COMMITMENTS

	2007		2006	
	Group LVL'000	**Bank LVL'000**	**Group LVL'000**	**Bank LVL'000**
Unutilised loan facilities	2 407	2 407	6 652	6 652
Unutilised credit card facilities	168	168	171	171
Letters of credit	-	-	58	58
Guarantees	12	12	3	3
	2 587	**2 587**	**6 884**	**6 884**

38. EARNINGS PER SHARE

As at 31 December 2007 the Bank has no dilutive potential for ordinary shares and therefore diluted earnings per share are the same as the basic earnings per share.

Basic earnings per share are calculated by dividing the net income attributable to the shareholders by the weighted average number of ordinary shares in issue during the year.

	2007		2006	
	Group LVL'000	**Bank LVL'000**	**Group LVL'000**	**Bank LVL'000**
Net income attributable to Equity holders of the Bank	2 009	1 964	1 393	1 132
Weighted average number of shares outstanding during the year	10 470 000	10 470 000	6 072 000	6 072 000
Basic earnings per share, LVL	**0,192**	**0,188**	**0,229**	**0,186**

39. ASSETS UNDER MANAGEMENT

	2007		2006	
Assets under management	**Group LVL’000**	**Bank LVL’000**	**Group LVL’000**	**Bank LVL’000**
Due from Latvian credit institutions	6	6	164	164
Fixed-income securities	500	500	-	-
Fixed-income securities (pledged in *repo* transactions)	946	946	1 229	732
Other assets	42	42	9	9
	1 494	**1 494**	**1 402**	**905**
Liabilities under management	1 494	1 494	1 402	905
Resident trust liabilities	**1 494**	**1 494**	**1 402**	**905**

There were no outstanding balances with related parties included in the assets under management by the Bank as at 31 December 2007 and 2006. As at 31 December 2006 assets under management by the Group with related parties were LVL 497 thousand, as at 31 December 2007- nil.

40. TRANSACTIONS WITH RELATED PARTIES

Related parties are defined as shareholders who have significant influence over the Bank, companies in which they have a controlling interest, members of the Council and the Management Board, key management personnel, their close relatives and companies in which they have a controlling interest, as well as associated companies. All transactions with related parties have been carried out at an arms-length basis.

Loans, deposits and other claims and liabilities to related parties included the following:

	2007		2006	
	Group LVL’000	**Bank LVL’000**	**Group LVL’000**	**Bank LVL’000**
Loans to customers	621	621	1 105	1 105
Derivatives	-	-	-	1
Credit lines	76	76	77	77
Total loans and other claims	**697**	**697**	**1 182**	**1 183**
Notes payable	-	17	-	14
Term and demand deposits	1 814	1 963	3 372	4 995
Total deposits and other liabilities	**1 814**	**1 980**	**3 372**	**5 009**

	2007		2006	
	Group Interest rate %	**Bank Interest rate %**	**Group Interest rate %**	**Bank Interest rate %**
Loans to customers	6,68	6,68	5,77	5,77
Term and demand deposits	2,72	2,72	2,80	2,81

As at 31 December 2006 loans to related parties in the amount of LVL 420 thousand were secured by collateral of Latvian government bonds. There were no such loans as at 31 December 2007. The Council and the Board remuneration in 2007 was LVL 235 thousand, in 2006 - LVL 223 thousand.

	2007		2006	
Income from related party transactions	**Group LVL '000**	**Bank LVL '000**	**Group LVL '000**	**Bank LVL '000**
Commission income	24	26	26	27
Interest income	41	41	64	64
Dividends income	-	-	-	15
Other (rent, etc.)	-	5	-	-
Expenses from related party transactions				
Commission expenses	-	-	-	29
Interest expenses	49	53	126	140
Other (rent, etc.)		381	2	243

