TRASTA KOMERCBANKA

JSC "TRASTA KOMERCBANKA"

FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

PREPARED IN ACCORDANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS AS ADOPTED BY EU

FOR THE YEARS ENDED 31 DECEMBER 2007 AND INDEPENDENT AUDITORS' REPORT

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MANAGEMENT'S REPORT FOR THE BANK (GROUP'S HOLDING COMPANY'S)

Development of the Bank in accordance with the Operation Strategy was successful in 2007, and the Bank achieved its goals in a convincing way. The success of the Bank is witnessed by the results it has achieved: the Bank retained its leading position on the market in terms of capital return (ROE), which in 2007 amounted to 68 percent, and secured its position as a highly profitable medium-sized crediting institution. We can say with certainty that 2007 was also a year of rapid growth for the Bank.

Although in 2007 after a sustained economic growth price corrections started in several market segments, in particular in the real estate market of the USA, which caused far-reaching effects in the financial sector, the Bank did not have exposition in these market sectors, therefore, the price corrections did not affected directly performance of the Bank. The risk of recession appeared in some economic sectors of Latvia too, particularly in construction and development of real estate.

Although GDP in 2007 went up by 10.2%, a significant current account deficit remained sustainable in the country and the high inflation rate compelled public authorities to approve an inflation combating plan which resulted in slowdown of lending. However, the above mentioned factors are thoroughly analysed by the Bank, contingent risks are diversified to the utmost and the current policy of the Bank and the results achieved lead to the conclusion that the Bank has been well positioned so that the economic situation of the country would not have a material effect on its financial standing.

As of 31 December 2007, the assets of the Bank amounted to 290.1 million lats, which exceeds the results for Year 2006 by 10.45 percent. Deposits at the Bank exceeded 232.7 million lats, which is 7.3 million more than in 2006. In 2007 the Bank extended loans for 48.8 million lats, thus increasing its loan portfolio up to 92.3 million lats, while maintaining loan resources at a high quality level. The ratio of income from loans grew up to 93.1 percent in 2007. On the whole Bank's income from interest amounted to more than a half of the total income. Continued operation of the Bank on the money market was successful too, with the profit from currency operations amounting to 26.82 percent. Bank's income from commissions amounted to 20.67 percent from the total income.

As of 31 December 2007 the Bank's capital and reserves amounted to 31.3 million lats. The Bank's profit in 2007 was 15.9 million lats. Compared to the indices for Year 2006, the Bank has managed to increase its profit by 1.6 times, and this is viewed as an excellent result. Shareholders of the Bank are expected to receive dividends for Year 2007 in the amount of 3.8 million lats; the rest of the profits is to be retained at the Bank' s disposal to raise its capital value and to provide for an increased stability and activities of the Bank on financial markets.

In 2007 the Bank continued to expand the range of its services and to develop its financial products. The Bank increased the capacity of its information systems, with special attention paid to the functionality of the Trast.Net internet banking system by adding new functions to it, including a new security function - an IP filtration system; the Bank had a new Web page designed and continued to develop projects related to the use of modern information technologies. The reporting year saw continued successful operation of the Bank within the framework of the international factoring association Factors Chain International (FCI), offering trade financing services to its customers and getting recognition from FCI – the Bank was awarded the rating of ' satisfactory' (conforming to requirements) as an Exports Factor as part of the annual assessment activity of FCI. In 2007 the Bank was awarded the annual *Deutsche Bank's 2006 STP Excellence Award* for the third year in a row, which testifies to the excellent quality of transfers at the Bank.

MANAGEMENT'S REPORT FOR THE BANK (GROUP'S HOLDING COMPANY'S) (continued)

In spring 2007 the Bank launched a brand new service on the Latvian market – the Art Banking service, which provides the Bank's customers with an opportunity to invest in artwork, thus further expanding the diversification of customers' investments and related risks. The new service was introduced both due to global tendencies and the interest shown on the part of the Bank's customers. Currently the Art Banking Service is provided by several popular European banks, including our Bank as well. Bank' s customers will get comprehensive support for activities on the art market as part of the Art Banking Service, starting from searching for artwork suitable for investment, organisation of participation at international auctions and art salons, and ending with making the purchase, having the artwork insured, transportation and storage or resale of the artwork.

The Cyprus Branch of the Bank – one of the first branches established by a Latvian bank in the EU countries - continued to develop in 2007. Two branches were also opened in the towns of Liepaja and Daugavpils in Latvia in 2007, thus enabling the Bank to provide services to its customers in the regions of their operation. On 31 July 2007 the Bank received a permit by the Bulgarian Trade and Commerce Chamber to open a Bank's branch in Bulgaria, and the provision of support to Bank's customers business in that country and in particular for investments in realty in Bulgaria were selected as the principal ways of activity of the Bank' s Branch.

The first issue of Bank's mortgage bonds in co-operation with SEB Latvijas Unibanka JSC ended in autumn 2007. All the 50 000 mortgage bonds at the amount of 5 million Euros were successfully placed. The real estate under loan contracts is used as security for mortgage bonds, and the mortgage bonds were included in the regulated market at the Riga Stock Exchange upon expiry of their initial term of circulation.

In November 2007 the Bank signed its first contract for a syndicated loan of 16 million Euros. The leading authorised organiser and agent of the loan was *Raiffeisen Zentralbank Osterreich AG.* On the whole seven European banks were involved in the transaction. It is to be noted that the sum of the loan announced initially was 10 million Euros and that, considering the instability on the local financial market, the surplus sum of the loan is to be regarded as a sign of trust in the Latvian banking sector and the potential of development of the Bank.

Year 2007 also passed by successfully for TKB Lizings Ltd., a subsidiary of the Bank; compared to the beginning of the year, the assets balance of the company grew for more than 2 times, while the leasing and loans portfolio amounted to 6.1 million lats. The profit of TKB Lizings Ltd. for the accounting year of 2007 is 93 thousand lats, the profit will be diverted to cover the losses incurred over previous years. By offering its services on the market, TKB Lizings Ltd. was targeted at servicing the customers quickly and according to quality-standards. At the same time, the main attention was focused on the 'qualities' of the customers and co-operation partners, that is, on the security of these customers and partners and their recommendations.

The results shown by TKB Nekustamie ipasumi Ltd., the second subsidiary of the Bank, in 2007 are also to be viewed positively, without doubt. The turnover of TKB Nekustamie ipasumi Ltd. grew 1.2 times, resulting in a profit amounting to 21 thousand lats, which is intended to be invested in the company for its future development.

MANAGEMENT'S REPORT FOR THE BANK (GROUP'S HOLDING COMPANY'S) (continued)

By ensuring strict compliance with the requirements laid down by the Law on the Prevention of Laundering of Proceeds from Crime, Financial and Capital Market Commission Regulation 'On the Development of an Internal Control System to Prevent the Laundering of Proceeds From Crime and the Financing of Terrorism', as well as observing international requirements for banking operation and best general practice, the Bank continued in 2007 to streamline its internal control procedures with the aim of reducing to a minimum the possibility of co-operating with customers that might be involved in the laundering of proceeds from crime. Training of the Bank's employees was set as a priority in 2007 to ensure that they obtain the knowledge required in connection with the questions referred to above. During 2007 employees of the Bank participated regularly in training programmes for the prevention of laundering of proceeds from crime organised by the Association of Latvian Commercial Banks, and passed relevant tests, obtaining certificates as a result. There are a total of 30 employees at the Bank issued with this certificate. Special attention was also paid in 2007 to improving the Bank information systems and techniques to provide for timely and efficient supervision and analysis of the Bank's customers and their transactions, by making the procedure automated to the maximum possible. The Bank Board has been analysing the efficiency of the internal control system on a regular basis and is confident that the system operates efficiently and that the risk of compliance and reputation is managed adequately.

We would like to thank our customers, shareholders and employees on behalf of the Bank management for the trust shown and support given over these years.

This financial statement was approved by the Board of the Bank on 17 March 2008 and by the Council of the Bank on 20 March 2008. According to the legislation of the Republic of Latvia the financial statement of the Bank is subject to approval of the meeting of shareholders.

On behalf of the Bank's management:

Igors Buimisters
Chairman of the Council

Gundars Grieze
Chairman of the Board

Riga, Latvia
20 March 2008

STATEMENT OF RESPONSIBILITY OF THE EXECUTIVE MANAGEMENT'S OF THE BANK (GROUP'S HOLDING COMPANY'S) RESPONSIBILITIES

Bank's management (Group's holding company) is responsible for preparation of consolidated financial statements and the separate financial statements, which fairly and truly present the Groups' and the Bank's financial standing as at the end of the financial year and the results of its activity and cash flow for that year, respectively, according International Financial Reporting Standards (IFRS) as adopted by the European Union.

The management confirms that the consolidated financial statements and the separate financial statements set out on pages 9 to 105 for the period from 1 January 2007 to 31 December 2007 have been prepared consistently applying relevant accounting methods and the management's judgments and estimates in relation to preparation of these statements are reasonable and prudent. The management confirms that the applicable International Financial Reporting Standards have been used in the preparation of the financial statements and that these financial statements have been prepared based on a going concern concept basis.

The Bank's management is responsible for proper keeping of accounting records, for safeguarding of the Group's and the Bank's assets and for prevention of any fraudulent actions. They are also responsible for managing the Group and the Bank in compliance with the Credit Institution Law of the Republic of Latvia, regulatory enactments of the Bank of Latvia and the Financial and Capital Market Commission and other applicable laws and regulations of the Republic of Latvia

On behalf of the management,

Igors Buimisters	Gundars Grieze
Chairman of the Council	Chairman of the Board

Riga, Latvia
20 March 2008

MANAGEMENT OF THE BANK (GROUP'S HOLDING COMPANY'S)

Supervisory Council

Name, surname	Positions	Date of appointment
Igors Buimisters	Chairman of the Council	24.03.2006, reappointed 19.05.2006
Alfrēds Čepānis	Member of the Council	30.03.1999, reappointed 19.05.2006
Charles E.G. Treherne	Member of the Council	16.03.2001, reappointed 19.05.2006

During the current year no changes in the Supervisory Council occurred.

Management Board

Name, surname	Positions	Date of appointment
Gundars Grieze	Chairman of the Board	28.06.1999, reappointed 23.03.2006
Māris Fogelis	First vice-chairman of the Board	28.06.1999, reappointed 23.03.2006
Viktors Ziemelis	Vice-chairman of the Board	28.03.2003, reappointed 23.03.2006
Svetlana Krasovska	Member of the Board	24.10.1995, reappointed 23.03.2006
Tatjana Konnova	Member of the Board	23.03.2006.

During the current year no changes in the Management Board occurred.

INDEPENDENT AUDITORS' REPORT

To the shareholders of AS TRASTA KOMERCBANKA

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of AS TRASTA KOMERCBANKA and its subsidiaries (hereinafter – the Group) and the accompanying financial statements of AS TRASTA KOMERCBANKA (hereinafter – the Bank) for the year ended 31 December 2007 (jointly "financial statements"), set out on pages 9 through 105 which comprise the balance sheet as at 31 December 2007, the statements of income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above give a true and fair view of the financial position of the Group and the Bank as of 31 December 2007, and of the results of their operations and their cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Report on Compliance of the Management Report

Furthermore, we have read the Management Report for the year ended 31 December 2007 (included on pages 3 through 5 of the accompanying 2007 Annual Report) and have not noted any material inconsistencies between the financial information included in it and the financial statements for the year ended 31 December 2007.

SIA Ernst & Young Baltic
Licence No. 17

Diāna Krišjāne
Personal ID code: 250873-12964
Chairperson of the Board
Latvian Sworn Auditor
Certificate No. 124

Riga, 20 March 2008

PROFIT AND LOSS STATEMENTS AND CONSOLIDATED PROFIT AND LOSS STATEMENTS

In thousands of lats	Note	The Group 2007	The Group 2006	The Bank 2007	The Bank 2006
Interest revenue	3	16 263	11 570	16 059	11 422
Interest expense	4	(1 939)	(1 527)	(1 951)	(1 527)
Net interest income		**14 324**	**10 043**	**14 108**	**9 895**
Allowance for impairment of debts, net	12	(85)	(786)	18	(730)
Net interest income after impairment of interest-earning assets		**14 239**	**9 257**	**14 126**	**9 165**
Fee and commission revenue	5	6 580	5 650	6 577	5 649
Fee and commission expense	6	(1 780)	(1 556)	(1 780)	(1 552)
Net fee and commission income		**4 800**	**4 094**	**4 797**	**4 097**
Dividends revenue		19	53	19	53
Gains less losses from trading financial assets	7	198	168	198	168
Gains less losses from available for sale financial assets	8	29	(21)	29	(21)
Gains less losses from foreign currencies	9	8 532	5 353	8 535	5 353
Other income		478	61	401	42
Other non-interest income		**9 256**	**5 614**	**9 182**	**5 595**
Salaries and benefits expenses	10	(5 330)	(4 354)	(5 237)	(4 258)
Administrative expenses	11	(3 437)	(1 962)	(3 467)	(1 947)
Tangible and intangible assets amortisation and depreciation	24	(475)	(400)	(472)	(390)
Other expenses		(159)	(193)	(116)	(185)
Release of other impairment and provisions		21	-	21	-
Other non-interest expense		**(9 380)**	**(6 909)**	**(9 271)**	**(6 780)**
Profit before taxation		**18 915**	**12 056**	**18 834**	**12 077**
Corporate income tax	13	(2 946)	(1 936)	(2 928)	(1 935)
Profit for the year		**15 969**	**10 120**	**15 906**	**10 142**
Attributable to equity holders of the Bank		15 964	10 113	15 906	10 142
Attributable to minority interest		5	7	-	-
Earnings per share (basic and diluted) in lats	35	**139.25**	**91.32**	**-**	**-**

BALANCE SHEETS AND CONSOLIDATED BALANCE SHEETS

In thousands of lats	Note	The Group 2007	The Group 2006	The Bank 2007	The Bank 2006
ASSETS					
Cash and balances due from the Bank of Latvia	15	**17 993**	**18 706**	**17 993**	**18 706**
Due from credit institutions with a maturity of less than 3 months	16	**150 832**	**173 679**	**150 832**	**173 679**
On demand		*115 927*	*126 792*	*115 927*	*126 792*
Other		*34 905*	*46 887*	*34 905*	*46 887*
Held for trading financial assets		**8 345**	**5 129**	**8 345**	**5 129**
Fixed income securities	17, (1)	*5 918*	*5 129*	*5 918*	*5 129*
Equity shares and other non-fixed income securities	17, (2)	*2 380*		*2 380*	
Derivatives	18	*47*	*-*	*47*	*-*
Available for sale financial assets		**6 257**	**3 701**	**6 257**	**3 701**
Fixed income securities	19, (1)	*6 192*	*3 247*	*6 192*	*3 247*
Equity shares and other non-fixed income securities	19, (2)	*65*	*454*	*65*	*454*
Due from credit institutions with a maturity of more than 3 months	20	**6 432**	**8 569**	**6 432**	**8 569**
Loans	21	**91 561**	**43 493**	**92 290**	**43 480**
Accrued income and deferred expenses	22	**268**	**207**	**257**	**207**
Long-term projects costs	23	**2 217**	**4 704**	**2 217**	**4 704**
Tangible assets	24	**2 148**	**1 265**	**2 142**	**1 258**
Intangible assets	24	**205**	**190**	**205**	**190**
Investments in share capital of subsidiary	25	**-**	**-**	**2**	**2**
Deferred tax assets	13, (4)	**24**		**25**	
Other assets	26	**3 218**	**3 040**	**3 130**	**3 042**
TOTAL ASSETS		**289 500**	**262 683**	**290 127**	**262 667**

BALANCE SHEETS AND CONSOLIDATED BALANCE SHEETS (continued)

In thousands of lats	Note	The Group 2007	The Group 2006	The Bank 2007	The Bank 2006
LIABILITIES					
Due to credit institutions	27	**16 561**	**4 969**	**16 561**	**4 969**
On demand		*4 850*	*4 824*	*4 850*	*4 824*
Term deposits		*11 711*	*145*	*11 711*	*145*
Held for trading financial liabilities		**2**	**3**	**2**	**3**
Derivatives	18	*2*	*3*	*2*	*3*
Due to customers	28	**232 651**	**225 327**	**232 697**	**225 359**
On demand		*204 764*	*191 562*	*204 810*	*191 594*
Term deposits		*27 887*	*33 765*	*27 887*	*33 765*
Debt securities issued	29	**2 812**		**3 518**	
Accrued expenses and deferred income	30	**711**	**449**	**698**	**453**
Provisions for contingent liabilities		**-**	**21**	**-**	**21**
Corporate income tax liabilities	13, (3)	**779**	**834**	**766**	**830**
Deferred tax liabilities	13, (4)	**-**	**16**	**-**	**15**
Other liabilities	31	**3 393**	**10 029**	**3 360**	**9 985**
Liabilities before subordinated liabilities		**256 909**	**241 648**	**257 602**	**241 635**
Subordinated liabilities	32	**1 208**	**1 335**	**1 208**	**1 335**
Total liabilities		**258 117**	**242 983**	**258 810**	**242 970**

BALANCE SHEETS AND CONSOLIDATED BALANCE SHEETS (continued)

In thousands of lats	Note	The Group 2007	The Group 2006	The Bank 2007	The Bank 2006
EQUITY AND RESERVES					
Share capital	33, (1)	6 337	5 537	6 337	5 537
Share premium		111	111	111	111
Reserve capital and other reserves	33, (2)	3 804	3 804	3 804	3 804
Available for sale financial assets revaluation reserves		17	103	17	103
Retained earnings		21 102	10 138	21 048	10 142-
Equity and reserves attributable to shareholders of the Bank		**31 371**	**19 693**	**31 317**	**19 697**
Minority shareholder interest		**12**	**7**	**-**	**-**
Total equity and reserves		**31 383**	**19 700**	**31 317**	**19 697**
TOTAL LIABILITIES AND EQUITY AND RESERVES		**289 500**	**262 683**	**290 127**	**262 667**

OFF-BALANCE SHEET ITEMS AND CONSOLIDATED OFF-BALANCE SHEET ITEMS

In thousands of lats	Note	The Group 2007	The Group 2006	The Bank 2007	The Bank 2006
Contingent liabilities	36	**17 657**	**13 932**	**19 097**	**14 896**
Assets and liabilities under management	37	**10 006**	**38 362**	**10 006**	**38 362**

STATEMENTS OF CHANGES IN EQUITY AND RESERVES

(1) The Group

In thousands of lats	Share capital	Share premium	Reserve capital and other reserves	Available for sale financial asset revaluation reserves	Retained earnings	Total	Minority shareholder interest	Total equity and reserves
BALANCE AS AT 31 DECEMBER 2005	**5 537**	**111**	**450**	**(57)**	**4 379**	**10 420**	**-**	**10 420**
Changes due to change in available for sale financial assets fair value	*-*	*-*	*-*	*138*	*-*	*138*	*-*	*138*
Changes due to available for sale financial assets sale	*-*	*-*	*-*	*22*	*-*	*22*	*-*	*22*
Total income recognized directly in equity	-	-	-	160	-	160	-	160
Net profit for the year	*-*	*-*	*-*	*-*	*10 113*	*10 113*	*7*	*10 120*
Total recognized income for the year	-		-	160	10 113	10 273	7	10 280
Dividends paid	-	-	-	-	(1 000)	(1 000)	-	(1 000)
Increase in the reserve capital from accumulated profit	-	-	3 354	-	(3 354)	-	-	-
BALANCE AS AT 31 DECEMBER 2006	**5 537**	**111**	**3 804**	**103**	**10 138**	**19 693**	**7**	**19 700**
Changes due to change in available for sale financial assets fair value	*-*	*-*	*-*	*(86)*	*-*	*(86)*	*-*	*(86)*
Total income recognized directly in equity	-	-	-	(86)	-	(86)	-	(86)
Net profit for the year	*-*	*-*	*-*	*-*	*15 964*	*15 964*	*5*	*15 969*
Total recognized income for the year	-		-	(86)	15 964	15 878	5	15 883
Individuals, residents	*648*					*648*	*-*	*648*
Individuals, non-residents	*152*					*152*	*-*	*152*
Issue of share capital	800	-	-	-	-	800	-	800
Dividends paid	-	-	-	-	(5 000)	(5 000)	-	(5 000)
BALANCE AS AT 31 DECEMBER 2007	**6 337**	**111**	**3 804**	**17**	**21 102**	**31 371**	**12**	**31 383**

STATEMENTS OF CHANGES IN EQUITY AND RESERVES (continued)