41. Classification of Financial Instruments and other assets (Bank)

LVL'000, 31 Dec 2007	Loans and receivables	Held to maturity	Held for trading	Assets at fair value through profit or loss	Available for sale	Non-financial assets	**Total**
Assets							
Cash and balances with the Bank of Latvia	11 816	-	-	-	-	-	**11 816**
Demand deposits with credit institutions	40 412		-	-	-	-	**40 412**
Financial assets held-to-maturity	-	1 133	-	-	-	-	**1 133**
Loans and receivables	24 584	-	-	-	-	-	**24 584**
Fixed income securities	-	-	12 892	-	-	-	**12 892**
Investments in non-fixed income securities	-	-	-	-	10	-	**10**
Derivative financial instruments	-	-	229	-			**229**
Investment in subsidiaries and associates	-	-	-	-	-	5 930	**5 930**
Intangible assets	-	-	-	-	-	81	**81**
Property, plant and equipment	-	-	-	-	-	352	**352**
Investment property	-	-	-	-	-	-	**-**
Other assets	-	-	-	-	-	268	**268**
Prepayments and accrued income						24	**24**
Total	**76 812**	**1 133**	**13 121**	**-**	**10**	**6 655**	**97 731**

Classification of Financial Instruments and other assets (Bank) (continued)

LVL'000, 31 Dec 2006	Loans and receivables	Held to maturity	Held for trading	Assets at fair value through profit or loss	Available for sale	Non-financial assets	**Total**
Assets							
Cash and balances with the Bank of Latvia	7 063	-	-	-	-	-	**7 063**
Demand deposits with credit institutions	21 864		-	-	-	-	**21 864**
Financial assets held-to-maturity	-	43	-	-	-	-	**43**
Loans and receivables	16 293	-	-	-	-	-	**16 293**
Fixed income securities	-	-	9 515	-	-	-	**9 515**
Investments in non-fixed income securities	-	-	-	-	10	-	**10**
Derivative financial instruments	-	-	59	-			**59**
Investment in subsidiaries and associates	-	-	-	-	-	4 598	**4 598**
Intangible assets	-	-	-	-	-	82	**82**
Property, plant and equipment	-	-	-	-	-	97	**97**
Other assets	-	-	-	-	-	362	**362**
Prepayments and accrued income	-	-	-	-	-	116	**116**
Total	**45 220**	**43**	**9 574**	**0**	**10**	**5 255**	**60 102**

The classification for the Group is not significantly different from that of the Bank disclosed above.

42. MATURITY ANALYSIS OF ASSETS AND LIABILITIES (BANK)

The table below reflects the maturity analysis of assets and liabilities based on the term from the balance sheet date until the maturity dates of the respective assets and liabilities. The remaining period to maturity of assets and liabilities as of 31 December 2007 was as follows:

2007 LVL'000	Up to 1 month including	From 1 to 3 months	From 3 months to 6 months	From 6 months to 1 year	From 1 year to 5 years	5 years and over	Total LVL'000
ASSETS							
Cash and balances with the Bank of Latvia	11 816	-	-	-	-	-	**11 816**
Demand deposits with credit institutions	40 412	-	-	-	-	-	**40 412**
Loans and receivables	4 723	1 491	2 438	4 292	11 640	-	**24 584**
Fixed income securities	12 892	-	-	-	-	-	**12 892**
Investments in non-fixed income securities		-	-	-	-	10	**10**
Derivative financial instruments	229						**229**
Financial assets held-to-maturity	794	218	97	-	24	-	**1 133**
Investment in subsidiaries and associates		-	-	-	-	5 930	**5 930**
Intangible assets		-	-	-	-	81	**81**
Property, plant and equipment	-	-	-	-	-	352	**352**
Other assets	-	-	-	-	-	268	**268**
Prepayments and accrued income	-	-	-	-	-	24	**24**
Total assets	**70 866**	**1 709**	**2 535**	**4 292**	**11 664**	**6 665**	**97 731**
LIABILITIES AND EQUITY							
Due to credit institutions on demand	1 501	-	-	-	-	-	**1 501**
Derivatives	124	64	-	-	-	-	**188**
Customers' deposits	68 687	1 556	1 724	165	159	-	**72 291**
Notes payable	-	-	-	-	10 610	-	**10 610**
Deferred income and accrued expenses	95	-	-	-	-	-	**95**
Provisions	52	-	-	-	-	-	**52**
Current tax liabilities	-	254	-	-	-	-	**254**
Other liabilities	149	-	-	-	-	-	**149**
Total equity attributable to shareholders	-	-	-	-	-	12 591	**12 591**
Total liabilities and equity	**70 608**	**1 874**	**1 724**	**165**	**10 769**	**12 591**	**97 731**
Off-balance-sheet items	2 587						
Maturity gap	**258**	**(165)**	**811**	**4 127**	**895**	**(5 926)**	**-**

The maturity analysis of the Group is not significantly different from that of the Bank disclosed above.