(2) The Bank

In thousands of lats	Share capital	Share premium	Reserve capital and other reserves	Available for sale financial asset revaluation reserves	Retained earnings	Total equity and reserves
BALANCE AS AT 31 DECEMBER 2005	**5 537**	**111**	**450**	**(57)**	**4 354**	**10 395**
Changes due to change in available for sale financial assets fair value	-	-	-	*138*	-	*138*
Changes due to available for sale financial assets sale	-	-	-	*22*	-	*22*
Total income recognized directly in equity	-	-	-	160	-	160
Net profit for the year	-	-	-	-	*10 142*	*10 142*
Total recognized income for the year	-		-	160	10 142	10 302
Dividends paid	-	-	-	-	(1 000)	(1 000)
Increase in the reserve capital from accumulated profit	-	-	3 354	-	(3 354)	-
BALANCE AS AT 31 DECEMBER 2006	**5 537**	**111**	**3 804**	**103**	**10 142**	**19 697**
Changes due to change in available for sale financial assets fair value	-	-	-	*(86)*	-	*(86)*
Total income recognized directly in equity	-	-	-	(86)	-	(86)
Net profit for the year	-	-	-	-	*15 906*	*15 906*
Total recognized income for the year	-		-	(86)	15 906	15 820
Individuals, residents	*648*					*648*
Individuals, non-residents	*152*					*152*
Issue of share capital	800	-	-	-	-	800
Dividends paid	-	-	-	-	(5 000)	(5 000)
BALANCE AS AT 31 DECEMBER 2007	**6 337**	**111**	**3 804**	**17**	**21 048**	**31 317**

STATEMENTS OF CASH FLOWS AND CONSOLIDATED STATEMENTS OF CASH FLOWS

In thousands of lats	Note	The Group 2007	The Group 2006	The Bank 2007	The Bank 2006
Cash flows arising from operations:					
Profit before corporate income tax		18 910	12 049	18 834	12 077
Amortisation and depreciation		475	400	472	390
(Decrease)/increase in allowance for impairment of debts		(30)	714	(132)	658
Foreign currency revaluation (profit)/loss		(292)	454	(312)	454
Loss on revaluation of financial assets held-for-trading		465	17	465	17
Increase in cash and cash equivalents from operating activities before changes in assets and liabilities		**19 528**	**13 634**	**19 327**	**13 596**
(Increase)/decrease in trading assets, net		(3 681)	1 052	(3 681)	1 052
(Increase)/decrease in available for sale financial assets		(2 642)	23	(2 642)	23
(Increase)/decrease in due from credit institutions		2 137	(4 788)	2 137	(4 788)
Increase in loans		(48 038)	(17 002)	(48 678)	(16 915)
(Increase)/decrease in accrued income and deferred expense		(61)	21	(50)	20
Increase in other assets		(202)	(1 505)	(113)	(1 506)
(Decrease)/increase in due to credit institutions		(97)	116	(97)	116
Increase in deposits		7 324	64 867	7 338	64 892
Decrease in trading liabilities		(1)	(12)	(1)	(12)
Increase in accrued expenses and deferred income		262	90	245	107
(Decrease)/increase in other liabilities		(6 728)	5 627	(6 721)	5 578
		(32 199)	**62 123**	**(32 936)**	**62 163**
Corporate income tax paid		(3 068)	(1 819)	(3 059)	(1 819)
(Decrease)/increase in cash and cash equivalents provided by operating activities		**(35 267)**	**60 304**	**(35 995)**	**60 344**
Cash flows arising to investing activities:					
Purchase of tangible and intangible fixed assets, net		(1 373)	(856)	(1 371)	(896)
Costs of long-term projects		(44)	(1 362)	(44)	(1 362)
Sale of long-term projects		2 531	-	2 531	-
Increase/(decrease) in cash and cash equivalents used in investing activities		**1 114**	**(2 218)**	**1 116**	**(2 258)**

STATEMENTS OF CASH FLOWS AND CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)

In thousands of lats	Note	The Group 2007	The Group 2006	The Bank 2007	The Bank 2006
Cash flows arising from financing activities:					
Sale of debt securities issued		2 812	-	3 518	-
Share issue		800	-	800	-
Proceeds from syndicated loan		11 162	-	11 162	-
Cash disbursements for repayment of subordinated debt		-	(849)	-	(849)
Dividend payments		(5 000)	(1 000)	(5 000)	(1 000)
Cash and cash equivalents provided by financing activities		**9 774**	**(1 849)**	**10 480**	**(1 849)**
(Decrease)/increase in cash and cash equivalents		**(24 379)**	**56 237**	**(24 399)**	**56 237**
Cash and cash equivalents at the beginning of the year		**187 562**	**131 779**	**187 562**	**131 779**
Foreign currency revaluation (profit)/loss		**292**	**(454)**	**312**	**(454)**
Cash and cash equivalents at the end of the year	**39**	**163 475**	**187 562**	**163 475**	**187 562**

Amounts of interest income and (expense) received/(paid) are as follows:

In thousands of lats	The Group 2007	The Group 2006	The Bank 2007	The Bank 2006
Interest income received during the year	15 425	11 318	15 314	11 215
Interest expenses paid during the year	(1 947)	(1 491)	`(1 947)	(1 491)

NOTES TO THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

1 GENERAL INFORMATION

AS "Trasta Komercbanka" has been registered as a joint stock company, in the Latvian Register of Companies with the identification No. LV40003029667, and operates under the legislation of the Republic of Latvia and Credit institution license No.8 issued by the Bank of Latvia. The head office of the Bank is located in Miesnieku street 9, Riga, Latvia, LV-1050. The Bank provides full scope of banking services, however, the priority of the Bank is exclusive banking services for private individuals and companies.

The Bank has five representative offices outside Latvia, i.e. in Canada, Kazakhstan, Ukraine, Belarus and Bulgaria. Their mission is to represent interests of the Bank in the respective countries, maintain relations with the Bank customers and provide them with necessary information. The Bank has a foreign branch in Cyprus and two branches in Latvia – in Liepaja and Daugavpils. Their functions incorporate provision of financial services to customers of the Bank.

The Bank has founded two subsidiaries, i.e "TKB LĪZINGS", Ltd, and "TKB NEKUSTAMIE ĪPAŠUMI", Ltd, thus increasing the scope of services offered by the Bank.

This financial statement was approved by the Board of the Bank on 17 March 2008 and by the Council of the Bank on 20 March 2008. According to the legislation of the Republic of Latvia the financial statement of the Bank is subject to approval of the meeting of shareholders.

2 ACCOUNTING POLICIES

(1) General principles

The accompanying financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union.

The Bank is subject to the Law on Credit Institutions of the Republic of Latvia and the regulatory requirements of the Bank of Latvia, Financial and Capital Market Commission, and other regulations of the Republic of Latvia applicable to credit institutions. These regulations govern, among other things, capital adequacy, liquidity and the Bank's open foreign currency position.

The Bank maintains its accounting records in compliance with "The Law on Accounting" of the Republic of Latvia and instructions provided by the Financial and Capital Market Commission that comply with the legislation of the Republic of Latvia.

The consolidated and separate financial statements have been prepared on a historical cost basis, except for financial assets and financial liabilities held for trading and available-for-sale investments that have been measured at fair value.

NOTES TO THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

2 ACCOUNTING POLICIES (continued)

(2) Adoption of new and/or changed IFRSs

The Group has adopted the following new and amended IFRSs during the year. Adoption of these revised standards and interpretations did not have any effect on the financial performance or position of the Group. They did however give rise to additional disclosures:

IFRS 7 Financial Instruments: Disclosures.

Amendments to IAS 1 Capital Disclosures.

IFRIC 7 Applying the Restatement Approach under IAS 29 "Financial Reporting in Hyperinflationary Economies"

IFRIC 8 Scope of IFRS 2.

IFRIC 9 Reassessment of Embedded Derivatives.

IFRIC 10 Interim Financial Reporting and Impairment.

The principal effects of these changes are as follows:

IFRS 7 Financial Instruments: Disclosures. This standard requires disclosures that enable users of the financial statements to evaluate the significance of the Group's financial instruments and the nature and extent of risks arising from those financial instruments. The new disclosures are included throughout the financial statements. While there has been no effect on the financial position or results, comparative information has been revised where needed.

IAS 1 Presentation of Financial Statements. This amendment requires the Group to make new disclosures to enable users of the financial statements to evaluate the Group's objectives, policies and processes for managing capital. These new disclosures are shown in Note 45, (2) (Capital Adequacy Assessment Process).

IFRIC 7 Applying the Restatement Approach under IAS 29 "Financial Reporting in Hyperinflationary Economies". This interpretation provides guidance on how to apply the requirements of IAS 29 in a reporting period in which an entity identifies the existence of hyperinflation in the economy of its functional currency, when that economy was not hyperinflationary in the prior period. The interpretation had no impact on the financial position or performance of the Group.

IFRIC 8 Scope of IFRS 2. This interpretation requires IFRS 2 to be applied to any arrangements in which the entity cannot identify specifically some or all of the goods received, in particular where equity instruments are issued for consideration which appears to be less than fair value. As equity instruments are not issued to employees, the interpretation had no impact on the financial position or performance of the Group.

IFRIC 9 Reassessment of Embedded Derivatives. IFRIC 9 states that the date to assess the existence of an embedded derivative is the date that an entity first becomes a party to the contract, with reassessment only if there is a change to the contract that significantly modifies the cash flows. The interpretation had no impact on the financial position or performance of the Group.

IFRIC 10 Interim Financial Reporting and Impairment. The Group adopted IFRIC Interpretation 10 as of 1 January 2007, which requires that an entity must not reverse an impairment loss recognised in a previous interim period in respect of goodwill or an investment in either an equity instrument or a financial asset carried at cost. As the Group had no such impairment losses previously reversed, the interpretation had no impact on the financial position or performance of the Group.

2 ACCOUNTING POLICIES (continued)

(2) Adoption of new and/or changed IFRSs (continued)

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

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

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

IAS 1 Presentation of Financial Statements – Revised (effective for annual periods beginning on or after 1 January 2009 once adopted by EU). IAS 1 has been revised to enhance the usefulness of the information presented in the financial statements. Revision includes number of changes, including introduction of a new terminology, revised presentation of equity transactions and introduction of a new statement of comprehensive income as well as amended requirements related to the presentation of the financial statements in a case of their retrospective restatement.

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

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

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

NOTES TO THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

2 ACCOUNTING POLICIES (continued)

(2) Adoption of new and/or changed IFRSs (continued)

IFRIC 11 IFRS 2 – Group and Treasury Share Transactions (effective for annual periods beginning on or after 1 March 2007). The interpretation provides guidance on classification of transactions as equity-settled or as cash-settled and also gives guidance on how to account for share-based payment arrangements that involve two or more entities within the same group in the individual financial statements of each group entity.

IFRIC 12 Service Concession Agreements (effective for annual periods beginning on or after 1 January 2008 once adopted by EU). The interpretation addresses how service concession operators should apply existing International Financial Reporting Standards (IFRSs) to account for the obligations they undertake and rights they receive in service concession arrangements.

IFRIC 13 Customer Loyalty Programmes (effective for annual periods beginning on or after 1 July 2008 once adopted by EU). This interpretation requires customer loyalty award credits to be accounted for as a separate component of the sales transaction in which they are granted and therefore part of the fair value of the consideration received is allocated to the award credit and deferred over the period that the award credit is fulfilled.

IFRIC 14 IAS 19 – The Limit on Defined Benefit Asset, Minimum Funding Requirements and their Interaction (effective for annual periods beginning on or after 1 January 2008 once adopted by EU). This interpretation specifies the conditions for recognising a net asset for a defined benefit pension plan.

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

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

The Group expects that the adoption of the pronouncements listed above will not have a significant impact on the Group’s financial statements in the period of initial application, except for IFRS 8 Operating Segments and IAS 1 Presentation of Financial Statements – Revised.

NOTES TO THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

2 ACCOUNTING POLICIES (continued)

(2) Adoption of new and/or changed IFRSs (continued)

IAS 1 Presentation of Financial Statements – Revised. This standard sets out new requirements on the presentation of the statement of changes in equity and introduces a new statement of comprehensive income that combines all items of income and expense recognized in profit or loss together with "other comprehensive income" and requires a separate disclosure of all items reclassified from other comprehensive income to profit and loss as well as disclosure of the income tax relating to each component of other comprehensive income. Also, requirements related to the presentation of the financial statements in a case of their retrospective restatement are amended and new terminology, replacing "balance sheet" with "statement of financial position" and "cash flow statement" with "statement of cash flows", although the titles are not obligatory, is introduced.

(3) Consolidation principles

The Bank has consolidated its subsidiaries in the consolidated financial statements according to International Accounting Standard 27. The data on subsidiaries of the Bank is reflected in Note 25. The consolidation was based on control over the subsidiaries, which resulted from the majority of rights to vote in the subsidiaries.

When preparing the consolidated financial statements, their items were evaluated in accordance with the uniform accounting policies, which are used by the Bank consistently from year to year in conformity with the Financial and Capital Market Commission regulations on preparation of Bank's financial statements and International Financial Reporting Standards. If any of the accounting policies used by the subsidiaries differ from those applied by the Bank, the financial statements of the subsidiaries are adjusted for consolidation purposes. The financial statements of the subsidiaries were included in the Group's consolidated financial statements applying the method of full consolidation.

Minority interest is the interest in subsidiaries not held, directly or indirectly, by the Bank. Minority interest at the balance sheet date represents the minority shareholders' portion of the fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary at the acquisition date and the minorities' portion of movements in equity since the date of the combination. Minority interest is presented within equity.

The Bank' and the Group's annual financial statements are reported in the currency of the Republic of Latvia **– the Lat**. All amounts in the financial statements are specified in **thousands of Lats**.

All information in Bank's and Group's financial statements contains comparatives with previous year. Should the difference between information about the Group and respective information about the Bank be insignificant, such information about the Group is not separately specified.

NOTES TO THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

2 ACCOUNTING POLICIES (continued)

(4) Foreign currency translation

Non-monetary items that are measured at fair value in a foreign currency, such as investments in equity instruments, are translated using the exchange rates at the date, when the fair value was determined. Monetary assets and liabilities denominated in foreign currencies are translated into lats using the official Bank of Latvia exchange rates at the period end. Transactions denominated in foreign currencies are translated into the functional currency (Latvian lat) at the official Bank of Latvia exchange rate on the date of the transaction. Gains and losses from currency exchange rate fluctuations are included in the profit and loss statement for the period. The exchange rates applied at the period end for the principal currencies are as follows:

		31.12.2007	31.12.2006
LVL 1 =	USD	2.066	1.866
	EUR	1.423	1.423
	GBP	1.038	0.954
	RUB	50.761	49.261

(5) Income and expense recognition

The accounting procedure of the Group's income and expense is based on the accrual and prudence principles.

Interest revenue and expense is recognised using the effective interest method.

Dividends are recognized in the profit and loss statement when the Bank or the Group obtain the right to receive them, namely, it has been assigned the right as a shareholder to receive dividends.

Commission revenue and expenses are recognized in the profit and loss statement as services are provided or on the execution of a significant act, as applicable.

Gains and losses from Available-for-Sale Financial Assets are recognized directly in equity, through the statement of changes in equity, except for impairment losses and foreign exchange gains and losses, until the financial asset is derecognized, at which time the cumulative gain or loss previously recognized in equity is recognized in the profit and loss statement. However, interest calculated using the effective interest method is recognized in the profit and loss statement. Dividends on an available-for-sale equity instrument are recognized in the profit and loss statement when the right to receive payment is established..

Income gained from disposal of other assets is recognized provided that the following conditions are met:

- ✓ the Bank or the Group has transferred to the buyer all significant risks and rewards of ownership of the goods ;
- ✓ the Bank or the Group retains neither continuing managerial involvement to the degree
- ✓ usually associated with ownership nor effective control over the goods sold;
- ✓ the amount of revenue can be estimated reliably;
- ✓ it is probable that the Bank or the Group will receive the economic benefits related to the transaction;
- ✓ expenses, which have been or will be incurred, can be measured reliably.

NOTES TO THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

2 ACCOUNTING POLICIES (continued)

(6) Recognition and derecognition of financial assets and liabilities

Recognition of financial assets and financial liabilities

Generally, the Group and the Bank recognize a financial asset on the balance sheet when the Group and the Bank become a party to the contractual provisions of the instrument, except for:

- loan commitments, which are recognized on drawdown; and
- financial guarantees and letters of credit, which are recognized when the related fee received as consideration is recognized.

Regarding "regular way" purchases and sales of financial assets refer to Note 2(14).

Derecognition of financial asset

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized where:

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

Where the Group and the Bank has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Group's and the Bank's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group and the Bank could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's and the Bank's continuing involvement is the amount of the transferred asset that the Group and the Bank may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the Group's and the Bank's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Derecognition of financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in profit or loss.

2 ACCOUNTING POLICIES (continued)

(7) Classification of financial assets

Financial assets are classified into the following categories: *financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial assets.*

Financial assets at fair value through profit or loss – are financial assets classified as held for trading because they are:

- acquired principally for the purpose of selling them in the near term;
- 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; or
- a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument). Financial assets classified as held for trading are not reclassified into another category.

Loans and receivables – are financial assets, created by the Group through its lending activities, sale of assets or the provision of services directly to creditors or participation in credit advanced by other lenders, and are not financial assets created for the purpose of immediate of short-term sale.

Held-to-maturity investments – are non-derivative financial assets with fixed or determinable payments and a fixed term, which the Group and the Bank has decided to keep till expiry and is capable of doing so, except those that meet the definition of loans and receivables. In case the Group and the Bank has no longer the positive intent or ability to hold the investment to maturity, the investment is reclassified into available-for-sale financial assets and measured at fair value.

Available-for-sale financial assets – are non-derivative financial assets, which are designated as available-for-sale or are not classified into the above-mentioned categories.

(8) Investments in subsidiaries in the separate financial statements of the Bank

Investments in subsidiaries are stated in the Bank's separate financial statements at cost, including transaction costs. In the event that the investment's carrying amount exceeds its recoverable amount it is reduced to its recoverable amount. That reduction is recognized as an impairment loss in the profit and loss statement.

The dividends received from those investments are included in the Bank's profit and loss statement.

(9) Derivatives

Derivative financial instruments are contracts whose fair values change in response to changes in variables underlying the derivative instruments such as foreign exchange rates, interest rates or a primary financial instruments (base asset).

All derivatives are measured at fair value and carried as assets when their fair value is positive and as liabilities when their fair value is negative.

The fair value changes resulting from remeasuring derivative instruments at fair value are included in the profit and loss statement.

NOTES TO THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

2 ACCOUNTING POLICIES (continued)

(10) Allowances for impairment of financial assets

If there is objective evidence that an impairment loss on financial assets has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced through use of an allowance account. The loss is recognized in profit or loss.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in the profit and loss statement, to the extent that the carrying value of the asset does not exceed what its amortized cost would have been at the reversal date absent the impairment.

If an asset is considered as not recoverable, it is written off within a month.

(11) Tangible and intangible fixed assets

Fixed assets are stated at historical cost, less accumulated depreciation. Depreciation is calculated on a straight-line method, taking into account expected usage of the assets. The following depreciation rates have been applied:

Fixed assets:	
Buildings	5% annually
Furniture and equipment	10% annually
Computer hardware and office equipment	25% annually
Transport vehicles	20% annually
Other fixed assets	20-50% annually
Intangible assets:	
Patents, licences and trademark	20% annually
Software	20% annually
Concession	10% annually
Other intangible fixed assets	20% annually
Leasehold improvements	over the shorter of useful life and period of lease

2 ACCOUNTING POLICIES (continued)

(11) Tangible and intangible fixed assets (continued)

Subsequent costs are included in the asset's carrying amount or are recognised as separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the Group and the cost of the item can be measured reliably.

Leasehold improvements are capitalized and depreciated over the shorter of their useful life and the remaining lease contract period on a straight-line basis, if the lease agreement of fixed assets does not foresee their compensation.

Gains and losses on disposal of fixed assets are recognized in the profit and loss account in the year of disposal.

(12) Long-term project costs

Long-term project costs are stated at the lower of cost and net realizable value.

(13) Debt securities issued

Debt securities issued are stated in the Bank's and the Group's balance sheet at amortized cost using the effective interest method. Incremental transaction costs directly related to issue or sale of debt securities are deducted from the fair value of the debt securities issued on initial recognition and amortized to the profit and loss statement using the effective interest method. In case where debt securities issued are sold at a discount or premium, the difference is amortized before the maturity date of the debt applying the effective interest method and recognized in the Bank's profit and loss statement as interest expense or as decrease in interest expense.

(14) Off-balance sheet financial instruments

The daily operating activities of the Group involve off-balance sheet financial transactions related to the issuance of loans, guarantees and the registration of letters of credit.

(15) Fair value measurement

Fair value represents the amount at which an asset could be exchanged or a liability settled between knowledgeable, willing parties on an arm's length basis. To estimate the fair value of a financial instrument the Group uses quoted market prices, or applicable valuation models. If a quoted market price is not available, the fair value of the financial instrument is estimated using alternative pricing methods taking into account that the fair value is not an amount, which the Group would receive or pay in case of a forced transaction, involuntary liquidation or a distress sale.

Where the fair values of financial assets and liabilities differ materially from their carrying values, such fair values are separately disclosed in the notes to the financial statements.

2 ACCOUNTING POLICIES (continued)

(15) Fair value measurement (continued)

Held for Trading Financial Instruments are initially recognized in the balance sheet at fair value. To recognize financial instruments included in the trading portfolio the Bank uses settlement date accounting, i.e., assets are recognized in the balance sheet only when transferred/supplied to the Bank. Any change in fair value between trade date and settlement date are recognized in the profit and loss statement. After initial recognition the financial instruments included in the trading portfolio are measured at fair value. Fair value is estimated:

- for a financial instrument with a published price quotation in an active securities market using such quotes;
- for a debt instrument with credit rating assigned by an independent rating agency using discounted cash flow analysis;
- for a financial instrument, which has an appropriate valuation model using such a model.

If the financial instrument market is not active, i.e., transactions in the market are not frequent, published price quotations are adjusted in order to get reliable measurement of fair value. If a quoted market price is not available, the fair value of the financial instrument is estimated using alternative pricing methods taking into account, that the fair value is not an amount which the Bank would receive or pay in case of a forced transaction, involuntary liquidation or distress sale. Changes in fair value of financial instruments included in the trading portfolio, which are related to their valuation at fair value, are recognized in the Bank's profit and loss statement in the period in which they occur.

Loans and receivables are stated *at amortized cost.*. Lending commitments before the loan issuance (drawdown) date are disclosed as off-balance sheet items as a balance (limit) of undisbursed loan amount. Where objective evidence of impairment indicates that the Bank and the Group will not be able to collect all amounts that are due to it (principal and interest) it makes special provisions equal to the amount of impairment. Gains or losses are recognized in the profit and loss statement when the financial asset is derecognized or impaired, and through the amortization process.

Held-to-maturity investments are initially stated at fair value. Incremental transaction costs directly related to the acquisition of a financial asset are included in the initial carrying amount of the financial instrument. Held-to-maturity investments are recognized applying settlement date accounting. Any change in fair value between trade date and settlement date is not recognised. After initial recognition the held-to-maturity investments are measured in the balance sheet *at amortized cost*. Where objective evidence of impairment indicates that the Bank and the Group will not be able to collect all amounts that are due to it (principal and interest) it makes special provisions equal to the amount of impairment. Gains or losses are recognized in the profit and loss statement when the financial asset is derecognized or impaired, and through the amortization process.

NOTES TO THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

2 ACCOUNTING POLICIES (continued)

(15) Fair value measurement (continued)

Available–for-sale financial assets are initially stated at fair value, including incremental transaction costs which are directly related to acquisition of financial assets. Available–for-sale financial assets are recognized applying settlement date accounting. Any change in the fair value between trade date and settlement date is recognized directly in equity. After initial recognition the available-for-sale financial assets are stated at fair value. The methods applied to measure fair value of available-for-sale financial assets correspond to the methods applied to measure fair value of financial instruments of the trading portfolio. Profit or loss of available-for-sale financial assets due to changes in fair value is included directly in equity as revaluation reserve of available-for-sale financial assets in the period in which it occurs. When available-for-sale financial assets are purchased with a coupon, discount or premium, the difference is amortized before the investment maturity date using the effective interest method and included in the Bank's profit and loss statement as interest income or decrease in interest income - in case of a premium. If there is objective evidence that available-for-sale financial assets are impaired, the impairment loss of available-for-sale financial assets is removed from the revaluation reserve and recognized in the profit and loss statement.

(16) Assets and liabilities under management

Managed assets and managed liabilities are assets and liabilities held by the Bank and the Group on behalf of clients and registered in the name of the Group. The Group does not carry credit, interest rate or any other risk in respect of these managed assets. Accordingly, these assets and liabilities are not included in the Bank's or the Group's balance sheet.

(17) Cash and cash equivalents

Cash and cash equivalents in the statement of cash flows comprise cash and deposits with other credit institutions with a maturity of less than 3 months when purchased, less balances due to credit institutions with a maturity of less than 3 months and insignificant risk.

(18) Taxation

Corporate income tax at a rate of 15% is calculated in accordance with Latvian tax regulations and is based on the taxable profit reported for the taxation period, as adjusted for deferred taxation.

Deferred taxation is provided for all temporary differences arising between the carrying amount of assets and liabilities and their tax bases according to tax legislation. The deferred tax asset or liability is calculated based on the tax rates that are expected to apply when the temporary differences reverse. The principal temporary differences arise from the differing rates of amortization or depreciation on intangible and tangible fixed assets, and from tax losses carried forward. Where an overall deferred taxation asset arises, this is only recognized in the financial statements where its recoverability is probable.

2 ACCOUNTING POLICIES (continued)

(19) Use of estimates in the preparation of financial statements

The preparation of financial statements in conformity with International Financial Reporting Standards, as published by the International Accounting Standards Board, requires management of the Bank and the Group to make estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses and disclosure of contingencies. The significant areas of estimation used in the preparation of the financial statements relate to depreciation and evaluation of impairment for loan losses, provisions for loan commitments and stand-by facilities .

Below are presented key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

The Group regularly reviews its loans and receivables to assess impairment. The Group uses its experienced judgment to estimate the amount of any impairment loss in cases where a borrower is in financial difficulties and there are few available historical data relating to similar borrowers. Similarly, the Group estimates changes in future cash flows based on the observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. The Group Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the group of loans and receivables when scheduling its future cash flows. The Group uses its experienced judgment to adjust observable data for a group of loans or receivables to reflect current circumstances.

Employee entitlements to regular vacations are recognised when they accrue to employees. A provision is made for the estimated liability of employee vacation pay based on unused vacations by employees up to the balance sheet date.

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

(20) Events after the reporting date

Post-year-end events that provide additional information about the Group’s position at the balance sheet date (adjusting events) are reflected in the financial statements. Post-year-end events that are not adjusting events are disclosed in the notes when material.

NOTES TO THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

2 ACCOUNTING POLICIES (continued)

(21) Procedure of correction of material errors

The Group shall correct accounting period errors discovered in this period or after the end of it prior to financial statements authorisation for issue. The Group shall retroactively correct prior period material errors in the first set of financial statements authorised for issue after their discovery. Comparative indices for periods in which the error occurred are corrected by applying retrospective correction or, if the error occurred before the earliest prior period presented, opening balances of assets and liabilities, as well as of capital and reserves for the earliest prior period presented are corrected.

(22) Display principles of accounting policy changes

To register uniform transactions, facts and events the Group applies methods of consequent accounting. The Group changes its policy only if it is stipulated by external normative acts (standards and interpretations) or if change of accounting policy allows drawing up financial statements that provide credible and corresponding information regarding the influence of transactions, facts and events on the financial condition, activity results and cash flow of the Group.

Change of accounting policy is applied retrospectively, i.e. every equity capital item balance affected is corrected in prior periods presented in all financial statements, as well as other comparative indices for all prior periods presented are corrected as if the new accounting policy has always been applied.

NOTES TO THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

In thousands of lats	The Group 2007	The Group 2006	The Bank 2007	The Bank 2006
3 INTEREST REVENUE				
Due from other credit institutions	9 206	7 772	9 206	7 772
Loans to customers	5 993	3 146	5 789	2 998
Incl. impaired loans to customers	*78*	*87*	*78*	*87*
Debt and other fixed income securities	782	633	782	633
Incl. trading debt securities	*498*	*514*	*498*	*514*
Incl. available-for sale debt securities	*284*	*119*	*284*	*119*
Other interest income	282	19	282	19
	16 263	**11 570**	**16 059**	**11 422**

The Bank's interest Income Analysis for the year 2007	Average investment at the end of the month	Interest income	Yield rate (% p.a.)
Due from other credit institutions	198 184	9 206	4.65
Loans to customers	70 648	5 789	8.19
Debt and other fixed income securities	11 420	782	6.85
Other interest income	7 546	282	3.74
	287 798	**16 059**	**5.58**

The Bank's interest Income Analysis for the year 2006	Average investment at the end of the month	Interest income	Yield rate (% p.a.)
Due from other credit institutions	180 792	7 772	4.30
Loans to customers	38 173	2 998	7.85
Debt and other fixed income securities	9 424	633	6.72
Other interest income	227	19	8.37
	228 616	**11 422**	**5.00**

NOTES TO THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

In thousands of lats	The Group 2007	The Group 2006	The Bank 2007	The Bank 2006
4 INTEREST EXPENSE				
Customer deposits	(995)	(718)	(995)	(718)
Payments in deposit guarantee fund	(499)	(404)	(499)	(404)
Due to other credit institutions	(233)	(241)	(233)	(241)
Subordinated debt	(90)	(121)	(90)	(121)
Debt securities issued	(79)	-	(91)	-
Other interest expense	(43)	(43)	(43)	(43)
	(1 939)	**(1 527)**	**(1 951)**	**(1 527)**

The Bank's interest Expense Analysis for the year 2007	Average balance at the end of the month	Interest expense	Interest rate (% p.a.)
Customer deposits	249 133	(995)	0.40
Payments in deposit guarantee fund		(499)	0.20
Due to other credit institutions	9 004	(233)	2.59
Subordinated debt	1 244	(90)	7.23
Debt securities issued	2 298	(91)	3.96
Other interest expense	-	(43)	-
	261 679	**(1 951)**	**0.75**

The Bank's interest Expense Analysis for the year 2006	Average balance at the end of the month	Interest expense	Interest rate (% p.a.)
Customer deposits	202 249	(718)	0.36
Payments in deposit guarantee fund		(404)	0.20
Due to other credit institutions	12 696	(241)	1.90
Subordinated debt	1 677	(121)	7.22
Other interest expense	-	(43)	-
	216 622	**(1 527)**	**0.70**

NOTES TO THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

In thousands of lats	The Group		The Bank	
	2007	2006	2007	2006

5 FEE AND COMMISSION REVENUE

Money transfers	5 580	5 005	5 580	5 005
Management (trust) operations	537	339	537	339
Travelers cheques and credit cards	213	140	213	140
Current account servicing	59	58	59	58
Cash operations	51	52	51	52
Letters of credit	44	29	44	29
Guarantees	32	13	32	13
Other commission income	64	14	61	13
	6 580	**5 650**	**6 577**	**5 649**

6 FEE AND COMMISSION EXPENSE

Money transfers	(1 650)	(1 454)	(1 650)	(1 454)
Credit cards	(59)	(56)	(59)	(56)
Cash operations	(43)	(26)	(43)	(26)
Other commission expense	(28)	(20)	(28)	(16)
	(1 780)	**(1 556)**	**(1 780)**	**(1 552)**

7 GAINS LESS LOSSES FROM TRADING FINANCIAL ASSETS

Profit from trading, net	710	185	710	185
Loss from revaluation, net	(512)	(17)	(512)	(17)
	198	**168**	**198**	**168**

This Note states the result gained from disposal of held-for-trading equity and debt securities and from changes in fair value of securities stated in Note 17.

8 GAINS LESS LOSSES FROM AVAILABLE FOR SALE FINANCIAL ASSETS

(Loss)/gains on sale	29	(21)	29	(21)
	29	**(21)**	**29**	**(21)**

This Note states the result gained from sales of equity securities.

In thousands of lats	The Group 2007	The Group 2006	The Bank 2007	The Bank 2006

9 GAINS LESS LOSSES FROM FOREIGN CURRENCIES

Profit from trading, net	8 240	5 807	8 223	5 807
Gain/ (loss) from foreign currency revaluation, net	292	(454)	312	(454)
incl. spot revaluation, net	11	(310)	11	(310)
incl. forward revaluation, net	48	3	48	3
	8 532	**5 353**	**8 535**	**5 353**

The result gained from foreign currency trading transactions, revaluation of assets and liabilities denominated in foreign currency, as well as changes in fair value of *spot* and *forward* transactions is included in gain/(loss) from foreign currency revaluation.

Profit from trading principally consists of sales and purchase of currency on behalf of the customers.

10 SALARIES AND BENEFITS EXPENSES

Wages and salaries	(4 488)	(3 789)	(4 412)	(3 713)
Council	*(90)*	*(193)*	*(90)*	*(193)*
Board	*(1 170)*	*(913)*	*(1 136)*	*(889)*
Other	*(3 228)*	*(2 683)*	*(3 186)*	*(2 631)*
Social security contributions	(676)	(507)	(657)	(489)
Council	*(12)*	*(8)*	*(12)*	*(8)*
Board	*(38)*	*(33)*	*(29)*	*(27)*
Other	*(626)*	*(466)*	*(616)*	*(454)*
Provisions for unused annual holidays	(166)	(58)	(168)	(56)
Board	*(44)*	*(9)*	*(44)*	*(8)*
Other	*(122)*	*(49)*	*(124)*	*(48)*
	(5 330)	**(4 354)**	**(5 237)**	**(4 258)**
Council	***(102)***	***(201)***	***(102)***	***(201)***
Board	***(1 252)***	***(955)***	***(1 209)***	***(924)***
Other	***(3 976)***	***(3 198)***	***(3 926)***	***(3 133)***

Average number of employees in the reporting period	**223**	**190**	**210**	**175**

Employee category				
Managers	50	46	47	42
Other	173	144	163	133
	223	**190**	**210**	**175**

NOTES TO THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

In thousands of lats	The Group 2007	The Group 2006	The Bank 2007	The Bank 2006

11 ADMINISTRATIVE EXPENSES

Professional services	(681)	(288)	(677)	(284)
Rent	(341)	(211)	(341)	(211)
Communications	(321)	(264)	(320)	(263)
Representative offices maintenance fees	(287)	(232)	(196)	(232)
Advertising and presentation	(280)	(174)	(280)	(174)
Non-deductible value added tax	(261)	(154)	(261)	(154)
Sponsorship	(235)	(69)	(235)	(69)
Maintenance expenses	(218)	(166)	(218)	(166)
Travel and entertainment	(135)	(105)	(135)	(104)
Insurance	(68)	(34)	(68)	(34)
Low - value inventory	(17)	(15)	(16)	(15)
Security	(8)	(7)	(8)	(7)
Other administrative expenses	(585)	(243)	(712)	(234)
	(3 437)	**(1 962)**	**(3 467)**	**(1 947)**

12 ALLOWANCE FOR IMPAIRMENT OF DEBTS

Allowance for loans	(163)	(877)	(111)	(874)
Provisions for guarantees	-	(21)	-	(21)
Loss from assets written off	-	(5)	-	(5)
Release of allowance	78	117	129	170
	(85)	**(786)**	**18**	**(730)**

All impairment have been assessed individually.

The following breakdown shows changes in allowance for impairment of loans during the reporting period:

Allowance as of 1 January	**1 606**	**913**	**1 604**	**967**
Additional allowance	163	877	111	874
Release of allowances	(78)	(117)	(129)	(170)
Writte-off of loans	(30)	-	(30)	-
Effect of the foreign exchange	(85)	(67)	(84)	(67)
Allowance as of 31 December (Note 21)	**1 576**	**1 606**	**1 472**	**1 604**

The amount of provisions for associated persons is disclosed in Note 40.

NOTES TO THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

In thousands of lats	The Group 2007	The Group 2006	The Bank 2007	The Bank 2006

13 CORPORATE INCOME TAX

(1) Corporate income tax expense

Corporate income tax of the reporting year	(2 865)	(1 884)	(2 847)	(1 880)
Income tax paid abroad	(148)	(121)	(148)	(121)
Adjustments to the corporate income tax for previous years	27	54	27	54
Change in deferred tax	40	15	40	12
Total	**(2 946)**	**(1 936)**	**(2 928)**	**(1 935)**

(2) Reconciliation of accounting profit to tax charge

Profit before taxation	**18 915**	**12 056**	**18 834**	**12 077**
Current tax rate	15%	15%	15%	15%
Expected tax charge	2 837	1 808	2 825	1 812
Tax adjustments:	109	128	103	123
Non-deductible tax expense	*50*	*94*	*44*	*87*
Other	*59*	*34*	*59*	*36*
Total	**2 946**	**1 936**	**2 928**	**1 935**
Effective tax rate	**15.57%**	**16.06%**	**15.55%**	**16.02%**

(3) Movement of corporate income tax liability

Corporate income tax payable as of 1 January	**834**	**665**	**830**	**665**
Corporate income tax paid for previous years	(902)	(742)	(898)	(742)
Adjustments to the corporate income tax for previous years	(27)	(54)	(27)	(54)
Corporate income tax of the reporting year	2 865	1 884	2 847	1 880
Corporate income tax of the reporting year paid in advance	(1 991)	(919)	(1 986)	(919)
Corporate income tax payable as of 31 December	**779**	**834**	**766**	**830**

NOTES TO THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

13 CORPORATE INCOME TAX (continued)

(4) The Bank's deferred tax calculation

The management of the Bank manages deferred tax separately for each Bank's subsidiary. Therefore the below table summarizes the Bank's tax analysis. The Group's tax analysis is not materially different from Bank's deferred tax analysis.

	2007		2006	
In thousands of lats	Temporary differences	Tax effect	Temporary differences	Tax effect
Deferred tax assets				
Accumulated deductible taxable loss [1]	253	38	311	46
Deferred income	489	73	276	41
Provisions for unused annual holidays	345	52	183	28
Deferred tax assets	**1 087**	**163**	**770**	**115**
Deferred tax liabilities				
Accelerated tax depreciation	877	132	766	115
Recoverable special impairment	24	4	-	-
Accumulated taxable income	16	2	103	15
Deferred tax liabilities	**917**	**138**	**869**	**130**
DEFERRED TAX ASSETS/(LIABILITIES), NET VALUE	**170**	**25**	**(99)**	**(15)**

[1] The accumulated deductible taxable loss includes the loss related to revaluation of currency transactions of the future (*spot* and *forward* transactions). Next year, when this loss is realized, it will reduce the basis of taxable income.

NOTES TO THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

In thousands of lats	The Group 2007	The Group 2006	The Bank 2007	The Bank 2006

14 OTHER PAID TAXES AND FEES

Personal income tax of employees	998	872	964	856
Employer state social insurance obligatory payments (Note 10)	676	507	657	489
Non-deductible value added tax (Note 11)	261	154	261	154
Employees state social insurance obligatory payments	246	190	239	183
Taxes paid abroad (Note 13)	148	121	148	121
	2 329	**1 844**	**2 269**	**1 803**

The rest of the taxes and dues are included in positions of the current annual report according to their type and meaning.

As for the reporting years 2007 and 2006 the Bank had not received any tax relief and had not estimated or paid any penalty fines for delayed payments.

15 CASH AND BALANCES DUE FROM THE BANK OF LATVIA

Balances due from the Bank of Latvia	17 168	18 298	17 168	18 298
Cash on hand	825	408	825	408
	17 993	**18 706**	**17 993**	**18 706**

In accordance with the regulatory requirements credit institutions are required to maintain funds (mandatory reserves) on their accounts with the Bank of Latvia up to the standard of mandatory reserves. Their volume depends on the funds attracted by the credit institution. The standard of mandatory reserves required is 8% (2006: 8%). The Bank of Latvia calculates remuneration for keeping the reserves on the reserve account with the Bank of Latvia in the amount of 414 thousands of lats (2006: 325 thousands of lats). These funds may be used without any restrictions.

16 DUE FROM CREDIT INSTITUTIONS WITH A MATURITY OF LESS THAN 3 MONTHS [1]

Due from OECD credit institutions	106 526	137 789	106 526	137 789
Due from credit institutions registered in the Republic of Latvia	21 733	21 163	21 733	21 163
Due from credit institutions of other countries	22 573	14 727	22 573	14 727
	150 832	**173 679**	**150 832**	**173 679**

[1] Demand claims that may be satisfied without previous claim, or with demand term of 24 hours or one working day, and claims with demand term of up to 3 months are disclosed under this section. The claims are disclosed according to their initial maturity pursuant to the agreements.

NOTES TO THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

In thousands of lats	The Group 2007	The Group 2006	The Bank 2007	The Bank 2006

17 HELD FOR TRADING SECURITIES

(1) Held for trading debt securities and other fixed income securities

Investment amount of government debt securities	-	722	-	722
Revaluation loss of government debt securities, net	-	(6)	-	(6)
	-	**716**	**-**	**716**
Investment amount of debt securities of other institutions	6 334	4 444	6 334	4 444
Revaluation losses of debt securities of other institutions, net	(416)	(31)	(416)	(31)
	5 918	**4 413**	**5 918**	**4 413**
	5 918	**5 129**	**5 918**	**5 129**

As at the end of 2007 the Bank did not have any investments in government debt securities (2006: Turkey state governments). The debt securities portfolio of other institutions includes various Russian, Kazakhstan and other countries corporate debt securities (2006: Russian and other countries corporate debt securities).

All investments in debt securities and other securities with fixed income have been made in securities quoted at stock exchanges.

(2) Held for trading equity shares and other non-fixed income securities

Investments in equity shares and other non-fixed income securities	2 513	-	2 513	-
Changes on revaluation of equity investments, net	(133)	-	(133)	-
	2 380	**-**	**2 380**	**-**

The equity securities portfolio of other institutions includes corporate equity securities of Latvia, USA and Russia (in 2006: none).

All investments in equity shares and other securities have been made in securities quoted at stock exchanges.

NOTES TO THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

In thousands of lats	The Group 2007	The Group 2006	The Bank 2007	The Bank 2006

18 DERIVATIVES

The table below shows the fair value of forward foreign exchange contracts which is disclosed for each contract as asset or liability. The notional value of these contracts reflects the reference amount of basis currency underlying the agreement whose changes determine the cash flow of the forward exchange contracts.