MATURITY ANALYSIS OF ASSETS AND LIABILITIES (BANK) (continued)

2006 LVL'000	Up to 1 month including	From 1 to 3 months	From 3 months to 6 months	From 6 months to 1 year	From 1 year to 5 years	5 years and over	Total LVL'000
ASSETS							
Cash and balances with the Bank of Latvia	7 063	-	-	-	-	-	**7 063**
Demand deposits with credit institutions	21 864	-	-	-	-	-	**21 864**
Loans and receivables	6 801	360	2 056	2 330	4 746		**16 293**
Financial assets at fair value through profit or loss	9 574	-	-	-	-	-	**9 574**
Investments in non-fixed income securities	-	-	-	-	-	10	**10**
Financial assets held-to-maturity	-	-	16	-	27	-	**43**
Investment in subsidiaries and associates	-	-	-	-	-	4 598	**4 598**
Intangible assets	-	-	-	-	-	82	**82**
Property, plant and equipment	-		-	-	-	97	**97**
Other assets	258	-	-	-	-	104	**362**
Prepayments and accrued income		-	-	116	-	-	**116**
Total assets	**45 560**	**360**	**2 072**	**2 446**	**4 773**	**4 891**	**60 102**
LIABILITIES AND EQUITY							
Due to credit institutions on demand	6 149	-	-	-	-	-	**6 149**
Term deposits due to credit institutions	1 770	-	-				**1 770**
Customers' deposits	38 074	48	794	423	188	-	**39 527**
Notes payable	-	-	-	-	3 527	-	**3 527**
Deferred income and accrued expense	123	-	-	-	-	-	**123**
Provisions	-	-	-	-	14	-	**14**
Current tax liabilities	-	127	-	-	-	-	**127**
Other liabilities	181	-	-	-	-	-	**181**
Total equity attributable to shareholders	-	-	-	-	-	8 684	**8 684**
Total liabilities and equity	**46 297**	**175**	**794**	**423**	**3 729**	**8 684**	**60 102**
Off-balance-sheet items	6 884						
Maturity gap	**(737)**	**185**	**1 278**	**2 023**	**1 044**	**(3 793)**	**-**

The maturity analysis of the Group is not significantly different from that of the Bank disclosed above.

Financial risk management
Liquidity risk (BANK)

Residual contractual maturities of financial liabilities of the Bank are presented below. The Group’s residual contractual maturities of financial liabilities have not been presented as the difference to the Bank’s analysis is insignificant.

LVL’000

31 December 2007	Carrying amount	Gross nominal inflow / (outflow)	Less than 1 month	1-3 months	3 months to 1 year	1-5 years	More than 5 years
Non-derivative liabilities							
Due to credit institutions on demand	1 501	(1 501)	(1 501)	-	-	-	-
Customers’ deposits	72 291	(72 363)	(68 647)	(1 587)	(1 947)	(182)	-
Notes payable	10 610	(12 058)	-	(137)	(615)	(11 306)	-
Total non-derivative liabilities	**84 402**	**(85 922)**	**(70 148)**	**(1 724)**	**(2 562)**	**(11 488)**	**-**
Derivative liabilities							
Trading: outflow	(188)	(188)	(124)	(64)	-	-	-
Trading: inflow	229	229	229	-	-	-	-
Total derivative liabilities	**41**	**41**	**105**	**(64)**	**-**	**-**	**-**
Unrecognized loan commitments	2 525	(2 525)	(2 525)	-	-	-	-
Total liabilities	**86 968**	**(88 406)**	**(72 568)**	**(1 788)**	**(2 562)**	**(11 488)**	**-**