Fair value of foreign currency futures				
Assets (positive fair value)	**47**	**-**	**47**	**-**
Liabilities (negative fair value)	**(2)**	**(3)**	**(2)**	**(3)**

Notional principal value of foreign currency futures				
Assets (due from)	**4 302**	**908**	**4 302**	**908**
Liabilities (due to)	**(4 257)**	**(911)**	**(4 257)**	**(911)**

All foreign currency futures are forwards concluded to secure currency trading transactions of the Group's customers. The concluded foreign currency futures are provided for purchase and sale of foreign currency in the future under the terms specified beforehand. The maximum remaining term of payments of foreign currency futures does not exceed 10 days.

19 AVAILABLE FOR SALE FINANCIAL ASSETS

(1) Available for sale debt securities and other fixed income securities

Investment amount of government debt securities	5 690	2 583	5 690	2 583
Government debt securities revaluation gains, net	3	-	3	-
	5 693	**2 583**	**5 693**	**2 583**
Investment amount of debt securities of other institutions	500	670	500	670
Revaluation losses of debt securities of other institutions, net	(1)	(6)	(1)	(6)
	499	**664**	**499**	**664**
	6 192	**3 247**	**6 192**	**3 247**

The Government debt securities portfolio includes debt securities issued by Italy, Korea, Sweden, Greece, Great Britain and other state governments (2006: USA and Finland state governments). The debt securities portfolio of other institutions includes the debt securities of two Latvian credit institutions (2006: two Latvian credit institutions).

All investments in debt securities and other securities with fixed income have been made in securities quoted at stock exchanges

NOTES TO THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

In thousands of lats	The Group 2007	The Group 2006	The Bank 2007	The Bank 2006

19 AVAILABLE FOR SALE FINANCE ASSETS (continued)

(2) Available for sale equity shares and other non-fixed income securities

	The Group 2007	The Group 2006	The Bank 2007	The Bank 2006
Investments in equity shares and other non-fixed income securities				
shares quoted on the stock exchange	-	295	-	295
shares not quoted on the stock exchange	50	50	50	50
	50	**345**	**50**	**345**
Changes on revaluation of equity investments, net				
shares quoted on the stock exchange	-	92	-	92
shares not quoted on the stock exchange	15	17	15	17
	15	**109**	**15**	**109**
	65	**454**	**65**	**454**

By the end of the reporting year the Bank had preserved only investments in strategic investment companies, such as *SWIFT* and *MasterCard* (in 2006: shares of a Kazakhstan bank and auxiliary companies). The shares of theses companies are not quoted on the Stock Exchange.

20 DUE FROM CREDIT INSTITUTIONS WITH A MATURITY OF MORE THAN 3 MONTHS [1]

	The Group 2007	The Group 2006	The Bank 2007	The Bank 2006
Due from credit institutions of other countries	5 948	6 617	5 948	6 617
Due from credit institutions registered in the Republic of Latvia	484	1 952	484	1 952
	6 432	**8 569**	**6 432**	**8 569**

[1] In this balance sheet caption, claims to credit institutions are disclosed according to their initial maturity pursuant to agreements.

NOTES TO THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

In thousands of lats	The Group 2007	The Group 2006	The Bank 2007	The Bank 2006

21 LOANS

(1) Classification of loan balance by customer groups:

In thousands of lats	The Group 2007	The Group 2006	The Bank 2007	The Bank 2006
Loans to companies	68 097	31 407	62 590	28 739
Loans to individuals	22 287	11 133	21 795	10 546
Loans to employees	1 428	1 205	1 428	1 205
Loans to financial institutions	1 325	1 354	1 325	1 354
Loans to subsidiary	-	-	6 624	3 240
	93 137	**45 099**	**93 762**	**45 084**
Allowance for loans, ***assessed individually*** (Note 12)	(1 576)	(1 606)	(1 472)	(1 604)
	91 561	**43 493**	**92 290**	**43 480**

By the end of the reporting year the total amount of the Bank's doubtful loans for which the accrual of nominal interest has been discontinued was 1 363 thousand lats (2006: 1 372 thousand lats). To determine the value of these loans the Bank applied methods used for assessment of collateral adequacy and solvency of borrowers. The total amount of written off unrecoverable debts in the reporting year was 30 thousand lats (in 2006: none).

(2) Classification of impairment for loans by customer groups:

In thousands of lats	The Group 2007	The Group 2006	The Bank 2007	The Bank 2006
Private companies	1 397	1 439	1 350	1 437
Private individuals	179	167	117	111
Subsidiary companies	-	-	5	56
	1 576	**1 606**	**1 472**	**1 604**

The main criterion used to evaluate loan quality is the borrower's solvency. When assessing a loan the Bank takes into account the borrower's credit history, financial standing, performance and prospects of business activity and correspondence of the loan purpose to repayment sources, presence of solvent guarantors, adequacy of the borrower's current and anticipated cash flow to repay the loan, collateral value, compliance with repayment schedule, and country risk if a loan is granted to a non-resident. A collateral dependent loan is assessed based on the value of loan collateral.

NOTES TO THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

In thousands of lats	The Group 2007	The Group 2006	The Bank 2007	The Bank 2006

21 LOANS (continued)

(3) Loans principal classification by loan type:

Mortgage loans [1]	37 532	10 976	37 257	10 800
Commercial loans	34 235	25 692	40 859	27 962
Finance leasing	5 499	1 771	-	-
Bills of exchange	1 782	1 324	1 782	1 324
Overdrafts	1 685	346	1 685	346
Reverse REPO	648	-	648	-
Consumer loans	395	461	170	121
Factoring	346	377	346	377
Secured by deposit	315	227	315	227
Payment card loans	173	173	173	173
Other	10 527	3 752	10 527	3 754
	93 137	**45 099**	**93 762**	**45 084**
Loans which serve as collateral for debt securities issued by the Bank (Note 29) [1]	*5 012*	-	*5 012*	-

[1] Mortgage loans secured by pledge (mortgage) of real estate registered in the Republic of Latvia are disclosed together with loans which serve as collateral for debt securities issued by the Bank. The fair value of this real estate by the end of 2007 was 9 264 thousand lats (unaudited). The information on debt securities issued by the Bank is described in Note 29.

(4) Analysis of loans by industry:

Operations with real estate[1]	24 669	5 562	23 179	4 923
Wholesale and retail	18 171	11 042	15 406	10 295
Mortgage loans to private persons	12 374	8 946	12 199	8 771
Other loans to private persons	10 296	2 703	10 296	2 703
Transport, warehousing and communication	8 092	5 659	7 203	5 559
Financial services	4 121	2 800	10 745	6 053
Manufacturing	3 542	2 904	3 491	2 858
Construction	3 360	2 052	3 150	986
Fishing	2 409	-	2 397	-
Extractive industry	2 105	1 320	2 105	1 320
Electricity, gas and water supply	1 455	-	1 455	-
Agriculture, hunting and wood processing	933	1 195	911	1 173
Hotels and restaurants	834	207	813	164
Consumer loans to private persons	638	689	324	277
Other	138	20	88	2
	93 137	**45 099**	**93 762**	**45 084**

[1] Operations with real estate mostly consist of loans given to real estate developers.

NOTES TO THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

In thousands of lats	The Group 2007	The Group 2006	The Bank 2007	The Bank 2006

21 LOANS (continued)

(5) Analysis of collateral [1]:

Apartments, dwelling houses, land	62 527	27 198	62 105	25 352
Commercial real estate	37 283	25 954	37 283	25 954
Commercial collateral (current and fixed assets)	21 970	23 111	21 230	22 509
Vehicles	19 508	16 427	14 108	14 427
Securities and shares (book value)	17 298	3 229	17 298	3 229
Guarantees	3 622	1 211	3 622	1 211
Deposits placed in the other credit institutions	1 533	-	1 533	-
Deposits placed in the Bank (Note 27 and 28)	824	1 697	824	1 697
	164 565	**98 827**[2]	**158 003**	**94 379**[2]

[1] Loan collaterals also refer to the Bank's off-balance liabilities with regard to loan limits that have not been used (Note 36) and serve as factors that mitigate the risk of such liabilities (Note 47, (1)).

[2] Adjusted data of year 2006. Adjustments are reflected below.

All collaterals are disclosed at fair value determined according to the assessment made by the relevant certified security appraisers at the inception of the loan, except collateral for securities, capital shares and deposits.

Table of loan collateral adjustments of year 2006

	The Group			The Bank		
	Before adjustments	Adjust-ments	After adjustments	Before adjustments	Adjust-ments	After adjustments
Apartments, dwelling houses, land	27 198	-	27 198	25 352	-	25 352
Commercial real estate	25 954	-	25 954	25 954	-	25 954
Commercial collateral (current and fixed assets)	23 111	-	23 111	22 509	-	22 509
Vehicles	16 427	-	16 427	14 427	-	14 427
Securities and shares (book value)	3 229	-	3 229	3 229	-	3 229
Deposits placed in the Bank (Note 27 and 28)	1 254	443	1 697	1 254	443	1 697
Guarantees	-	1 211	1 211		1 211	1 211
	97 173	**1 654**	**98 827**	**92 725**	**1 654**	**94 379**

Adjustments are related to inclusion of deposits securing credits of payment cards in the volume of credit security.

NOTES TO THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

In thousands of lats	The Group 2007	The Group 2006	The Bank 2007	The Bank 2006

21 LOANS (continued)

(6) Grouping of Finance lease agreements by the type of leased assets:

Transport vehicles	4 927	1 124	-	-
Production equipment	572	624	-	-
Other assets	-	23	-	-
	5 499	**1 771**	**-**	**-**

(7) Analyses of finance lease receivables according to the time bands:

Present value of minimum lease payments				
Up to 1 year	1 384	427	-	-
Over 1 year to 5 years	3 663	1 344	-	-
Over 5 years	452	-	-	-
	5 499	**1 771**	**-**	**-**
Interest income to be received under financial leasing				
Up to 1 year	359	96	-	-
Over 1 year to 5 years	594	148	-	-
Over 5 years	22	-	-	-
	975	**244**	**-**	**-**
Future value of minimum financial leasing payments				
Up to 1 year	1 743	523	-	-
Over 1 year to 5 years	4 257	1 492	-	-
Over 5 years	474	-	-	-
	6 474	**2 015**	**-**	**-**

NOTES TO THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

In thousands of lats	The Group 2007	The Group 2006	The Bank 2007	The Bank 2006
22 ACCRUED INCOME AND DEFERRED EXPENSES				
Pre-paid expenses	125	149	123	147
Other accrued income	143	58	134	60
	268	**207**	**257**	**207**
23 LONG-TERM PROJECT COSTS				
Land parcels	2 217	3 152	2 217	3 152
Construction in progress	-	1 343	-	1 343
Prepayments for construction work	-	209	-	209
	2 217	**4 704**	**2 217**	**4 704**

The land parcels mentioned in this note were purchased for the purpose of building a residential apartment house with subsequent sale of apartments. The construction in progress includes costs related to the construction of the apartment house. The future costs of the apartment construction are disclosed in the off-balance liabilities in the amount of the total remaining amount of the building contract (Notes 36). In 2007 the Bank sold the residential apartment house built in the previous period, the completions of the projects are expected respectively in 2009 and 2010. Profit from sale of this house to the amount of LVL 186 thousand was disclosed as other income in the profit and loss statement for the accounting period.

In thousands of lats

24 TANGIBLE AND INTANGIBLE FIXED ASSETS

All tangible and intangible fixed assets in the possession of the Bank and the Group are used for the Bank's and Group's operations, for rendering financial services and maintenance of social infrastructure.

(1) The Group

Changes in tangible and intangible fixed assets in 2007	Real estate	Vehicles	Machinery & Equipment	Leasehold improvement	Intangible assets	Total
Cost						
At 31 December 2006	**-**	**620**	**1 365**	**385**	**525**	**2 895**
Additions	891	128	258	22	83	1 382
Prepayments	-	-	9	55	-	64
Disposals	-	-	(106)	(230)	-	(336)
At 31 December 2007	**891**	**748**	**1 526**	**232**	**608**	**4 005**
Accumulated depreciation						
At 31 December 2006	**-**	**146**	**719**	**240**	**335**	**1 440**
Charge for the reporting year	9	135	196	67	68	475
Disposals	-	-	(105)	(158)	-	(263)
At 31 December 2007	**9**	**281**	**810**	**149**	**403**	**1 652**
Net carrying value at 31 December 2006	**-**	**474**	**646**	**145**	**190**	**1 455**
Net carrying value at 31 December 2007	**882**	**467**	**716**	**83**	**205**	**2 353**

Changes in tangible and intangible fixed assets in 2006	Real estate	Vehicles	Machinery & Equipment	Leasehold improvement	Intangible assets	Total
Cost						
At 31 December 2005	**-**	**323**	**1 071**	**255**	**450**	**2 099**
Additions	-	343	345	130	65	883
Prepayments	-	50	-	-	13	63
Disposals	-	(96)	(51)	-	(3)	(150)
At 31 December 2006	**-**	**620**	**1 365**	**385**	**525**	**2 895**
Accumulated depreciation						
At 31 December 2005	**-**	**89**	**565**	**167**	**279**	**1 100**
Charge for the reporting year	-	101	169	73	57	400
Disposals	-	(44)	(15)	-	(1)	(60)
At 31 December 2006	**-**	**146**	**719**	**240**	**335**	**1 440**
Net carrying value at 31 December 2005	**-**	**234**	**506**	**88**	**171**	**999**
Net carrying value at 31 December 2006	**-**	**474**	**646**	**145**	**190**	**1 455**

NOTES TO THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

In thousands of lats

24 TANGIBLE AND INTANGIBLE FIXED ASSETS (continued)

(2) The Bank

Changes in tangible and intangible fixed assets in 2007	Real estate	Vehicles	Machinery & Equipment	Leasehold improvement	Intangible assets	Total
Cost						
At 31 December 2006	**-**	**611**	**1 361**	**385**	**525**	**2 882**
Additions	891	127	256	22	83	1 379
Prepayments	-	-	9	55	-	64
Disposals	-	-	(105)	(230)	-	(335)
At 31 December 2007	**891**	**738**	**1 521**	**232**	**608**	**3 990**
Accumulated depreciation						
At 31 December 2006	**-**	**141**	**718**	**240**	**335**	**1 434**
Charge for the reporting year	9	133	195	67	68	472
Disposals	-	-	(105)	(158)	-	(263)
At 31 December 2007	**9**	**274**	**808**	**149**	**403**	**1 643**
Net carrying value at 31 December 2006	**-**	**470**	**643**	**145**	**190**	**1 448**
Net carrying value at 31 December 2007	**882**	**464**	**713**	**83**	**205**	**2 347**

Changes in tangible and intangible fixed assets in 2006	Real estate	Vehicles	Machinery & Equipment	Leasehold improvement	Intangible assets	Total
Cost						
At 31 December 2005	**-**	**251**	**1 070**	**255**	**448**	**2 024**
Additions	-	340	342	130	65	877
Prepayments	-	50	-	-	13	63
Disposals	-	(30)	(51)	-	(1)	(82)
At 31 December 2006	**-**	**611**	**1 361**	**385**	**525**	**2 882**
Accumulated depreciation						
At 31 December 2005	**-**	**72**	**565**	**167**	**278**	**1 082**
Charge for the reporting year	-	92	168	73	57	390
Disposals	-	(23)	(15)	-	-	(38)
At 31 December 2006	**-**	**141**	**718**	**240**	**335**	**1 434**
Net carrying value at 31 December 2005	**-**	**179**	**505**	**88**	**170**	**942**
Net carrying value at 31 December 2006	**-**	**470**	**643**	**145**	**190**	**1 448**

NOTES TO THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

In thousands of lats

25 INVESTMENTS IN SHARE CAPITAL OF SUBSIDIARY

The Bank has the following participation in the share capital of its subsidiary:

		2007 Investment and participation				2006 Investment and participation			
Group companies: registration number and address	**Type of activity**	Total book value of assets	Cost	Fixed capital portion (%)	Cost less impair-ment	Total book value of assets	Cost	Fixed capital portion (%)	Cost less impair-ment
Ltd TKB Leasing, reg. No 40003591059, Latvia, Riga, Palasta 7	Leasing and crediting operations	6 904	50	100	-	3 334	50	100	-
SIA TKB Nekustāmie īpašumi, reg.Nr. 40003723143, Latvija, Rīga, Palasta 7	Real estate transactions	51	2	75	2	41	2	75	2
		6 955	**52**	**-**	**2**	**3 375**	**52**	**-**	**2**

The methods applied to include the subsidiaries financial statements in the Group's consolidated financial statements are described in Note 2. The subsidiaries shares are not quoted at stock exchange.

The below data reflects consolidated information on subsidiaries and associated companies:

	2007	2006
Assets	6 955	3 375
Liabilities	(6 891)	(3 426)
Net assets	**64**	**(51)**
Gross income from operating activities	423	283
Profit for the period	114	54

NOTES TO THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

In thousands of lats	The Group 2007	The Group 2006	The Bank 2007	The Bank 2006

26 OTHER ASSETS

Margin accounts in brokerage companies	2 553	1 006	2 553	1 006
Spot foreign exchange assets [1]	340	1 404	340	1 404
Overpaid value added tax	77	374	16	370
Money in transit [2]	28	127	28	127
Other assets [3]	220	129	193	135
	3 218	**3 040**	**3 130**	**3 042**

[1] The table below shows the fair value of *spot* foreign exchange contracts which is disclosed for each contract as asset or liability. The notional value of these contracts reflects the value of basis asset underlying the agreement whose changes in fair value are estimated and the due and payable amounts of cash flow.

Fair value of foreign currency futures

Assets (positive fair value)	**340**	**1 404**	**340**	**1 404**
Liabilities (negative fair value)	**(638)**	**(1 713)**	**(638)**	**(1 713)**

Notional principal value of foreign currency futures

Assets (due from)	**163 160**	**829 619**	**163 160**	**829 619**
Liabilities (due to)	**(163 458)**	**(829 928)**	**(163 458)**	**(829 928)**

All foreign currency spot transactions concluded to secure currency trading transactions of the Group's customers. The concluded foreign currency spot transactions are provided for purchase and sale of foreign currency in the future under the terms specified beforehand. The maximum remaining term of payments of foreign currency futures does not exceed 2 days.

[2] The funds, transferred from other correspondent accounts of the Bank, whose crediting has not been confirmed by the correspondent bank yet, are disclosed as money in transit.

[3] Other assets include various claims on debtors in relation to operating activities of the Bank.

27 DUE TO CREDIT INSTITUTIONS [1]

In thousands of lats	The Group 2007	The Group 2006	The Bank 2007	The Bank 2006
Credit institutions registered in other countries	4 085	3 400	4 085	3 400
Credit institutions registered in the Republic of Latvia	1 314	1 568	1 314	1 568
OECD credit institutions [2]	11 162	1	11 162	1
	16 561	**4 969**	**16 561**	**4 969**

Deposits that serve as collateral of the following claims:

In thousands of lats	The Group 2007	The Group 2006	The Bank 2007	The Bank 2006
Loans (Note 21, (5))	48	54	48	54
Letters of credit (Note 36, (2) and 47, (1))	-	91	-	91
	48	**145**	**48**	**145**

[1] In this balance sheet item, claims to credit institutions are disclosed according to their initial maturity pursuant to agreements.

[2] Liabilities to credit institutions include syndicated loan in EUR in the amount of LVL 11 162, which was attracted in the interbank market and received in November 2007. Its maturity date is 14 November 2008, nominal 11 245 thousand LVL and interest rate 5.965%. According to the covenants of the syndicated loan agreement, the Bank have to comply with regulation of FCMC on capital adequacy, total Tier 1 equity should not be less than EUR 7 million and Tier 2 equity not less than EUR 25 million , as well as have a net profit of at least EUR 15 million.

28 DUE TO CUSTOMERS

In thousands of lats	The Group 2007	The Group 2006	The Bank 2007	The Bank 2006
Private enterprises	223 848	215 815	223 889	215 847
Including due from subsidiaries	-	-	*41*	*32*
Individuals	8 526	9 444	8 526	9 444
Non-governmental-organizations servicing individuals	62	59	62	59
Financial institutions	213	7	218	7
Including due from subsidiaries	-	-	*5*	*4*
Local government	2	2	2	2
	232 651	**225 327**	**232 697**	**225 359**

Deposits which serve as collateral for the following claims:

In thousands of lats	The Group 2007	The Group 2006	The Bank 2007	The Bank 2006
Loans (Note 21, (5))	776	1 643	776	1 643
Guarantees (Note 36, (2) and 47, (1))	445	455	445	455
Letters of credit (Note 36, (2) and 47, (1))	32	27	32	27
	1 253	**2 125**	**1 253**	**2 125**

In thousands of lats

29 DEBT SECURITIES ISSUED

(1) General information

On 1 March 2007 The Bank launched the first mortgage bond issue in the amount of five million euro (3.5 million LVL). It incorporated the issue of 50 000 bonds with the nominal value of 100 euro each. The issue was approved by the decision of the Financial and Capital Market Commission and organised by "SEB Latvijas Unibanka". Since 26 October 2007 the bonds have been admitted to listing on the Riga Stock Exchange. By the end of the reporting year the carrying value of securities was 3 518 thousand lats (in 2006: none).