LVL’000

31 December 2006	Carrying amount	Gross nominal inflow / (outflow)	Less than 1 month	1-3 months	3 months to 1 year	1-5 years	More than 5 years
Non-derivative liabilities							
Due to credit institutions on demand	6 149	(6 149)	(6 149)				
Term deposits due to credit institutions	1 770	(1 771)	(1 771)	-	-	-	-
Customers’ deposits	39 527	(39 608)	(38 140)	(49)	(1 228)	(191)	-
Notes payable	3 527	(4 397)	-	-	(344)	(4 053)	-
Total non-derivative liabilities	**50 973**	**(51 925)**	**(44 060)**	**(49)**	**(1 572)**	**(4 244)**	**-**
Derivative liabilities							
Trading: outflow	-	-	-	-	-	-	-
Trading: inflow	59	59	59	-	-	-	-
Total derivative liabilities	**59**	**59**	**59**	**-**	**-**	**-**	**-**
Unrecognized loan commitments	6 884	(6 884)	(6 884)	-	-	-	-
Total liabilities	**57 916**	**(58 750)**	**(52 885)**	**(49)**	**(1 572)**	**(4 244)**	**-**

43. CURRENCY ANALYSIS OF ASSETS AND LIABILITIES (BANK)

The LVL equivalent of monetary assets and liabilities as at 31 December 2007 by the currencies in which they are denominated is as follows:

2007 **LVL’000**	**LVL** **LVL’000**	**USD** **LVL’000**	**EUR** **LVL’000**	**GBP** **LVL’000**	**Other currencies** **LVL’000**	**Total** **LVL’000**
ASSETS						
Cash and balances with the Bank of Latvia	9 727	36	2 038	-	15	**11 816**
Demand deposits with credit institutions	8	17 588	10 585	50	12 181	**40 412**
Loans and receivables	1 427	5 927	17 230	-	-	**24 584**
Fixed income securities	-	8 932	3 136	-	824	**12 892**
Derivative financial instruments	229	-	-	-	-	**229**
Investments in non-fixed income securities	-	-	10	-	-	**10**
Financial assets held-to-maturity	-	535	598	-	-	**1 133**
Investment in subsidiaries and associates	5 930	-	-	-	-	**5 930**
Intangible assets	81	-	-	-	-	**81**
Property, plant and equipment	352	-	-	-	-	**352**
Other assets	48	142	39	4	35	**268**
Prepayments and accrued income	22	1	1	-	-	**24**
Total assets	**17 824**	**33 161**	**33 637**	**54**	**13 055**	**97 731**
LIABILITIES AND EQUITY						
Due to credit institutions on demand	1 501	-	-	-	-	**1 501**
Derivatives	188	-	-	-	-	**188**
Customers’ deposits	2 059	31 092	27 760	92	11 288	**72 291**
Notes payable	-	-	10 610	-	-	**10 610**
Deferred income and accrued expenses	69	16	10	-	-	**95**
Provisions	52	-	-	-	-	**52**
Current tax liabilities	254	-	-	-	-	**254**
Other liabilities	85	29	1	-	34	**149**
Total equity attributable to shareholders	12 591	-	-	-	-	**12 591**
Total liabilities and equity	**16 799**	**31 137**	**38 381**	**92**	**11 322**	**97 731**
Assets (liabilities) arising from currency exchange						
Spot and fwd transaction receivables	2 445	17 543	22 098	2 666	21 238	**65 990**
Spot and fwd transaction liabilities	(4 457)	(19 554)	(17 331)	(2 311)	(22 360)	**(66 013)**
Net long/short currency position	**(987)**	**13**	**23**	**317**	**611**	**(23)**

The currency analysis of the Group is not significantly different from that of the Bank disclosed above.

CURRENCY ANALYSIS OF ASSETS AND LIABILITIES (BANK) (continued)