According to the Bank's Mortgage Bonds prospectus interest are paid four times a year, i.e. on 1 March, 1 June, 1 September and 1 December. The interest rate of mortgage bonds consists of 3-month EURIBOR plus 1,4 percentage points. The interest rate for the interest period from 1 December 2007 to 1 March 2008 is 6% (six percent) per annum.

(2) Pledge of the Bank's mortgage bonds

The mortgage loans real estate registered in the Republic of Latvia and other cover legally provided by the Law on Mortgage Bonds that have been issued by the bank have been pledged as collateral for the issued mortgaged bonds by the Bank.. The Bank maintains high quality of its loan portfolio which will in future serve as collateral for the bonds of the Bank. The fair value of this real estate by the end of 2007 was 9 264 thousand lats (unaudited, see Note 21, (3)). At all time the amount of pledged mortgage loans should be at least 110% of the issued mortgage bond amount. In case of early repayment or default of the mortgage loan that has been pledged as collateral for the mortgage bond, another mortgage loan should be pledged as collateral.

The volume of the mortgage loans pledged as a collateral:

In thousands of lats	**The Bank** 2007		**The Bank** 2006	
Maturity of loans	**Volume**	**Number**	**Volume**	**Number**
5-10 years	4 980	44	-	-
> 10 years	32	1	-	-
	5 012	**45**	**-**	**-**

NOTES TO THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

In thousands of lats

29 DEBT SECURITIES ISSUED (continued)

(2) Pledge of the Bank's mortgage bonds (continued)

Structure of the mortgage loans pledged as collateral by the legal status of borrowers:

In thousands of lats	The Bank 2007		The Bank 2006	
Borrowers	**Volume**	**Number**	**Volume**	**Number**
Residents companies	708	1	-	-
Resident individuals	4 304	44	-	-
	5 012	**45**	**-**	**-**

Structure of the mortgage loans pledged as collateral by amount of loans:

In lats	The Bank 2007		The Bank 2006	
Amount	**Volume**	**Number**	**Volume**	**Number**
<5000	2	1	-	-
5000-25000	322	21	-	-
25000-50000	208	6	-	-
50000-100000	349	4	-	-
100000-500000	1 814	10	-	-
500000-1000000	2 317	3	-	-
>1000000	-	-	-	-
	5 012	**45**	**-**	**-**

NOTES TO THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

In thousands of lats	The Group		The Bank	
	2007	2006	2007	2006

30 ACCRUED EXPENSES AND DEFERRED INCOME

Unused holiday and premium pay	356	190	351	183
Deferred income	4	6	4	6
Other accrued expenses	351	253	343	264
	711	**449**	**698**	**453**

31 OTHER LIABILITIES

Suspense accounts[1]	951	7 459	951	7 459
Spot foreign exchange liabilities (Note 26)	638	1 713	638	1 713
Unpaid dividends of previous periods[2]	1 714	575	1 714	575
Other liabilities	90	282	57	238
	3 393	**10 029**	**3 360**	**9 985**

[1] Suspense accounts (cleared after the year end) represent payments received by the Bank where the beneficiary is not clearly identified. After clarification they are credited to customer accounts.

[2] Unpaid dividends of previous periods mostly consist of payments to the estate of S. Tarasneoks. For details see Note 33.

NOTES TO THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

32 SUBORDINATED LIABILITIES

As of 31 December 2007 the balance of subordinated non-convertible liabilities was 1 208 thousand lats (2006: 1 335 thousand lats) deposited with maturities in 2009 and 2010.

List of subordinated liabilities, which exceed 10% from the total subordinated liabilities (according to maturity) as of 31 December 2007:

Name	Principal	Accrued interest	Date of conclusion	Maturity	Interest %
Temirbank OAO	2 000 000 USD	34 611 USD	01.10.2004	01.12.2009	7.00
Edgars Pīgoznis	211 165 USD	19 474 USD	20.06.2002	21.06.2009	9.25 (FedFund Target likme + 4%)
Edgars Pīgoznis	128 165 USD	11 819 USD	20.03.2003	21.03.2010	9.25 (FedFund Target likme + 4%)
Other	83 000 USD	7 654 USD	20.03.2003	27.03.2010	9.25 (FedFund Target likme + 4%)
	2 422 330 USD	**73 558 USD**			
	1 172 408 LVL	**35 602 LVL**			

NOTES TO THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

32 SUBORDINATED LIABILITIES (continued)

List of subordinated liabilities, which exceed 10% from the total subordinated liabilities (according to maturity) as of 31 December 2006:

Name	Principal	Accrued interest	Date of conclusion	Maturity	Interest %
Edgars Pīgoznis	211 165 USD	17 362 USD	20.06.2002	21.06.2009	FedFund Target likme + 4%
Temirbank OAO	2 000 000 USD	34 611 USD	01.10.2004	01.12.2009	7.00
Edgars Pīgoznis	128 165 USD	10 538 USD	20.03.2003	21.03.2010	FedFund Target likme + 4%
Other	83 000 USD	6 824 USD	20.03.2003	27.03.2010	FedFund Target likme + 4%
	2 422 330 USD	**69 335 USD**			
	1 298 369 LVL	**37 163 LVL**			

Subordinated liabilities (subordinated capital) consist of cash assets, borrowed by the Bank for the period which is not shorter than five years. Conditions that allow demanding pre-term repayment of a loan are regulated in accordance with the regulations for calculating of capital requirements that foresee the right of lenders to demand repayment of a loan before its maturity only in case of a borrower's liquidation. In case of a borrower's liquidation the subordination regulations of subordinated liabilities (loan) determine that the lender's claims are satisfied only after claims of all other borrower's creditors are satisfied, but before satisfying the claims of shareholders of the borrower. Basic provisions for all other subordinated liabilities correspond to the afore-mentioned.

The concluded agreements do not foresee possibility to change subordinated liabilities into investments in equity, or other possible liabilities.

The above mentioned amount of subordinated liabilities is included in excess capital for the purposes of calculation of the capital adequacy ratio (see Note 49).

NOTES TO THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

In thousands of lats

33 SHARE CAPITAL AND RESERVES

(1) Share capital

The Bank's registered and paid-up share capital on 31 December 2007 was 6 337 thousand lats (2006: 5 537 thousand lats). It consisted of 126 742 ordinary shares with a nominal value of 50 lats each (2006: 110 742). The total number of shareholders is 43 (2006: 44), of which 11 (2006: 12) - corporate and 32 (2006: 32) individuals.

In the second half of 2007 the 11th share issue was announced and completed. In this issue the Bank distributed 16 000 ordinary shared in the amount of 800 thousand lats. The nominal value of a share is 50 lats. The shares of this issue are ordinary registered shares with voting right and without any additional priority rights. The prescribed nominal value of shares was paid by the following shareholders (LVL'000):

Shareholders	Shares number	LVL'000
I. Buimisters	12 869	643,4
C.E.G. Treherne	3 032	151,6
Other	99	5,0
Total	**16 000**	**800,0**

Changes in paid-in capital of other shareholders that within the reporting period made substantial investments in the Bank or decreased substantially their investments in the Bank (LVL '000):

Shareholders	LVL'000
SIA "C&R Invest"	431
Powerplus LLc	(431)
Total	**-**

NOTES TO THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

In thousands of lats

33 SHARE CAPITAL AND RESERVES (continued)

(1) Share capital (continued)

List of shareholders and mutually related shareholder groups which directly or indirectly control 10% or more of the share capital:

Shareholder	Country	Shareholding 2007 %	Shareholding 2007 LVL'000	Shareholding 2006 %	Shareholding 2006 LVL'000
I.Buimisters	Latvia	38.97	2 469	32.98	1 826
The estate of S.Tarasenoks (dec'd)*	Latvia	14.15	896	16.19	896
C&R Invest Ltd	Latvia	13.58	861	7.77	430
C.E.G. Treherne	GB	9.18	582	7.77	430
GCK Holdings Netherlands B.V.	Netherlands	6.80	431	7.78	431
Rikam S.A.H.	Luxembourg	6.79	430	7.77	430
Figon Co Limited	Cyprus	3.16	201	3.62	201
Powerplus LLc	US	-	-	7.78	431

* Owing to the fact that Sergey Tarasenko has passed away, his shares have been include in the succession mass. According to the decision of Riga Orphan' s Court as of 11 May 2005, case No. 1-6/849 , the sworn lawyer Mara Bekere (p.k. 061176-10302) has been appointed as the trustee of the succession mass which consists of 17 929 shares of JSC "TRASTA KOMERCBANKA".

(2) Reserves

The reserve capital and other reserves of the Bank were created by the decisions of shareholders in prior years. As there are no regulatory requirements for maintaining these reserves, they could be released in future periods based on the decision of shareholders. Reserves balance amount as at the end of the year was 3 804 thousand lats (2006: 3 804 thousand lats).

NOTES TO THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

In thousands of lats

34 THE BANK'S DIVIDEND PER ORDINARY SHARE

In thousands of lats	2007	2006
(1) The amount of dividends, which is not recognised as liabilities, proposed by the the Bank's management for approval at the shareholder meeting		
The amount of dividend recommended by the Management of the Bank	3 800	5 000
Number of shares entitled to dividends	126 742	110 742
Dividend per share (in thousands of lats)	**0.030**	**0.045**
The amount of dividend per share (in lats)	**29.98**	**45.15**

(2) Amount of dividends paid

The amount of dividends paid for the previous period (for years 2006 and 2005)	5 000	1 000

35 THE GROUP'S EARNINGS PER SHARE

	2007	2006
Net profit attributable to equity holders of the Bank	15 964	10 113
Average number of shares	114 643	110 742
Earnings per share (in lats)	**139.25**	**91.32**

There are no dilutive instruments that influence earnings per share.

NOTES TO THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

In thousands of lats	The Group 2007	The Group 2006	The Bank 2007	The Bank 2006

36 OFF-BALANCE SHEET ITEMS

(1) Classification of Off-Balance Sheet Commitments

	The Group 2007	The Group 2006	The Bank 2007	The Bank 2006
Contingent liabilities	**617**	**566**	**617**	**566**
including guarantees	*617*	*587*	*617*	*587*
including provisions for guarantees	*-*	*(21)*	*-*	*(21)*
Commitments to clients	**17 040**	**13 366**	**18 480**	**14 330**
including unused credit lines	*12 621*	*10 088*	*14 061*	*11 052*
including letters of credit	*32*	*3 119*	*32*	*3 119*
including rent commitments [1]	*4 374*	*-*	*4 374*	*-*
Including other liabilities [2]	*13*	*159*	*13*	*159*
Total off-balance sheet liabilities	**17 657**	**13 932**	**19 097**	**14 896**

[1] Analysis of lease agreements according to remaining validity:

	The Group 2007	The Group 2006	The Bank 2007	The Bank 2006
Up to 1 year	109	-	109	-
From 1 year up to 5 years	87	-	87	-
Over 5 years	4 178		4 178	
	4 374	**-**	**4 374**	**-**

[2] Other liabilities are disclosed as the Bank's future liabilities for acquisition of fixed assets and equity securities. In the previous period these liabilities included future costs related to the construction of a residential apartment house in the amount of the unused amount of the agreement (Note 36).

(2) Analysis of collateral of off-balance-sheet liabilities

	The Group 2007	The Group 2006	The Bank 2007	The Bank 2006
Guarantees	979	1 248	979	1 248
Deposits placed in the Bank (Note 28)	*445*	*455*	*445*	*455*
Commercial collateral (current and fixed assets)	*354*	*598*	*354*	*598*
Commercial real estate	*180*	*180*	*180*	*180*
Apartments, dwelling houses, land	*-*	*15*	*-*	*15*
Letters of credit	32	118	32	118
Deposits placed in the Bank (Note 27 and 28)	*32*	*118*	*32*	*118*
	1 011	**1 366**	**1 011**	**1 366**

NOTES TO THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

In thousands of lats	The Group 2007	The Group 2006	The Bank 2007	The Bank 2006

37 ASSETS AND LIABILITIES UNDER MANAGEMENT

This item includes assets and liabilities held by the Bank under its own name on behalf of the clients. The Bank receives fees based on the amounts managed. The amount of these assets and liabilities are not recognized in the balance sheet.

(1) Assets and liabilities under management are composed as follows
Assets under management

Due from corporate	9 858	36 610	9 858	36 610
Due from other credit institutions registered in other countries	-	1 752	-	1 752
Due from individuals	148	-	148	-
	10 006	**38 362**	**10 006**	**38 362**

Customer profile on whose behalf the assets are managed

Credit institutions registered in other countries	8 131	35 054	8 131	35 054
Enterprises	535	2 074	535	2 074
Individuals	1 340	1 234	1 340	1 234
	10 006	**38 362**	**10 006**	**38 362**

38 MORTGAGED ASSETS

As of 31 December 2007 and 2006 the Bank had no mortgaged assets, except for those described in Notes 21 and 29.

39 CASH AND CASH EQUIVALENTS

In thousands of lats	The Group 2007	The Group 2006	The Bank 2007	The Bank 2006
Due from other credit institutions with a maturity of less than 3 months from the date of acquisition	150 832	173 679	150 832	173 679
Cash and balances due from the Bank of Latvia	17 993	18 706	17 993	18 706
Due to other credit institutions with a maturity of less than 3 months from the date of acquisition	(5 350)	(4 823)	(5 350)	(4 823)
	163 475	**187 562**	**163 475**	**187 562**

In thousands of lats

40 THE GROUP'S AND BANK'S TRANSACTIONS WITH RELATED PARTIES

Related parties are defined as shareholders of the Bank who have a significant influence in the Bank, as well as their spouses, parents and children, the Bank's subsidiaries, chairpersons and members of the council and management board, internal service manager and members and other employees of the Bank, who are authorized to perform planning, management and control activities on behalf of the Bank, or are in charge of these activities, as well as their spouses, parents, children and companies in which the above-mentioned persons have a controlling interest.

The Bank has offered standard services to related parties, such as the settlement of accounts, the purchase and sale of securities, securities management on behalf of clients, and brokerage etc. These transactions are mostly conducted on normal business terms.

(1) Presented below are the Group's transactions with related parties

In thousands of lats	2007				2006			
	Share-holders	Other related parties[1]	Council and board	Total	Share-holders	Other related parties[1]	Council and board	Total
Assets								
Loans	827	2 153	188	**3 168**	1 006	462	-	**1 468**
Allowance for loans	-	*(17)*	-	***(17)***	-	-		**-**
Loans, net	827	2 136	188	**3 151**	1 006	462	-	**1 468**
Liabilities								
Deposits	83	190	427	**700**	72	878	453	**1 403**
Off-balance sheet liabilities								
Unused credit lines	10	12	15	**37**	11	13	11	**35**
Profit and loss statement								
Interest income	52	40	9	**101**	42	97	1	**140**
Fee and commission income	-	2	2	**4**	1	3	-	**4**
Interest expense	(10)	(6)	(16)	**(32)**	-	(15)	(1)	**(16)**
Release of allowance, net	-	-	-	**-**	-	-	-	**-**
Other expenses	(13)	(154)	(48)	**(215)**	(13)	(114)	(19)	**(146)**

[1] Other related parties are spouses, children of the shareholders and council and board members and companies in which they have a controlling interest.

NOTES TO THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

In thousands of lats

40 THE GROUP'S AND BANK'S TRANSACTIONS WITH RELATED PARTIES (continued)

(2) Presented below are the Bank's transactions with related parties

In thousands of lats	2007					2006 [1]				
	Share-holders	Subsi-diaries	Other related parties[2]	Council and board	Total	Share-holders	Subsi-diaries	Other related parties[2]	Council and board	Total
Assets										
Loans	827	6 624	2 153	114	**9 718**	1 006	3 240	462	-	**4 708**
Allowance for loans	*-*	*(5)*	*(17)*	*-*	***(22)***	*-*	*(56)*	*-*		***(56)***
Loans, net	827	6 619	2 136	114	**9 696**	1 006	3 184	462	-	**4 652**
Liabilities										
Deposits	83	46	199	427	**755**	72	36	876	453	**1 437**
Off-balance sheet liabilities										
Unused credit lines	10	1 440	12	15	**1 477**	11	964	13	11	**999**
Profit and loss statement										
Interest income	52	160	40	7	**259**	42	111	97	1	**251**
Fee and commission income	-	-	2	1	**3**	1	1	3	-	**5**
Interest expense	(10)	-	(6)	(16)	**(32)**	-	-	(15)	(1)	**(16)**
Release of allowance, net	-	34	-	-	**34**	-	11	-	-	**11**
Other expenses	(13)	(210)	(154)	(48)	**(425)**	(13)	(76)	(114)	(19)	**(222)**

[1] Adjusted data of year 2006. Adjustments are reflected below.

[2] Other related parties are spouses, children of the shareholders and council and board members and companies in which they have a controlling interest.

NOTES TO THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

In thousands of lats

40 THE BANK'S TRANSACTIONS WITH RELATED PARTIES (continued)

(2) Presented below are the Bank's transactions with related parties (continued)

Table of adjustments to related parties' transactions of year 2006

In thousands of lats	Before adjustments	Adjustments	After adjustments
Assets			
Loans	1 468	3 240	4 708
Allowance for loans	-	(56)	(56)
Loans, net	1 468	3 184	4 652
Liabilities			
Deposits	1 403	34	1 437
Off-balance sheet liabilities			
Unused credit lines	35	964	999
Profit and loss statement			
Interest income	251	-	251
Fee and commission income	5	-	5
Interest expense	(16)	-	(16)
Release of allowance, net	-	11	11
Other expenses	(222)	-	(222)

(3) The Bank's related parties' loan collateral analysis

In thousands of lats	2007	2006
Apartments, dwelling houses, land	237	250
Commercial real estate	1 661	1 495
Commercial collateral (current and fixed assets)	66	224
	1 964	**1 969**

In thousands of lats

41 THE BANK'S ASSETS, LIABILITIES AND OFF-BALANCE SHEET ITEMS

The financial assets and liabilities of each subsidiary of the Bank are managed individually by the Bank management. Therefore the table given below contains a summary of the Bank's assets, liabilities and off-balance items arranged by categories. The arrangement of the assets, liabilities and off-balance items of the Group by categories does not differ materially from the arrangement of the Bank's assets, liabilities and off-balance items by categories.

(1) Arrangement of Assets by Categories

	CLASSIFICATION OF FINANCIAL ASSETS				
	Held for trading financial assets	Available for sale financial assets	Loans and receivables	Other	Total
ASSETS			2007		
Cash and balances due from the Bank of Latvia	-	-	17 168	825	17 993
Due from credit institutions with a maturity of less than 3 months	-	-	150 832	-	150 832
Held for trading financial assets	8 345	-	-	-	8 345
Available for sale financial assets	-	6 257	-	-	6 257
Due from credit institutions with a maturity of more than 3 months	-	-	6 432	-	6 432
Loans	-	-	92 290	-	92 290
Accrued income and deferred expenses	-	-	-	257	257
Long-term projects costs	-	-	-	2 217	2 217
Tangible assets	-	-	-	2 142	2 142
Intangible assets	-	-	-	205	205
Investments in share capital of subsidiary	-	-	-	2	2
Deferred tax assets	-	-	-	25	25
Other assets	340	-	2 774	16	3 130
Total assets as at 31 December 2007	**8 685**	**6 257**	**269 496**	**5 689**	**290 127**
ASSETS			2006		
Cash and balances due from the Bank of Latvia	-	-	18 298	408	18 706
Due from credit institutions with a maturity of less than 3 months	-	-	173 679	-	173 679
Held for trading financial assets	5 129	-	-	-	5 129
Available for sale financial assets	-	3 701	-	-	3 701
Due from credit institutions with a maturity over than 3 months	-	-	8 569	-	8 569
Loans	-	-	43 480	-	43 480
Accrued income and deferred expenses	-	-	-	207	207
Long-term projects costs	-	-	-	4 704	4 704
Tangible assets	-	-	-	1 258	1 258
Intangible assets	-	-	-	190	190
Investments in share capital of subsidiary	-	-	-	2	2
Other assets	1 404	-	1 268	370	3 042
Total assets as at 31 December 2006	**6 533**	**3 701**	**245 294**	**7 139**	**262 667**

NOTES TO THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

In thousands of lats

41 THE BANK'S ASSETS, LIABILITIES AND OFF-BALANCE SHEET ITEMS (continued)

(2) Arrangement of Liabilities and Off-Balance Liabilities by Categories

	CLASSIFICATION OF FINANCIAL LIABILITIES			
	Held for trading financial liabilities	Financial liabilities at amortized cost	Other	Total
LIABILITIES		**2007**		
Due to credit institutions	-	16 561	-	16 561
Held for trading financial liabilities	2	-	-	2
Due to customers	-	232 697	-	232 697
Debt securities issued	-	3 518	-	3 518
Accrued expenses and deferred income	-	-	698	698
Provisions for contingent liabilities	-	-	-	-
Corporate income tax liabilities	-	-	766	766
Subordinated liabilities	-	1 208	-	1 208
Other liabilities	638	2 665	57	3 360
Liabilities as at 31 December 2007	**640**	**256 649**	**1 521**	**258 810**
OFF-BALANCE SHEET ITEMS				
Contingent liabilities		-	617	617
Commitments to clients		-	18 480	18 480
Total off-balance sheet liabilities as at 31 December 2007		**-**	**19 097**	**19 097**
LIABILITIES		**2006**		
Due to credit institutions	-	4 969	-	4 969
Held for trading financial liabilities	3	-	-	3
Due to customers	-	225 359	-	225 359
Accrued expenses and deferred income	-	-	453	453
Provisions for contingent liabilities	-	-	21	21
Corporate income tax liabilities	-	-	830	830
Deferred tax liabilities	-	-	-	15
Subordinated liabilities	-	1 335	-	1 335
Other liabilities	1 713	8 034	238	9 985
Liabilities as at 31 December 2006	**1 716**	**239 697**	**1 557**	**242 970**
OFF-BALANCE SHEET ITEMS				
Contingent liabilities	-	-	566	566
Commitments to clients	-	-	14 330	14 330
Total off-balance sheet liabilities as at 31 December 2006	**-**	**-**	**14 896**	**14 896**

NOTES TO THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

In thousands of lats

42 FAIR VALUE OF THE BANK'S FINANCIAL ASSETS AND LIABILITIES

(1) Comparison of the Bank's financial assets and liabilities accounting value to the fair value

The fair value of the financial assets and liabilities of each subsidiary company of the Bank is assessed individually by the Bank management. Therefore the table given below contains a comparison of the fair value of the Bank's financial assets and liabilities to their accounting value. An assessment of the Group does not differ materially from that of the Bank.

The principles for determining the fair value are described in Note 2 to this Annual Report.

		2007			2006	
	Carrying value	Fair value	Difference	Carrying value	Fair value	Difference
ASSETS						
Cash and balances due from the Bank of Latvia	17 168	17 168	-	18 298	18 298	-
Due from credit institutions with a maturity of less than 3 months	150 832	150 832	-	173 679	173 679	-
Held for trading financial assets	8 345	8 345	-	5 129	5 129	-
Available for sale financial assets	6 257	6 257	-	3 701	3 701	-
Due from credit institutions with a maturity of more than 3 months	6 432	6 432	-	8 569	8 569	-
Loans	92 290	91 615	675	43 480	43 570	(90)
Other assets	3 114	3 114	-	2 672	2 672	-
Total financial assets	**284 438**	**283 763**	**675**	**255 528**	**255 618**	**(90)**
LIABILITIES						
Due to credit institutions	16 561	16 561	-	4 969	4 969	-
Held for trading financial liabilities	2	2	-	3	3	-
Due to customers	232 697	232 667	30	225 359	225 335	24
Debt securities issued	3 518	3 534	(16)	-	-	-
Subordinated liabilities	1 208	1 251	(43)	1 335	1 374	(39)
Other liabilities	3 303	3 303	-	9 747	9 747	-
Total financial liabilities	**257 289**	**257 318**	**(29)**	**241 413**	**241 428**	**(15)**
OFF-BALANCE SHEET ITEMS						
Contingent liabilities	617	617	-	566	566	-
Commitments to clients	18 480	18 480	-	14 330	14 330	-
Total off-balance sheet financial liabilities	**19 097**	**19 097**	**-**	**14 896**	**14 896**	**-**

It is assumed that the accounting value of financial assets and liabilities with liquidity or a short period of maturity is approximated to their fair value. This assumption is also used for demand deposits, savings accounts without time limitation and financial instruments with variable rates.

In thousands of lats

42 FAIR VALUE OF THE BANK'S FINANCIAL ASSETS AND LIABILITIES (continued)

(2) Analysis of the methods used to determine the fair value of the Bank's financial assets and liabilities

The fair value of the financial assets and liabilities of each subsidiary company of the Bank is assessed individually by the Bank management. Therefore the table given below contains an analysis of the methods used to determine the fair value of the Bank's financial assets and liabilities. An assessment of the Group does not differ materially from that of the Bank.

The principles for determining the fair value are described in Note 2 to this Annual Report.

	2007				2006			
	Quoted market price	Valuation techniques – market observable inputs	Valuation techniques – market unobservable inputs	Total	Quoted market price	Valuation techniques – market observable inputs	Valuation techniques – market unobservable inputs	Total
ASSETS								
Cash and balances due from the Bank of Latvia	-	17 168	-	**17 168**	-	18 298	-	**18 298**
Due from credit institutions with a maturity of less than 3 months	-	150 832	-	**150 832**	-	173 679	-	**173 679**
Held for trading financial assets	8 345	-	-	**8 345**	5 129	-	-	**5 129**
Available for sale financial assets	6 192	65	-	**6 257**	3 634	67	-	**3 701**
Due from credit institutions with a maturity of more than 3 months	-	6 432	-	**6 432**	-	8 569	-	**8 569**
Loans	-	-	92 290	**92 290**	-	-	43 480	**43 480**
Other assets	-	340	2 774	**3 114**	-	1 404	1 268	**2 672**
Total financial assets	**14 537**	**174 837**	**95 064**	**284 438**	**8 763**	**202 017**	**44 748**	**255 528**
LIABILITIES								
Due to credit institutions	-	16 561	-	**16 561**	-	4 969	-	**4 969**
Held for trading financial liabilities	-	2	-	**2**	-	3	-	**3**
Due to customers	-	-	232 697	**232 697**	-	-	225 359	**225 359**
Debt securities issued	-	-	3 518	**3 518**	-	-	-	**-**
Subordinated liabilities	-	-	1 208	**1 208**	-	-	1 335	**1 335**
Other liabilities	-	638	2 665	**3 303**	-	1 713	8 034	**9 747**
Total financial liabilities	**-**	**17 201**	**240 088**	**257 289**	**-**	**6 685**	**234 728**	**241 413**
OFF-BALANCE SHEET ITEMS								
Contingent liabilities	-	617	-	**617**	-	566	-	**566**
Commitments to clients	-	14 093	4 387	**18 480**	-	14 171	159	**14 330**
Total off-balance sheet financial liabilities	**-**	**14 710**	**4 387**	**19 097**	**-**	**14 737**	**159**	**14 896**

NOTES TO THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

In thousands of lats

43 THE BANK'S GEOGRAPHICAL ANALYSIS OF ASSETS, LIABILITIES AND OFF-BALANCE SHEET ITEMS

The management of the Bank manages risk separately for each Bank's subsidiary. Therefore the below table summarizes the Bank's geographical analysis. The Group's geographical analysis is not materially different from Bank's geographical analysis.

31 December 2007	Latvia	EU	USA	Russia	Ukraine	Other countries	Total
ASSETS							
Cash and balances due from the Bank of Latvia	17 993	-	-	-	-	-	17 993
Due from credit institutions with a maturity of less than 3 months	21 250	94 456	-	10 855	7 535	16 736	150 832
Held for trading financial assets	58	164	175	4 947	238	2 763	8 345
Available for sale financial assets	500	4 745	15	-	-	997	6 257
Due from credit institutions with a maturity of more than 3 months	484	704	-	662	4 508	74	6 432
Loans	66 180	10 856	244	101	12 154	2 755	92 290
Accrued income and deferred expenses	99	33	2	102	5	16	257
Long-term projects costs	2 217	-	-	-	-	-	2 217
Tangible assets	2 142	-	-	-	-	-	2 142
Intangible assets	205	-	-	-	-	-	205
Investments in share capital of subsidiary	2	-	-	-	-	-	2
Deferred tax assets	25	-	-	-	-	-	25
Other assets	458	2 615	-	16	8	33	3 130
Total assets	**111 613**	**113 573**	**436**	**16 683**	**24 448**	**23 374**	**290 127**
LIABILITIES							
Due to credit institutions	1 312	11 579	-	4	3 649	17	16 561
Held for trading financial liabilities	-	-	2	-	-	-	2
Due to customers	8 684	76 029	12 314	3 227	493	131 950[1]	232 697
Debt securities issued	3 518	-	-	-	-	-	3 518
Accrued expenses and deferred income	519	98	8	1	60	12	698
Corporate income tax liabilities	766	-	-	-	-	-	766
Subordinated liabilities	223	-	-	-	-	985	1 208
Other liabilities	2 214	138	-	54	1	953	3 360
Total liabilities	**17 236**	**87 844**	**12 324**	**3 286**	**4 203**	**133 917**	**258 810**
OFF-BALANCE SHEET COMMITMENTS							
Contingent liabilities	185	371	-	-	28	33	617
Commitments to clients	16 545	25	42	40	456	1 372	18 480
Total off-balance sheet commitments	**16 730**	**396**	**42**	**40**	**484**	**1 405**	**19 097**
Net position as at 31 December 2007	**77 647**	**25 333**	**(11 930)**	**13 357**	**19 761**	**(111 948)**	**12 220**

[1] This balance sheet item includes customer deposits whose registration country is the British Virgin Islands, Republic of Panama, Belize, New Zealand, Marshall Islands and other similar countries.

NOTES TO THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

In thousands of lats

43 THE BANK'S GEOGRAPHICAL ANALYSIS OF ASSETS, LIABILITIES AND OFF-BALANCE SHEET ITEMS (continued)

31 December 2006	Latvia	EU	USA	Russia	Ukraine	Other countries	Total
ASSETS							
Cash and balances due from the Bank of Latvia	18 706	-	-	-	-	-	18 706
Due from credit institutions with a maturity of less than 3 months	21 163	130 081	-	6 921	3 179	12 335	173 679
Held for trading financial assets	-	109	-	2 448	217	2 355	5 129
Available for sale financial assets	666	592	2 056	-	-	387	3 701
Due from credit institutions with a maturity of more than 3 months	1 952	-	-	600	4 667	1 350	8 569
Loans	28 326	2 633	527	278	8 595	3 121	43 480
Accrued income and deferred expenses	112	-	18	23	22	32	207
Long-term projects costs	4 704	-	-	-	-	-	4 704
Tangible assets	1 258	-	-	-	-	-	1 258
Intangible assets	190	-	-	-	-	-	190
Investments in share capital of subsidiary	2	-	-	-	-	-	2
Other assets	1 838	1 121	24	-	1	58	3 042
Total assets	**78 917**	**134 536**	**2 625**	**10 270**	**16 681**	**19 638**	**262 667**
LIABILITIES							
Due to credit institutions	1 568	159	-	96	1 446	1 700	4 969
Held for trading financial liabilities	-	-	3	-	-	-	3
Due to customers	12 639	47 908	21 228	664	779	142 141	225 359
Accrued expenses and deferred income	367	25	20	7	8	26	453
Provisions for contingent liabilities:	-	-	-	21	-	-	21
Corporate income tax liabilities	830	-	-	-	-	-	830
Deferred tax liabilities	15	-	-	-	-	-	15
Subordinated liabilities	244	-	-	-	-	1 091	1 335
Other liabilities	9 779	30	-	-	-	176	9 985
Total liabilities	**25 442**	**48 122**	**21 251**	**788**	**2 233**	**145 134**	**242 970**
OFF-BALANCE SHEET COMMITMENTS							
Contingent liabilities	194	367	-	26	-	-	587
Commitments to clients	5 798	3 387	174	2	53	4 916	14 330
Total off-balance sheet commitments	**5 992**	**3 754**	**174**	**28**	**53**	**4 916**	**14 917**
Net position as at 31 December 2006	**47 483**	**82 660**	**(18 800)**	**9 454**	**14 395**	**(130 412)**	**4 780**

NOTES TO THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

In thousands of lats

44 THE GROUP'S ANALYSIS OF SEGMENTS

The following analysis of segments is based on the Bank's internal reporting forms.

(1) Balance sheet

	31.12.2007	**31.12.2006**
Cash	17 993	18 705
Balance from credit institutions	157 669	182 212
Loans and receivables	93 526	45 111
Latvian state fixed income securities	-	299
Other state fixed income securities	11 809	7 987
Shares and other investments	2 446	455
Fixed assets and intangible assets	4 493	6 081
Other assets	4 960	4 294
Total assets	**292 896**	**265 144**
Balances due to banks	21 694	4 980
Deposits	227 768	225 315
Issued bonds	3 501	-
Other liabilities	4 535	11 107
Impairment and accrued liabilities	2 619	2 759
Equity	32 779	20 983
Total equity and liabilities	**292 896**	**265 144**
Total assets per internal reporting	**292 896**	**265 144**
Reconciling items:		
Impairment[1]	*(1 472)*	*(1 604)*
Other reconciling items[2]	*(1 297)*	*(873)*
Total assets per IFRS statements	**290 127**	**262 667**
Total liabilities per internal reporting	**260 117**	**244 161**
Reconciling items:		
Impairment[1]	*(1 472)*	*(1 604)*
Subordinated liabilities[3]	*1 208*	*1 335*
Other reconciling items[2]	*(1 043)*	*(922)*
Total liabilities per IFRS statements	**258 810**	**242 970**

[1] For internal reporting purposes impairment is shown as a liability and not netted with related assets.

[2] Other reconciling items mostly represent cut-off and classification required by IFRS.

[3] For internal reporting purposes subordinated liabilities are classified as equity.

In thousands of lats

44 THE GROUP'S ANALYSIS OF SEGMENTS

The following analysis of segments is based on the Bank's internal reporting forms.

(2) Profit and loss statement

	2007	2006
Interest revenue	15 902	11 340
Commission revenue	6 657	5 758
Profit from trading	8 727	5 367
Impairment	167	170
Other income	427	101
Total revenues	**31 880**	**22 736**
Interest expenses	2 049	1 535
Commission expenses	1 821	1 592
Administration expenses[1]	8 661	6 463
Tax expenses	3 178	2 081
Impairment	111	899
Other	22	19
Total expenses	**15 842**	**12 589**
Profit	**16 038**	**10 147**
Total revenues per internal reporting	**22 559**	**17 098**
Reconciling item[2]	96	26
Total revenues per IFRS statements	**22 655**	**17 124**

[1] Administration expenses include depreciation expenses in amount of LVL 472 thousand (2006: LVL 390).

[2] Reconciling item is mainly due to cut-off, as well as nominal interest rate accounting used for internal reporting purposes in contrast to effective interest rate accounting used for IFRS compliant financial statements.

Revenue split by location of the customer

	2007		2006	
	Latvian residents	Latvian non-residents	Latvian residents	Latvian non-residents
Interest revenue	5 381	10 678	3 088	8 334
Fee and commission revenue	271	6 306	218	5 431
Dividends revenue	2	17	-	53
Total revenues	**5 654**	**17 001**	**3 306**	**13 818**

All non-current assets other than financial instruments are located in Latvia. Additions to non-current assets during year 2007 amounted to LVL 1 382 thousand (2006: LVL 883 thousand).

45 RISK CONTROL AND MANAGEMENT

As the amount of transactions at the Group's level was insignificant, the Bank performs management of the relevant risks individually, except credit risk which is managed at the Group's level. The same procedures that are described below are used for risk management at the Group's level.

(1) General principles

In order to manage risks and comply with regulations concerning performance indicators of the Bank activities - capital adequacy, liquidity, foreign currency positions and risk control and administration of Bank transactions, there are certain policies approved by the Bank. These include Risk Management Policy and other policies, Capital Adequacy Assessment Policy, Liquidity Management Policy, Foreign Currency Risk Management Policy, State Risk Management Policy, Lending Policy, Trading Portfolio Policy other others, which the Bank Council and Board have been approved. These policies are developed according to the Strategic Plan of the Bank and they are regularly updated taking account of the development of the market and Bank activities.

These policies define the principles according to which the Bank defines:

- ✓ general guidelines which govern the Bank in its activities in order to minimise all kinds of risks which may result in losses ;
- ✓ classification of risk transactions and other risks to which the Bank is exposed in its operating activities;
- ✓ general day-to-day control and administration of risks of the Bank.

The main purpose of the Risk Management Policy of the Bank is to describe and determine an aggregate of means with help of which the Bank would be able to ultimately minimise any probability of incurring losses in situations where the funds deposited by the Bank or the funds that are due to the Bank are not paid on time and in the full amount, or the Bank incurs losses of another kind.

The Risk Management Policy of the Bank is implemented by the Bank Council, Board, Asset-Liability Assessment Committee (hereinafter – ALCO), Loan Committee, Loan Assessment Committee and respective Bank subdivisions controlling risk transactions.

The Council provides general management of the Bank ensuring achievement of goals and targets set in the Articles of Association. To exercise control over the risk management system of the Bank, the Council approves internal risk management policies, ensures compliance with such policies, their efficiency analysis and improvement.

The Board provides day-to-day management of the Bank ensuring compliance with internal documents which set out risk management procedures and requirements, distribution of powers and responsibilities among subdivisions and elaboration, approval and submission of risk management reports. The Board ensures identification and management of operational risks.

NOTES TO THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

45 RISK CONTROL AND MANAGEMENT (continued)

(1) General principles (continued)

ALCO Committee determines the asset-liability structure of the Bank, sets and monitors parametres controlling balance and off-balance sheet positions - limits for positions of assets and liabilities; where necessary, it sets the volume of special provisions for doubtful loans, save for the portfolio of commercial loans where reserves are set by the Loan Committee; ensures the Bank's ability to fulfill its current financial liabilities, takes charge of long-term liquidity of the Bank by forming a balanced asset-liability term-structure; takes care of ensuring the Bank contingent activities with financial resources; analyses, assesses and controls risks of the Bank on a regular basis; elaborates and revises regularly limits restricting risks of the Bank; keeps track of compliance with these limits; determines assets/liabilities portfolios of the Bank (commercial loans, interbank loans, securities and others) and their limits; determines administrators of portfolios and guidelines of administration; defines and conducts correspondent banking policy of the Bank; at least once a quarter provides assessment of correspondent banks and state of correspondent accounts.

Loan Committee is in charge of elaboration of the Bank Lending Policy; formation of the loan portfolio and its management within the framework of the Lending Policy; considers loan applications and guarantee requests; takes decisions on lending terms and conditions and interest rates of loans to be granted; on a regular basis (at least once a month) inspects the quality of loan portfolio.

Loan Assessment Committee develops certain procedures in order to timely identify impairment of loan quality, ie. main criteria for assessment and classification; revises procedures in place on a regular basis and, where necessary, amend the same regularly but no less than once a quarter, provides assessment of loan quality of the Bank and classification according to the respective risk degree and based on the assessment and classification criteria.

NOTES TO THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

45 RISK CONTROL AND MANAGEMENT (continued)

(2) Capital Adequacy Assessment Process

For the purpose of capital adequacy assessment and in accordance with its capital adequacy maintenance strategy the Bank has defined that capital is an aggregate of elements of capital, reserves and liabilities which are freely available to the Bank to cover contingent, yet not identified, losses related to risks of ordinary activities. To assess capital adequacy the Bank applies the "First Pillar+" approach using as a basis regulatory minimum capital requirements and including the following risks and assessment methods:

- ✓ for credit risk capital requirements – *standardised approach;*
- ✓ for market risk capital requirements - *standardised approach;*
- ✓ for operational risk capital requirements – *key figure approach.*

To ensure capital adequacy the Bank provides for the following capital increment sources:

- ✓ increase of capital through share issue;
- ✓ attraction of subordinated capital;
- ✓ formation of operation development reserves from profit of the Bank;
- ✓ retained earnings from the previous year;
- ✓ audited profit of the current year (by permission of the Financial and Capital Market Commission).

The Bank has prepared a contingency plan to maintain its capital adequacy in case of threat for the capital adequacy ratio to fall under the established standard. In addition to the above described capital increasing sources, the plan foresees:

- ✓ improvement of asset quality;
- ✓ asset restructuring for the purpose of minimising the share of risk group assets;
- ✓ application of Tier 3 capital elements (by permission of the Financial and Capital Market Commission).

NOTES TO THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

45 RISK CONTROL AND MANAGEMENT (continued)

(2) Capital Adequacy Assessment Process (continued)

The ratio of the Bank's value of shareholder equity to its weighted assets and off-balance sheet liabilities is managed so as not to fall below 8%. The analysis of the actual figure is provided in the table below:

	2007	2006
	%	%
31 December	15.73	12.84
Average for the period	12.04	11.21
Highest level	15.73	14.55
Lowest level	9.46	8.30

(3) Credit Risk

Credit risks – is a risk of incurring losses if a borrower (debtor of the Bank) may not fulfill or refuse to fulfill its liabilities to the Bank according to the terms and conditions of the agreement.

The Bank provides assessment of its loan quality on a regular basis which allows timely identification of contingent losses and operational risks if the loan quality impairs. The loans granted by the Bank and its subsidiaries are regularly supervised and assessed in order to minimise the amount of maximum losses that the Bank and its subsidiaries may incur in transactions with domestic and foreign customers.

The Bank Lending Policy specifies general guidelines according to which the Bank provides lending services. It defines the general procedure for issue of loans and guarantees and loan repayment; the procedure for control and supervision of risk transactions; classification of credit portfolio and procedure for implementation of security measures in case of potential losses.