2006 LVL'000	CHF LVL'000	LVL LVL'000	USD LVL'000	EUR LVL'000	GBP LVL'000	Other currencies LVL'000	Total LVL'000
ASSETS							
Cash and balances with the Bank of Latvia	-	6 916	60	80	-	7	**7 063**
Demand deposits with credit institutions	13	67	18 566	1 421	15	1 782	**21 864**
Loans and receivables	-	1 744	5 297	9 252	-	-	**16 293**
Financial assets at fair value through profit or loss	-	59	7 135	1 291	-	1 089	**9 574**
Investments in non-fixed income securities	-	-	-	10	-	-	**10**
Investment in subsidiaries and associates	-	4 598	-	-	-	-	**4 598**
Financial assets held-to-maturity	-	-	43	-	-	-	**43**
Intangible assets	-	82	-	-	-	-	**82**
Property, plant and equipment	-	97	-	-	-	-	**97**
Other assets	-	67	288	1	6	-	**362**
Prepayments and accrued income	-	15	100	1	-	-	**116**
Total assets	**13**	**13 645**	**31 489**	**12 056**	**21**	**2 878**	**60 102**
LIABILITIES AND EQUITY							
Due to credit institutions on demand	-	1 930	-	4 219	-	-	**6 149**
Term deposits due to credit institutions	-	-	1 770	-	-	-	**1 770**
Customers' deposits	43	3 672	25 934	9 484	14	380	**39 527**
Notes payable	-	-	-	3 527	-	-	**3 527**
Other liabilities	-	47	107	27	-	-	**181**
Deferred income and accrued expenses	-	77	7	-	-	39	**123**
Provisions	-	14	-	-	-	-	**14**
Current tax liabilities	-	127	-	-	-	-	**127**
Total equity attributable to shareholders	-	8 684	-	-	-	-	**8 684**
Total liabilities and equity	**43**	**14 551**	**27 818**	**17 257**	**14**	**419**	**60 102**
Assets (liabilities) arising from currency exchange							
Spot (fwd) transaction receivables	703	139	12 759	14 050	3 495	9 431	**40 577**
Spot (fwd) transaction liabilities	352	129	15 912	8 871	3 495	11 797	**40 556**
Currency position	**321**	**(896)**	**518**	**(22)**	**7**	**93**	**21**

The currency analysis of the Group is not significantly different from that of the Bank disclosed above.

44. REPRICING MATURITY ANALYSIS (BANK)

Interest rate risk relates to changes in the value of the financial instrument as a result of changes in the market rates. As at 31 December 2007, interest rate repricing categories were:

2007 LVL'000	Up to 1 month including	From 1 to 3 months	From 3 months to 6 months	From 6 months to 1 year	From 1 year to 5 years	Over 5 year	Non interest bearing	Total LVL'000
ASSETS								
Cash and balances with the Bank of Latvia	11 485	-	-	-	-	-	331	**11 816**
Demand deposits with credit institutions	40 412	-	-	-	-	-	-	**40 412**
Loans and receivables	16 963	63	2 090	3 846	1 214	281	127	**24 584**
Fixed income securities	114	1 091	637	294	10 756	-	-	**12 892**
Investments in non-fixed income securities	-		-	-	-	10	-	**10**
Derivative financial instruments	229	-	-	-	-	-	-	**229**
Financial assets held-to-maturity	794	339	-	-	-	-	-	**1 133**
Investment in subsidiaries and associates	-	-	-	-	-	-	5 930	**5 930**
Intangible assets	-	-	-	-	-	-	81	**81**
Property, plant and equipment	-	-	-	-	-	-	352	**352**
Other assets	-	-	-	-	-	-	268	**268**
Prepayments and accrued income	-	-	-	-	-	-	24	**24**
Total assets	**69 997**	**1 493**	**2 727**	**4 140**	**11 970**	**291**	**7 113**	**97 731**
TOTAL LIABILITIES AND EQUITY								
Due to credit institutions on demand	1 501	-	-	-	-	-	-	**1 501**
Derivatives	124	64	-	-	-	-	-	**188**
Customers' deposits	68 687	1 556	1724	165	159	-	-	**72 291**
Notes payable	-	10 610	-	-	-	-	-	**10 610**
Other liabilities	-	-	-	-	-	-	95	**95**
Deferred income and accrued expenses	-	-	-	-	-	-	52	**52**
Current tax liabilities	-	-	-	-	-	-	254	**254**
Other liabilities	-	-	-	-	-	-	149	**149**
Total equity attributable to shareholders	-	-	-	-	-	-	12 591	**12 591**
Total liabilities and equity	**70 312**	**12 230**	**1 724**	**165**	**159**	**-**	**13 141**	**97 731**
Off-balance-sheet liabilities	**-**	**-**	**-**	**-**	**-**	**-**	**2 587**	**2 587**
Interest rate risk net position	**-315**	**-10 737**	**1 003**	**3 975**	**11 811**	**291**	**-6 028**	**-**
Interest rate risk gross (cumulative) position	**(315)**	**(11 052)**	**(10 049)**	**(6 074)**	**5 737**	**6 028**	**-**	**-**