Creating its Loan Portfolio, the Bank controls concentration of risks and complies with the restrictions of maximum volume. In order to minimise exposure to credit risks and prevent concentration of credit means the Bank manages diversification of its loan portfolio by countries, industries and loan types, and set limits for transactions per one customer or counterparty.

In order to meet the limits set by the Bank State Risk Management Policy, the Bank provides daily and monthly reviews of these limits. The limits for transaction partners and types of transactions are determined by evaluating state risks and risks of transaction partners.

(4) Liquidity risk

Liquidity risk – a risk that the Bank may not be able on a daily basis and/or in the future to fulfill timely obligations in regard to legally sound claims without suffering substantial losses, and may not surmount unplanned changes in Bank resources and/or market conditions due to insufficient volume of liquid assets.

45 RISK CONTROL AND MANAGEMENT (continued)

(4) Liquidity risk (continued)

The Bank Liquidity Risk Management Policy specifies general guidelines according to which the Bank determines its asset-liability structure and their quality, internal limits for liquidity net positions of asset-liability term-structure and liquidity net positions in lats, dollars and euros separately; procedure and frequency for assessment of term-structure; internal limits for maximum amount of deposits which can be attracted from one customer (mutually related customer groups); measures in case of non-compliance with the internal limits and contingency plan to surmount a crisis.

The Bank monitors its liquidity in both short and long-term positions, bearing in mind the regulations on liquidity requirements for credit institutions set by FCMC. The Bank maintains a high level of internal liquidity (liquidity reserve) on a daily basis by attracting additional resources from outside in order to remove any doubts as to liquidity of the Bank on the part of its customers and the market and to prevent any excess losses. To ensure sufficient liquidity, the Bank provides regular assessment and control of asset-liability term-structure. The Bank maintains liquid assets in the amount which is sufficient to fulfill its liabilities but not less than 30% of the total amount of its current liabilities (liquidity ratio). The actual liquidity ratio for the reporting period is presented in the table below:

	2007	2006
	%	%
31 December	69.28	79.80
Average for the period	71.83	80.25
Highest level	84.87	87.63
Lowest level	61.06	75.28

(5) Market risk

Market risk – is a risk to incur losses due to revaluation of balance sheet and off-balance sheet items which is related to changes of market prices of financial instruments, including derivatives, caused by fluctuation of currency rates and interest rates.

Currency risk is a risk to incur losses due to revaluation of balance and off-balance sheet items denominated in foreign currency when currency exchange rates change. The Bank Currency Risk Management Policy specifies general guidelines which govern the Bank in formation of its currency asset-liability structure; in general daily control and management of currency risks of the Bank and in defining its safeguard mechanism against contingent currency risks.

NOTES TO THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

45 RISK CONTROL AND MANAGEMENT (continued)

(5) Market risk (continued)

To ensure control of currency risks the Bank defines limits for the currency risk to which it can be exposed and keeps track whether its assets are in a balanced position in relation to liabilities in the respective currencies (ie., the Bank maintains as minimal as possible its currency positions and the total currency position). To control its currency exposure the Bank determines restrictions for positions of each foreign currency and of the total open position and their relation against the equity capital and various types of limits. As a result the Bank ensures that it complies with the required standards. According to the Law on Credit Institutions the total open position in foreign currencies cannot exceed 20% of equity capital. The analysis of the total open position in foreign currencies of the Bank is presented in the table below:

	2007	2006
	%	%
31 December	14.19	1.50
Average for the period	6.98	3.77
Highest level	2.84	8.01
Lowest level	17.36	1.17

Interest rate risk is a risk that market changes of interest rates may affect financial standing of the Bank. The day-to-day activity of the Bank is related to interest rate exposure which is affected by maturity dates of the assets, liabilities and off-balance sheet items that are related to interest income and expenses and interest rate revision dates. The Bank Interest Rate Risk Management Policy defines the interest rate risk measurement methodology which covers the main sources of interest rate exposures and allows assessing the impact of interest rate exposure on earnings of the Bank and its economic value; internal limits of interest rate risk and measures to be taken in case of noncompliance with these limits; procedure for stress testing and its frequency, including assumptions of possible development scenarios and conditions in which the Bank may incur substantial losses due to interest rate exposure (if the losses thereof exceeds 20% of equity capital), and assumptions and feasible plan of actions.

The Bank provides thorough assessment of these risks. Their long-term assessment includes preparation of annual budgets but short-term assessment is provided through regular asset-liability diversification and revision of interest rates. To measure the exposure to interest rate risk the Bank applies spread analysis method. This method sets the net position of interest rate risk as a spread between assets, liabilities and off-balance sheet items which are interest rate sensitive according to their remaining maturities.

As a part of implementation of the Trade Portfolio Policy, the Bank values assets in the trading portfolio on a daily basis. Thus, it allows increased efficiency for the short-term investments of the Bank.

NOTES TO THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

45 RISK CONTROL AND MANAGEMENT (continued)

(6) Operational risk

Operational risk – a risk is a possibility to incur losses due to irrelevant or incomplete fulfillment of internal processes, human actions or system functioning or due to the influence of external circumstances, including legal risk, except for strategic or reputation risks. The Operational Risk Management Policy sets operational risk management objectives; definition of operational risk that is intended for internal use and that corresponds to the application and experience of the Bank; the key processes and priorities of the operational risk management; approach that is to be applied to identification, assessment, supervision and control of operational risks, and methods of operational risk mitigation and basic principles for provision of continuity of operations, which include methods chosen by the Bank to handle emergency situations .

The Bank provides regular supervision of identified inherent operational risks in regard to all its major products, types of activities, processes and systems in order to discover and eliminate on time any discrepancies regarding the Operational Risk Management Policy and procedures and, therefore, considerably minimise the frequency of possible occurrence of operational losses and their size.

The Bank applies the following methods to operational risk mitigation:

- ✓ investments into respective data processing and information security technologies;
- ✓ investments into training of personnel;
- ✓ outsourcing in situations where service providers have more experience or higher potential in management of operational risks related to certain activities of the Bank;
- ✓ insurance (if necessary), making sure that its use for operational risk mitigation does not create other types of risk (legal risk or business partner risk);
- ✓ elaboration of a plan for provision of continuity of operations.

NOTES TO THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

45 RISK CONTROL AND MANAGEMENT (continued)

(7) Internal Control System for Prevention of Laundering of Proceeds Derived From Crime and Financing of Terrorism.

Prevention of laundering of proceeds derived from criminal activity and financing of terrorism is a relevant issue for those institutions that are involved in provision of financial services.

JSC „TRASTA KOMERCBANKA" is fully aware that when rendering financial services to its customers the Bank is exposed to risk associated with laundering of money from criminal and terrorist activities.

In order to prevent the risk of others using financial services rendered by the Bank for laundering of proceeds derived from criminal activity and financing of terrorism", the Bank has established and implemented its internal control system (hereinafter – ICS) which includes an aggregate of measures and procedures aimed at minimising the above mentioned risk.

Within the framework of ICS the Bank has defined the procedure for identification of customers (actual beneficiaries), unusual and suspicious transactions and reporting thereof; it has developed a risk-based approach to approval of prospective customers and supervision of customer transactions. The Bank organises regular training of personnel in order to provide its employees with required knowledge about prevention of money laundering and financing of terrorism and with practical application of this knowledge to meet the requirements set in ICS documents.

In 2007 a group of employees of the Bank participated in training organised by the Consulting and Training Centre of the Association of Latvian Commercial Banks (LCBA). They successfully accomplished a course in prevention of laundering of proceeds derived from criminal activity and financing of terrorism, passed the exam and obtained a relevant certificate. At the moment 30 employees of the Bank have such certificates.

LCBA is actively engaged in development of a comprehensive money laundering prevention system in Latvia. It takes part in drafting of legislative acts and their improvement, cooperates with government institutions, and does extensive educating work with bank specialists and the public at large. Representatives of our Bank are regular participants at meetings of the Control Committee of LCBA which is in charge of enhancement of the system of prevention of money laundering and financing of terrorism for the whole banking system of Latvia. JSC "TRASTA KOMERCBANKA" has joined the declaration of the Association of Latvian Commercial Banks on "Taking Aggressive Action Against Money Laundering".

AML Compliance Committee of the Bank on a regular basis works to improve the internal control system for prevention of money laundering and financing of terrorism. Every year a plan is drawn up concerning the activities to be performed and improvements to be introduced, and reports on compliance with this plan are prepared and submitted to the Bank Council and Board on a regular basis.

Regular inspections of activities of the Bank are performed by FCMC. If any noncompliance is identified, the Bank immediately eliminates the same.

NOTES TO THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

In thousands of lats

46 CREDIT RISK

As one of the Bank's subsidiaries extends finance leases and loans, credit quality management of financial assets is carried out by the Bank's management on a consolidated basis. Therefore, in the opinion of the Bank's management, presenting information in the tables analysing aging and credit quality of the financial assets only for the Group increases quality of information and provides the most realistic information about credit quality.

(1) Maximum exposure to credit risk by types of financial assets

	The Group		The Bank	
	2007	2006	2007	2006
ASSETS				
Cash and balances due from the Bank of Latvia	17 168	18 298	17 168	18 298
Due from credit institutions with a maturity of less than 3 months	150 832	173 679	150 832	173 679
Held for trading financial assets	8 345	5 129	8 345	5 129
Available for sale financial assets	6 257	3 701	6 257	3 701
Due from credit institutions with a maturity of more than 3 months	6 432	8 569	6 432	8 569
Loans	91 561	43 493	92 290	43 480
Other assets	3 141	2 666	3 114	2 672
TOTAL ASSETS	**283 736**	**255 535**	**284 438**	**255 528**
OFF-BALANCE SHEET ITEMS				
Contingent liabilities	617	566	617	566
Commitments to clients	17 040	13 366	18 480	14 330
TOTAL OFF-BALANCE SHEET LIABILITIES	**17 657**	**13 932**	**19 097**	**14 896**

The maximum exposure to credit risk reflects the value of financial assets and off-balance liabilities exposed to credit risk and is not reduced for the value of security or other factors reducing the credit.

In thousands of lats

46 CREDIT RISK (continued)

(2) Analysis of a summary of the credit quality of the Group's financial assets and off-balance sheet liabilities

	Assets not past due nor impaired	Assets past due but not impaired	Impaired assets	Total
		2007		
Cash and balances due from the Bank of Latvia	17 168	-	-	17 168
Due from credit institutions with a maturity of less than 3 months	150 832	-	-	150 832
Held for trading financial assets	8 345	-	-	8 345
Available for sale financial assets	6 257	-	-	6 257
Due from credit institutions with a maturity of more than 3 months	6 432	-	-	6 432
Loans	83 448	7 173	940 [1]	91 561
Other assets	3 141	-	-	3 141
TOTAL ASSETS	**275 623**	**7 173**	**940**	**283 736**
Contingent liabilities	617	-	-	617
Commitments to clients	17 040	-	-	17 040
TOTAL OFF-BALANCE SHEET LIABILITIES	**17 657**	**-**	**-**	**17 657**
		2006		
Cash and balances due from the Bank of Latvia	18 298	-	-	18 298
Due from credit institutions with a maturity of less than 3 months	173 679	-	-	173 679
Held for trading financial assets	5 129	-	-	5 129
Available for sale financial assets	3 701	-	-	3 701
Due from credit institutions with a maturity of more than 3 months	8 569	-	-	8 569
Loans	43 086	376	31 [1]	43 493
Other assets	2 666	-	-	2 666
TOTAL ASSETS	**255 128**	**376**	**31**	**255 535**
Contingent liabilities	545	-	21	566
Commitments to clients	13 366	-	-	13 366
TOTAL OFF-BALANCE SHEET LIABILITIES	**13 911**	**-**	**21**	**13 932**

[1] Criteria of loan evaluation are described in Note 21, (2) and 46, (4).

In thousands of lats

46 CREDIT RISK (continued)

(3) Analysis of the Group's financial assets neither past due nor impaired (Note 46, (2))

	By groups of classification	By ratings	Other	Total
		2007		
Cash and balances due from the Bank of Latvia	-	17 168	-	17 168
Due from credit institutions with a maturity of less than 3 months	-	150 832	-	150 832
Held for trading financial assets	-	8 345	-	8 345
Available for sale financial assets	-	6 257	-	6 257
Due from credit institutions with a maturity over than 3 months	-	6 432	-	6 432
Loans	83 448	-	-	83 448
Other assets	-	340	2 801	3 141
TOTAL ASSETS	**83 448**	**189 374**	**2 801**	**275 623**
Contingent liabilities	617	-	-	617
Commitments to clients	12 653	-	4 387	17 040
TOTAL OFF-BALANCE SHEET LIABILITIES	**13 270**	**-**	**4 387**	**17 657**
		2006		
Cash and balances due from the Bank of Latvia	-	18 298	-	18 298
Due from credit institutions with a maturity of less than 3 months	-	173 679	-	173 679
Held for trading financial assets	-	5 129	-	5 129
Available for sale financial assets	-	3 701	-	3 701
Due from credit institutions with a maturity over than 3 months	-	8 569	-	8 569
Loans	43 086	-	-	43 086
Other assets	-	1 404	1 262	2 666
TOTAL ASSETS	**43 086**	**210 780**	**1 262**	**255 128**
Contingent liabilities	545	-	-	545
Commitments to clients	13 207	-	159	13 366
TOTAL OFF-BALANCE SHEET LIABILITIES	**13 752**	**-**	**159**	**13 911**

NOTES TO THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

In thousands of lats

46 CREDIT RISK (continued)

(4) Analysis of the Group's financial assets neither past due nor impaired with credit quality assessed by groups of classification

	Standard	Under supervision	Substandard	Doubtful	Lost	Total
			2007			
Companies	61 010	-	-	-	-	61 010
Individuals	19 685	-	-	-	-	19 685
Financial institutions	1 325	-	-	-	-	1 325
Employees	1 428	-	-	-	-	1 428
Total assets	**83 448**	**-**	**-**	**-**	**-**	**83 448**
			2006			
Companies	29 692	-	-	-	-	29 692
Individuals	10 835	-	-	-	-	10 835
Financial institutions	1 354	-	-	-	-	1 354
Employees	1 205	-	-	-	-	1 205
Total assets	**43 086**	**-**	**-**	**-**	**-**	**43 086**

Standard loans are loans for which there is no indication that they will not be paid, i.e. no problem is expected to occur with loan repayment, as the current and forecast cash flows are sufficient to repay the debt, or where the debt repayment is late for up to 5 days. Loans dependent on security are also classified as standard loans where the intrinsic value of their security (including the event of forced sale) equals or exceeds the sum of the debt, provided that the security can be sold in time, that there is a liquid market and that the Bank/subsidiary has no legal obstacles to alienate the security.

Loans under supervision are loans which require increased supervision from the Bank's management due to their potential insecurity, which, unless the situation is changed, may in future affect the ability to repay the debt and cause damages to the Bank. Loans are classified as loans under supervision where the economic or market conditions may have a negative effect on the borrower; if a tendency to deteriorate is observed in the borrowers activities or if the borrowers balance contains unbalanced items which, however, are not so important as to endanger the ability to repay the debt; where a borrower is late with debt repayment for up to 30 days; where a borrower is late with debt repayment for a period of 31 to 90 days but the secondary source for loan repayment is secure; where there is doubt as to the condition of the loans dependent on security and the ability to control it; where it impossible to ensure proper loan supervision due to contract quality.

46 CREDIT RISK

(4) Analysis of the Group's financial assets with credit quality assessed by groups of classification (continued)

Substandard loans are loans with a clearly marked degree of insecurity which causes doubt as to the ability to repay the debt in full and which will cause damages to the Bank unless this insecurity is prevented. Loans are classified as substandard loans where the borrower's cash flow is insufficient to make debt repayments on a regular basis; where the Bank does not receive satisfactory regular information on the financial standing of the borrower or relevant documents about loan security and sources of debt repayment; where a borrower is late with debt repayment for a period of 31 to 90 days; where the financial standing of a borrower becomes insecure, the debt repayment is late for more than 90 days but the secondary source for loan repayment is secure.

Doubtful loans are loans due to which there is a great probability of the Bank sustaining damages, the extent of the damages cannot be assessed precisely at the time of assessment but where there is reasonable hope to recover part of the loan. Loans are classified as doubtful loans where they have been extended to borrowers with liquidity problems and showing actual signs of insolvency; which are to be wound up and whose assets value is insufficient to meet the claims of the Bank/subsidiary in full; which are late with their loan repayment for a period of 91 to 180 days and where the secondary source for loan repayment is problematic.

Lost loans are loans which have no real value at the time of assessment. Loans are classified as lost loans where the borrower is late with debt repayment for more than 180 days; where the borrower has died, is missing or has discontinued his activity; where the borrower has been declared insolvent by a court ruling (a bankruptcy procedure has been initiated).

NOTES TO THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

In thousands of lats

46 CREDIT RISK (continued)

(5) Analysis of the Group's financial assets with credit quality assessed by credit ratings (Note 46, (2))

	Class 1	Class 2	Class 3	Class 4	Class 5	Class 6	No ratings	Total
				2007				
Cash and balances due from the Bank of Latvia	-	17 168	-	-	-	-	-	17 168
ue from credit institutions with a maturity of less than 3 months	88 508	14 508	-	23 503	-	-	24 313	150 832
Held for trading financial assets	28	-	1 516	3 181	1 986	164	1 470	8 345
Available for sale financial assets	3 356	2 338	15	-	48	-	500	6 257
Due from credit institutions with a maturity of more than 3 months	-	-	-	704	3 906	-	1 822	6 432
Other assets	233	-	-	5	5	-	97	340
Total assets	**92 125**	**34 014**	**1 531**	**27 393**	**5 945**	**164**	**28 202**	**189 374**
				2006				
Cash and balances due from the Bank of Latvia	-	18 298	-	-	-	-	-	18 298
Due from credit institutions with a maturity of less than 3 months	116 749	13 139	-	15 867	-	-	27 924	173 679
Held for trading financial assets	-	-	-	2 894	2 235	-	-	5 129
Available for sale financial assets	2 584	308	16	387	48	-	358	3 701
Due from credit institutions with a maturity of more than 3 months	-	-	-	1 353	4 512	-	2 704	8 569
Other assets	550	86	-	-	-	-	768	1 404
Total assets	**119 883**	**31 831**	**16**	**20 501**	**6 795**	**-**	**31 754**	**210 780**

Table of Rating Summary

Quality grade	Moody's Investors Service Ltd		FitchRatings		Standard&Poor's Ratings Services	
	Long-term rating	**Short-term rating**	**Long-term rating**	**Short-term rating**	**Long-term rating**	**Short-term rating**
Class 1	Aaa to Aa3	P-1	AAA to AA-	F-1+, F-1	AAA to AA-	A-1+, A-1
Class 2	A1 to A3	P-2	A+ to A-	F-2	A+ to A-	A-2
Class 3	Baa1 to Baa3	P-3	BBB+ to BBB-	F-3	BBB+ to BBB-	A-3
Class 4	Ba1 to Ba3	NP	BB+ to BB-	Lower than F3	BB+ to BB-	B-1, B-2, B-3, C
Class 5	B1 to B3		B+ to B-		B+ to B-	
Class 6	Caa1 and lower		CCC+ and lower		CCC+ and lower	

NOTES TO THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

In thousands of lats

46 CREDIT RISK (continued)

(6) Age analysis of the Group's financial assets past due but not impaired by time for which they are late (Note 46, (2))

	Up to 1 month	1 month to 3 months	3 months to 6 months	6 months to 1 year	1 year to 5 years	Total
			2007			
Companies	4 824	-	-	-	-	4 824
Individuals	2 349	-	-	-	-	2 349
Total assets	**7 173**	**-**	**-**	**-**	**-**	**7 173**
			2006			
Companies	101	-	-	-	-	101
Individuals	275	-	-	-	-	275
Total assets	**376**	**-**	**-**	**-**	**-**	**376**

(7) Analysis of revised loans which would otherwise be overdue and/or reduced in their value

	2007	2006
Companies	879	24
Individuals	61	7
Total assets	**940**	**31**

NOTES TO THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

In thousands of lats

47 LIQUIDITY RISK

(1) The Bank's maturity analysis of assets, liabilities and off-balance sheet items

The management of the Bank manages risk separately for each Bank's subsidiary. Therefore the below table summarizes the Bank's maturity analysis. The Group's maturity analysis is not materially different from Bank's maturity analysis.