REPRICING MATURITY ANALYSIS (BANK) (continued)

2006 LVL'000	Up to 1 month including	From 1 to 3 months	From 3 months to 6 months	From 6 months to 1 year	From 1 year to 5 years	Over 5 year	Non interest bearing	Total LVL'000
ASSETS								
Cash and balances with the Bank of Latvia	-	-	-	-	-	-	7 063	**7 063**
Demand deposits with credit institutions	21 864	-	-	-	-	-	-	**21 864**
Loans and receivables	13 187	191	1 231	1 390	294	-	-	**16 293**
Financial assets at fair value through profit or loss	81	61	631	736	7 789	276	-	**9 574**
Investments in non-fixed income securities	-	-	-	-	-	10	-	**10**
Financial assets held-to-maturity	16	-	-	-	27	-	-	**43**
Investment in subsidiaries and associates	-	-	-	-	-	-	4 598	**4 598**
Intangible assets	-	-	-	-	-	-	82	**82**
Property, plant and equipment	-	-	-	-	-	-	97	**97**
Other assets	-	-	-	-	-	-	362	**362**
Prepayments and accrued income	-	-	-	-	-	-	116	**116**
Total assets	**35 148**	**252**	**1 862**	**2 126**	**8 110**	**286**	**12 318**	**60 102**
TOTAL LIABILITIES AND EQUITY								
Due to credit institutions (term and on demand)	6 149	1 770	-	-	-	-	-	**7 919**
Customers' deposits	38 074	48	794	423	188	-	-	**39 527**
Notes payable					3 527			**3 527**
Other liabilities	-	-	-	-	-	-	181	**181**
Deferred income and accrued expenses	-	-	-	-	-	-	123	**123**
Provisions	-	-	-	-	-	-	14	**14**
Current tax liabilities	-	-	-	-	-	-	127	**127**
Total equity attributable to shareholders	-	-	-	-	-	-	8 684	**8 684**
Total liabilities and equity	**44 223**	**1 818**	**794**	**423**	**3 715**	**-**	**9 129**	**60 102**
Off-balance-sheet liabilities	**-**	**-**	**-**	**-**	**-**	**-**	**6 884**	**6 884**
Interest rate risk net position	**(9 075)**	**(1 566)**	**1 068**	**1 703**	**4 395**	**286**	**3 189**	**-**
Interest rate risk gross (cumulative) position	**(9 076)**	**(10 641)**	**(9 573)**	**(7 870)**	**(3 475)**	**(3 189)**	**-**	**-**

The repricing maturity analysis of the Group is not significantly different from that of the Bank disclosed above.

45. CAPITAL ADEQUACY CALCULATION (BANK) (According to the regulations of the Financial and Capital Market Commission)

		2007		2006	
	Risk weight	Amount LVL'000	Risk weighted value LVL'000	Amount LVL'000	Risk weighted value LVL'000
0% risk weighted assets					
Cash and due from the Central Bank	0%	11 816	-	7 603	-
Due from the government of the Republic of Latvia	0%	-	-	419	-
Due amounts secured by the term deposit controlled by the bank	0%	72	-	3 859	-
Total 0% risk weighted assets	**0%**	**11 888**	**-**	**11 881**	**-**
20% risk weighted assets					
Due on demand from the credit institutions registered in the Republic of Latvia	20%	1 654	331	7 473	1 495
Due from the credit institutions registered in OECD countries	20%	27 894	5 579	8 944	1 789
Total 20% risk weighted assets	**20%**	**29 548**	**5 910**	**16 417**	**3 284**
50% risk weighted assets					
Prepaid expenses and accrued income	50%	24	12	116	58
Total 50% risk weighted assets	**50%**	**24**	**12**	**116**	**58**
100% risk weighted assets					
Dues from credit institutions registered in non-OECD countries	100%	11 997	11 997	1 738	1 738
Loans to customers	100%	24 584	24 584	15 826	15 826
Investments in subsidiaries	100%	506	506	2 245	2 245
Property, plant and equipment	100%	352	352	97	97
Other assets	100%	268	268	363	363
Total 100% risk weighted assets	**100%**	**37 707**	**37 707**	**20 269**	**20 269**
Total Risk Weighted Assets		**79 167**	**43 629**	**48 683**	**23 611**
Off-balance items					
Items with 0% defined correction degree		14	-	73	-
Items with 50% defined correction degree		2 561	1 281	6 808	3 404
Items with 100% defined correction degree		12	12	3	3
Total off-balance items		**2 587**	**1 293**	**6 884**	**3 407**
Total Weighted Value of Assets and Off-balance Items			**44 922**		**27 018**
Capital requirement for credit risk in the banking book			**3 594**		**2 161**

NOTES TO THE FINANCIAL STATEMENTS

CAPITAL ADEQUACY CALCULATION (BANK) (According to the regulations of the Financial and Capital Market Commission) (continued)

	2007 LVL'000	2007	2006 LVL'000	2006
Share capital				
First level capital				
Paid-in share capital	10 525		7 450	
Reserve capital	17		17	
Retained earnings	85		85	
Current year audited profit	1 964		1 132	
Decrease of share capital:				
Intangible assets	(81)		(82)	
Significant investment in credit institutions' share capital	(5 424)		(2 353)	
Total Share Capital	**7 086**		**6 249**	
Capital requirement for credit risk in the banking book	3 594		2 161	
Capital requirement for foreign exchange risk	80		72	
Capital requirement for position risk	1 180		876	
Capital requirement for counterparty risk	26		1	
Total capital requirement 8%	**4 880**		**3 110**	
Total capital adequacy ratio		**12%**		**16%**

46. CAPITAL ADEQUACY CALCULATION (BANK) (According to Basel Capital Accord)

		2007		2006	
	Risk weight	Amount LVL'000	Risk weighted value LVL'000	Amount LVL'000	Risk weighted value LVL'000
0% risk weighted assets					
Cash and due from the Bank of Latvia	0%	11 816	-	7 603	-
Due amounts secured by guarantees and collaterals issued by the Republic of Latvia	0%	-	-	419	-
Due amounts secured by the term deposit controlled by the bank	0%	72	-	3 859	-
Total 0% risk weighted assets	**0%**	**11 888**	**-**	**11 881**	**-**
20% risk weighted assets					
Due from the credit institutions registered in the Republic of Latvia	20%	1 654	331	7 473	1 495
Due from the credit institutions registered in OECD countries	20%	27 894	5 579	8 944	1 789
Due from the credit institutions registered in non-OECD countries	20%	11 997	2 399	1 738	348
Total 20% risk weighted assets	**20%**	**41 545**	**8 309**	**18 155**	**3 632**
100% risk weighted assets					
Loans with 100% risk grading	100%	24 584	24 584	15 826	15 826
Property, Plant and Equipment	100%	506	506	97	97
Investment in subsidiaries	100%	352	352	2 245	2 245
Other assets	100%	268	268	363	363
Total 100% risk weighted assets	**100%**	**25 710**	**25 710**	**18 531**	**18 531**
Total Risk Weighted Assets		**79 143**	**34 019**	**48 567**	**22 163**
Off-balance items					
Items with 0% defined correction degree		14	-	73	-
Items with 50% defined correction degree		2 561	1 281	6 808	3 404
Items with 100% defined correction degree		12	12	3	3
Total off-balance items		**2 587**	**1 293**	**6 884**	**3 407**
Total Weighted Value of Assets and Off-balance Items			**35 255**		**25 570**
Capital requirement for credit risk in the banking book			**2 820**		**2 046**

CAPITAL ADEQUACY CALCULATION (According to Basel Capital Accord) (continued)

	2007 LVL'000		2006 LVL'000	
Share capital				
First level capital				
Paid-in share capital	10 525		7 450	
Reserve capital	17		17	
Retained earnings	85		85	
Current year audited profit	1 964		1 049	
Decrease of share capital:				
Intangible assets	(81)		(82)	
Significant investment in credit institutions’ share capital	(5 424)		(2 353)	
Total Share Capital	**7 086**		**6 166**	
Capital requirement for credit risk in the banking book	2 820		2 046	
Capital requirement for foreign exchange risk	80		72	
Capital requirement for position risk	1 180		876	
Capital requirement for counterparty risk	26		1	
Total capital requirement 8%	**4 106**		**2 995**	
Total capital adequacy ratio		**14%**		**16%**

As at 31 December 2007, the Bank’s capital adequacy ratio was 12%, which is above the minimum required ratio of 8% set in the Basel Capital Accord and the regulations of the Financial and Capital Market Commission.

47. BUSINESS SEGMENT ANALYSIS

	Insurance LVL'000		Banking LVL'000		Asset Management LVL'000		Eliminations LVL'000		Group LVL'000	
	2007	**2006**	**2007**	**2006**	**2007**	**2006**	**2007**	**2006**	**2007**	**2006**
Total revenue from external customers	572	451	7 402	4 329	37	101	-	-	8 011	4 881
Total revenue from internal customers	2	-	2	1	4	61	(8)	(62)	-	-
Total revenue	**574**	**451**	**7 404**	**4 330**	**41**	**162**	**(8)**	**(62)**	**8 011**	**4 881**
Income before tax	125	270	2 421	1 401	(41)	(38)	-	-	2 505	1 633
Income tax	-	-	(489)	(221)	1	(1)	-	-	(488)	(222)
Net income	**125**	**270**	**1 932**	**1 180**	**(40)**	**(39)**	**-**	**-**	**2 017**	**1 411**
Attributable to:										
Equity holders of the Bank	117	252	1 932	1 180	(40)	(39)	-	-	2 009	1 393
Minority interest	8	18	-	-		-	-	-	8	18
Net income	**125**	**270**	**1 932**	**1 180**	**(40)**	**(39)**		**-**	**2017**	**1 411**
Segment assets	3 352	3 419	98 071	60 439	5 661	4 635	(8 319)	(8460)	98 765	60 033
Segment liabilities	682	760	85 145	51 419	20	393	(167)	(1679)	85 680	50 893
Capital expenditure	1	7	345	74	11	7	-	-	357	88
Depreciation	2	4	54	31	2	2		-	58	37
Amortisation	-	-	37	38	-	1	-	-	37	39
Impairment charge	-	-	108	12	-	-	-	-	108	12

Group revenues from non-EU clients constituted 47% in 2007 (2006: 46%). Group revenues from EU clients constituted 53% (2006: 54%).

48. AVERAGE EFFECTIVE INTEREST RATES

The table below displays the Bank's interest bearing assets and liabilities as at 31 December 2007 and 2006 and their corresponding average effective interest rates as at these dates. These interest rates represent the estimated profitability of the above assets and liabilities.

The Group's average effective interest rates have not been presented as the difference to the Bank's analysis is insignificant.

	2007		2006	
	Average value LVL '000	Average effective interest rate	Average value LVL '000	Average effective interest rate
Interest bearing assets				
Demand deposits with credit institutions	19 530	3.8%	10 573	2.0%
Financial assets held for trading: *Fixed income securities*	12 920	8.3%	9 348	6.9%
Loans and receivables excluding repo	17 871	11.5%	13 292	10.3%
Loans and receivables (repo)	2 484	4.9%	2 758	5.4%
Held to maturity financial investments (Term deposits due from credit institutions)	23 830	4.0%	8 527	3.0%
Total interest bearing assets	**76 635**		**44 498**	
Interest bearing liabilities				
Balances due to credit institutions (short-term)	1 865	8.2%	2 305	4.3%
Customers' deposits	51 560	1.6%	28 166	1.5%
Notes payable	9 935	7.1%	5 138	6.6%
Liabilities to credit institutions (long-term loan)	33	6.6%	1 172	6.6%
Total interest bearing liabilities	**71 781**		**40 555**	

49. SUBSEQUENT EVENTS

In February 2008 Bank has acquired from IPAS "Baltikums Asset Management" 49% of JSC "Baltikums Apdrošināšanas Grupa" and 93.46 % of JSC "Baltikums Dzīvība".

In February 2008 the Bank has decreased the share capital of its daughter company Investment Management JSC "Baltikums Asset Management" by LVL 5.424 million. After the decrease paid up share capital of Investment Management JSC "Baltikums Asset Management" is LVL 150 thousand.

In March 2008 as a result of a share issue the Bank's issued and paid share capital has been increased by LVL 1 800 thousand to LVL 12 325 thousand. The issue was fully subscribed to and paid up by the Bank's shareholder- JSC Baltikums Bankas Grupa.