According to terms of the payments to maturity

31 December 2007	Up to 1 month	1 month to 3 months	3 months to 6 months	6 months to 1 year	1 year to 5 years	Over 5 years	Un-dated	Total
ASSETS								
Cash and balances due from the Bank of Latvia	17 993	-	-	-	-	-	-	17 993
Due from credit institutions with a maturity of less than 3 months	150 832	-	-	-	-	-	-	150 832
Held for trading financial assets	77	60	46	9	2 394	3 379	2 380	8 345
Available for sale financial assets	1 361	1 343	2 512	835	141	-	65	6 257
Due from credit institutions with a maturity of more than 3 months	13	2 475	1 020	2 924	-	-	-	6 432
Loans	6 049	6 535	6 981	9 801	38 354	24 570	-	92 290
Accrued income and deferred expenses	148	23	26	31	29	-	-	257
Long-term projects costs	-	-	-	-	-	-	2 217	2 217
Tangible assets	-	-	-	-	-	-	2 142	2 142
Intangible assets	-	-	-	-	-	-	205	205
Investments in share capital of subsidiary	-	-	-	-	-	-	2	2
Deferred tax assets	-	-	-	-	-	-	25	25
Other assets	368	-	-	-	-	-	2 762	3 130
Total assets	**176 841**	**10 436**	**10 585**	**13 600**	**40 918**	**27 949**	**9 798**	**290 127**
LIABILITIES								
Due to credit institutions	5 350	24	25	11 162	-	-	-	16 561
Held for trading financial liabilities	2	-	-	-	-	-	-	2
Due to customers [1]	229 334	1 785	652	565	361	-	-	232 697
Debt securities issued	-	17	-	-	3 501	-	-	3 518
Accrued expenses and deferred income	694	2	2	-	-	-	-	698
Corporate income tax liabilities	-	766	-	-	-	-	-	766
Subordinated liabilities	-	-	-	-	1 208	-	-	1 208
Other liabilities	3 360	-	-	-	-	-	-	3 360
Total liabilities	**238 740**	**2 594**	**679**	**11 727**	**5 070**	**-**	**-**	**258 810**

[1] As at 31 December 2007 the Bank had one (2006: 0) balance with a single counterparty that exceeded 10% of the total assets of the Bank. This was balance in amount of LVL 33 949 thousand or 14.6% of total due to customers.

In thousands of lats

47 LIQUIDITY RISK (continued)

(1) The Bank's maturity analysis of assets, liabilities and off-balance sheet items (continued)

According to terms of the payments to maturity

31 December 2007	Up to 1 month	1 month to 3 months	3 months to 6 months	6 months to 1 year	1 year to 5 years	Over 5 years	Other	Total
Off-balance sheet commitments								
Contingent liabilities	617	-	-	-	-	-	-	617
Incl. secured by deposits, placed in the Bank [1]	*445*	-	-	-	-	-	-	*445*
Commitments to clients	14 142	96	129	255	1 251	2 607	-	18 480
Incl. secured by deposits, placed in the Bank[1] (Note 21, (5). and 36, (2))	*242*	-	-	-	-	-	-	*242*
Total off-balance sheet commitments	**14 759**	**96**	**129**	**255**	**1 251**	**2 607**	**-**	**19 097**
Liquidity net position as at 31 December 2007 [1]	**(75 971)**	**7 746**	**9 777**	**1 618**	**34 597**	**25 342**	**9 798**	**12 907**

[1] According to the Rules of performance of liquidity requirements of Credit Institution, Off-balance sheet liabilities secured by deposits are not required to be included in the net position calculation.

Off-balance liabilities with possible maturity before the agreement expires are disclosed in the maturity group "Up to 1 month".

In the maturity analysis trading and available-for-sale securities are stated according to their possible sales date. Assets that do not have a definite repayment or sales date are disclosed in the "Over 5 years" category. Liabilities with an indefinite due date or which are payable on demand are disclosed in the "Up to 1 month" category.

The Group and the Bank has prepared these consolidated financial statements and financial statements on a going concern basis notwithstanding the fact that it has a significant negative cumulative liquidity gap maturity in range from "up to 1 month" till "1 to 5 years" included of assets and liabilities. The Group's and Bank's management closely monitors and manages the Group's and Bank's liquidity position on a daily basis in accordance with the Group's and Bank's liquidity risk management framework. The negative cumulative liquidity gap in range from "up to 1 month" till "1 to 5 years" included of assets and liabilities as of December 31, 2007 and 2006 is substantially due to significant "up to 1 month" amounts due to customers. According to the past history of the Group and the Bank, customers' deposits are normally held with the Group and the Bank for periods significantly exceeding their stated maturity. The Group and the Bank has considered the risk of being adversely affected by liquidity issues and has taken actions to minimize the negative impact on the Group and the Bank. The Group's and Bank's ability to avoid adverse changes in its liquidity position is depending on management's effectiveness in the continuing execution of the actions taken.

NOTES TO THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

In thousands of lats

47 LIQUIDITY RISK (continued)

(1) The Bank's maturity analysis of assets, liabilities and off-balance sheet items (continued)

According to terms of the payments to maturity

31 December 2006	Up to 1 month	1 month to 3 months	3 months to 6 months	6 months to 1 year	1 year to 5 years	Over 5 years	Un-dated	Total
ASSETS								
Cash and balances due from the Bank of Latvia	18 706	-	-	-	-	-	-	18 706
Due from credit institutions with a maturity of less than 3 months	173 679	-	-	-	-	-	-	173 679
Held for trading financial assets	-	20	26	3	3 381	1 699	-	5 129
Available for sale financial assets	-	1 103	955	838	351	-	454	3 701
Due from credit institutions with a maturity of more than 3 months	24	1 072	1 856	5 617	-	-	-	8 569
Loans	2 336	1 555	3 848	8 443	20 811	6 487	-	43 480
Accrued income and deferred expenses	70	25	37	75	-	-	-	207
Long-term projects costs	-	-	-	-	-	-	4 704	4 704
Tangible assets	-	-	-	-	-	-	1 258	1 258
Intangible assets	-	-	-	-	-	-	190	190
Investments in share capital of subsidiary	-	-	-	-	-	-	2	2
Other assets	1 531	-	-	-	-	-	1 511	3 042
Total assets	**196 346**	**3 775**	**6 722**	**14 976**	**24 543**	**8 186**	**8 119**	**262 667**
LIABILITIES								
Due to credit institutions	4 823	-	28	91	27	-	-	4 969
Held for trading financial liabilities	3	-	-	-	-	-	-	3
Due to customers	218 886	3 571	1 103	762	1 037	-	-	225 359
Accrued expenses and deferred income	435	7	5	2	4	-	-	453
Provisions for contingent liabilities	21	-	-	-	-	-	-	21
Corporate income tax liabilities	-	830	-	-	-	-	-	830
Deferred tax liabilities	-	15	-	-	-	-	-	15
Subordinated liabilities	37	-	-	-	1 298	-	-	1 335
Other liabilities	9 985	-	-	-	-	-	-	9 985
Total liabilities	**234 190**	**4 423**	**1 136**	**855**	**2 366**	**-**	**-**	**242 970**

NOTES TO THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

In thousands of lats

47 LIQUIDITY RISK (continued)

(1) The Bank's maturity analysis of assets, liabilities and off-balance sheet items (continued)

According to terms of the payments to maturity

31 December 2006	Up to 1 month	1 month to 3 months	3 months to 6 months	6 months to 1 year	1 year to 5 years	Over 5 years	Other	Total
Off-balance sheet commitments								
Contingent liabilities	44	80	3	61	399	-	-	587
Incl. secured by deposits, placed in the Bank [1]	*23*	*22*	*-*	*43*	*367*	*-*	*-*	*455*
Commitments to clients	11 237	3 002	-	91	-	-	-	14 330
Incl. secured by deposits, placed in the Bank[1] *(Note 21, (5). and 36, (2))*	*27*	*-*	*-*	*91*	*-*	*-*	*-*	*118*
Total off-balance sheet commitments	**11 281**	**3 082**	**3**	**152**	**399**	**-**	**-**	**14 917**

Liquidity net position as at 31 December 2006 [1]	**(49 075)**	**(3 708)**	**5 583**	**14 103**	**22 145**	**8 186**	**8 119**	**5 353**

[1] According to the Rules of performance of liquidity requirements of Credit Institution, Off-balance sheet liabilities secured by deposits are not required to be included in the net position calculation.

In the maturity analysis trading and available-for-sale securities are stated according to their possible sales date. Assets that do not have a definite repayment or sales date are disclosed in the "Over 5 years" category. Liabilities with an indefinite due date or which are payable on demand are disclosed in the "Up to 1 month" category.

NOTES TO THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

In thousands of lats

47 LIQUIDITY RISK (continued)

(2) Analysis of the gross contractual future cash flow of the Bank's liabilities and off-balance items [1]

The cash flow of each subsidiary company of the Bank is managed individually by the Bank management. Therefore the table given below contains an analysis of the expected future cash flow of the Bank's liabilities. The analysis of the expected future cash flow of the Group's liabilities does not differ materially from that of the Bank.

31 December 2007	Up to 1 month	1 month to 3 months	3 months to 6 months	6 months to 1 year	1 year to 5 years	Over 5 years	Total
LIABILITIES							
Due to credit institutions	5 350	24	365	11 558	-	-	17 297
Held for trading financial liabilities	(45)	-	-	-	-	-	(45)
incl. forward foreign exchange receivable	*(4 302)*	-	-	-	-	-	*(4 302)*
incl. forward foreign exchange payable	*4 257*	-	-	-	-	-	*4 257*
Due to customers	234 081	1 919	297	589	373	-	237 259
Debt securities issued	-	53	51	101	4 322	-	4 527
Accrued expenses and deferred income	694	2	2	-	-	-	698
Subordinated liabilities	36	-	17	34	1 283	-	1 370
Other liabilities	3 020	-	-	-	-	-	3 020
incl. spot foreign exchange receivable	*(163 160)*	-	-	-	-	-	*(163 160)*
incl. spot foreign exchange payable	*163 458*	-	-	-	-	-	*163 458*
Total liabilities	**243 136**	**1 998**	**732**	**12 282**	**5 978**	**-**	**264 126**
OFF-BALANCE SHEET ITEMS							
Contingent liabilities	617	-	-	-	-	-	617
Commitments to clients	14 142	96	129	255	1 251	2 607	18 480
Total off-balance sheet liabilities [2]	**14 759**	**96**	**129**	**255**	**1 251**	**2 607**	**19 097**
Total as at 31 December 2007	**257 895**	**2 094**	**861**	**12 537**	**7 229**	**2 607**	**283 223**

[1] This analysis is based on the undiscounted liability cash flow which includes interest payments as well as the gross value of the cash flow of derivative instruments.

[2] The Bank is of the opinion that not all possible liabilities and obligations against its customers will be fulfilled before or at the end of the term of liabilities.

NOTES TO THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

In thousands of lats

47 LIQUIDITY RISK (continued)

(2) Analysis of the expected future cash flow of the Bank's liabilities and off-balance items (continued)

31 December 2006	Up to 1 month	1 month to 3 months	3 months to 6 months	6 months to 1 year	1 year to 5 years	Over 5 years	Total
LIABILITIES							
Due to credit institutions	4 823	-	28	92	27	-	4 970
Held for trading financial liabilities	3	-	-	-	-	-	3
incl. forward foreign exchange receivable	*(908)*	-	-	-	-	-	*(908)*
incl. forward foreign exchange payable	*911*	-	-	-	-	-	*911*
Due to customers	219 420	3 279	1 134	735	965	-	225 533
Accrued expenses and deferred income	435	7	5	2	4	-	453
Subordinated liabilities	37	-	19	38	1 516	-	1 610
Other liabilities	8 581	-	-	-	-	-	8 581
incl. spot foreign exchange receivable	*(829 619)*	-	-	-	-	-	*(829 619)*
incl. spot foreign exchange payable	*829 928*	-	-	-	-	-	*829 928*
Total liabilities	**233 299**	**3 286**	**1 186**	**867**	**2 512**	**-**	**241 150**
OFF-BALANCE SHEET ITEMS							
Contingent liabilities	587	-	-	-	-	-	587
Commitments to clients	11 237	3 002	-	91	-	-	14 330
Total off-balance sheet liabilities	**11 824**	**3 002**	**-**	**91**	**-**	**-**	**14 917**
Total as at 31 December 2006	**245 123**	**6 288**	**1 186**	**958**	**2 512**	**-**	**256 067**

NOTES TO THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

In thousands of lats

48 MARKET RISK

The management of the Bank manages risk separately for each Bank's subsidiary. Therefore the below table summarizes the Bank's repricing maturity analysis. The Group's repricing maturity analysis is not materially different from Bank's repricing maturity analysis.

(1) Interest rate exposure analysis according to the next repricing dates of rate changes [1]

31 December 2007	Up to 1 month	1 month to 3 months	3 months to 6 months	6 months to 1 year	1 year to 5 years	Over 5 years	Other (non-interest bearing)	Total
ASSETS								
Cash and balances due from the Bank of Latvia	17 168	-	-	-	-	-	825	17 993
Due from credit institutions with a maturity of less than 3 months	150 832	-	-	-	-	-	-	150 832
Held for trading financial assets	-	-	-	-	2 394	3 379	2 572	8 345
Available for sale financial assets	1 304	1 453	2 799	481	-	-	220	6 257
Due from credit institutions with a maturity more than 3 months	-	3 412	751	2 221	-	-	48	6 432
Loans	5 290	47 632	4 530	5 547	16 545	10 697	2 049	92 290
Accrued income and deferred expenses	-	-	-	-	-	-	257	257
Long-term projects costs	-	-	-	-	-	-	2 217	2 217
Tangible assets	-	-	-	-	-	-	2 142	2 142
Intangible assets	-	-	-	-	-	-	205	205
Investments in share capital of subsidiary	-	-	-	-	-	-	2	2
Deferred tax assets	-	-	-	-	-	-	25	25
Other assets	-	-	-	-	-	-	3 130	3 130
Total assets	**174 594**	**52 497**	**8 080**	**8 249**	**18 939**	**14 076**	**13 692**	**290 127**
Spot foreign exchange receivable [2]	**163 160**	**-**	**-**	**-**	**-**	**-**	**-**	**163 160**
LIABILITIES								
Due to credit institutions	5 350	24	11 128	-	-	-	59	16 561
Held for trading financial liabilities	-	-	-	-	-	-	2	2
Due to customers	229 334	1 785	652	565	361	-	-	232 697
Debt securities issued	-	3 501	-	-	-	-	17	3 518
Accrued expenses and deferred income	-	-	-	-	-	-	698	698
Corporate income tax liabilities	-	-	-	-	-	-	766	766
Subordinated liabilities	204	-	-	-	968	-	36	1 208
Other liabilities	-	-	-	-	-	-	3 360	3 360
Total liabilities	**234 888**	**5 310**	**11 780**	**565**	**1 329**	**-**	**4 938**	**258 810**
Spot foreign exchange payable [2]	**163 458**	**-**	**-**	**-**	**-**	**-**	**-**	**163 458**

NOTES TO THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

In thousands of lats

48 MARKET RISK (continued)

(1) Interest rate exposure analysis according to next repricing dates of rate changes [1] (continued)

31 December 2007	Up to 1 month	1 month to 3 months	3 months to 6 months	6 months to 1 year	1 year to 5 years	Over 5 years	Other (non-interest bearing)	Total
Off-balance sheet commitments								
Contingent liabilities	37	50	376	123	31	-	-	617
Commitments to clients	14 093	-	-	-	-	-	4 387	18 480
Total off-balance sheet commitments	**14 130**	**50**	**376**	**123**	**31**	**-**	**4 387**	**19 097**
Long forward position [3]	**4 302**	**-**	**-**	**-**	**-**	**-**	**-**	**4 302**
Short forward position [3]	**4 257**	**-**	**-**	**-**	**-**	**-**	**-**	**4 257**
Interest sensitivity analysis as at 31 December 2007	**(74 677)**	**47 137**	**(4 076)**	**7 561**	**17 579**	**14 076**	**4 367**	**11 967**

[1] Interest rate risk exposure is assessed based on the earlier of the date of repayment, the date of cancellation or the date of reassessment of interest rates of the underlying assets, liabilities and off-balance sheet items.

Assets and liabilities with uncertain actual maturity or whose behavioral maturity may differ from contractual maturity under the agreement shall be reported according to the evaluations made by the Bank, drawing upon the Bank's experience, and shall be economically substantiated.

Interest rate risk involves the potential influence of changes in market rates on the financial situation of the bank. On a day-to-day basis, these changes due to repayment terms or the reassessment dates of interest rates for interest bearing assets, liabilities and off- balance sheet items. The bank carefully evaluates this exposure both in the long - term, when drawing up the actual budget, and in the short – term by the regular diversification of its assets and liabilities as well as by reassessing the interest rates.

[2] In accordance with the Regulations on the Management of Interest Rate Risk and Preparation of a Report on the Term Structure of Interest Rate Risk the receivable and payable amounts of *spot* contracts shall be included in the measurement of interest rate risk.

[3] In accordance with the Regulations on the Management of the Interest Rate Risk and Preparation of a Report on the Term Structure of the Interest Rate Risk the long and short positions of derivatives and trading positions shall be included in the measurement of interest rate risk.

NOTES TO THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

In thousands of lats

48 MARKET RISK (continued)

(1) Interest rate exposure analysis according to the next repricing dates of rate changes (continued)

31 December 2006	Up to 1 month	1 month to 3 months	3 months to 6 months	6 months to 1 year	1 year to 5 years	Over 5 years	Other (non-interest bearing)	Total
ASSETS								
Cash and balances due from the Bank of Latvia	18 298	-	-	-	-	-	408	18 706
Due from credit institutions with a maturity of less than 3 months	173 595	-	-	-	-	-	84	173 679
Held for trading financial assets	-	-	-	-	3 381	1 699	49	5 129
Available for sale financial assets	-	1 072	946	838	351	-	494	3 701
Due from credit institutions with a maturity over than 3 months	2 033	1 072	4 261	1 172	-	-	31	8 569
Loans	2 377	20 029	1 692	5 856	10 948	2 578	-	43 480
Accrued income and deferred expenses	-	-	-	-	-	-	207	207
Long-term projects costs	-	-	-	-	-	-	4 704	4 704
Tangible assets	-	-	-	-	-	-	1 258	1 258
Intangible assets	-	-	-	-	-	-	190	190
Investments in share capital of subsidiary	-	-	-	-	-	-	2	2
Other assets	-	-	-	-	-	-	3 042	3 042
Total assets	**196 303**	**22 173**	**6 899**	**7 866**	**14 680**	**4 277**	**10 469**	**262 667**
Spot foreign exchange receivable	**829 619**	**-**	**-**	**-**	**-**	**-**	**-**	**829 619**
LIABILITIES								
Due to credit institutions	4 823	-	27	91	27	-	1	4 969
Held for trading financial liabilities	-	-	-	-	-	-	3	3
Due to customers	218 842	3 571	1 103	762	1 037	-	44	225 359
Accrued expenses and deferred income	-	-	-	-	-	-	453	453
Provisions for contingent liabilities	-	-	-	-	-	-	21	21
Corporate income tax liabilities	-	-	-	-	-	-	830	830
Deferred tax liabilities	-	-	-	-	-	-	15	15
Subordinated liabilities	226	-	-	-	1 072	-	37	1 335
Other liabilities	-	-	-	-	-	-	9 985	9 985
Total liabilities	**223 891**	**3 571**	**1 130**	**853**	**2 136**	**-**	**11 389**	**242 970**
Spot foreign exchange payable	**829 928**	**-**	**-**	**-**	**-**	**-**	**-**	**829 928**

NOTES TO THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

In thousands of lats

48 MARKET RISK (continued)

(1) Interest rate exposure analysis according to the next repricing dates of rate changes (continued)

31 December 2006	Up to 1 month	1 month to 3 months	3 months to 6 months	6 months to 1 year	1 year to 5 years	Over 5 years	Other (non-interest bearing)	Total
Off-balance sheet commitments								
Contingent liabilities	44	80	3	61	399	-	-	587
Commitments to clients	11 237	3 002	-	91	-	-	-	14 330
Total off-balance sheet commitments	**11 281**	**3 082**	**3**	**152**	**399**	**-**	**-**	**14 917**
Long forward position	**908**	**-**	**-**	**-**	**-**	**-**	**-**	**908**
Short forward position	**911**	**-**	**-**	**-**	**-**	**-**	**-**	**911**
Interest gap analysis as at 31 December 2006	**(39 181)**	**15 520**	**5 766**	**6 861**	**12 145**	**4 277**	**(920)**	**4 468**

NOTES TO THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

In thousands of lats

48 MARKET RISK (continued)

(2) The Bank's currency analysis of assets, liabilities and off-balance sheet items

The management of the Bank manages risk separately for each Bank's subsidiary. Therefore the below table summarizes the Bank's currency analysis. The Group's currency analysis is not materially different from Bank's currency analysis.

31 December 2007	LVL	USD	EUR	Other currencies	Total
ASSETS					
Cash and balances due from the Bank of Latvia	17 395	187	394	17	17 993
Due from credit institutions with a maturity of less than 3 months	7 076	120 606	9 366	13 784	150 832
Held for trading financial assets	100	7 402	843	-	8 345
Available for sale financial assets	2	5 708	547	-	6 257
Due from credit institutions with a maturity of more than 3 months	-	5 558	874	-	6 432
Loans	5 336	27 898	59 056	-	92 290
Accrued income and deferred expenses	133	18	3	103	257
Long-term projects costs	2 217	-	-	-	2 217
Tangible assets	2 095		47	-	2 142
Intangible assets	186	-	19	-	205
Investments in share capital of subsidiary	2	-	-	-	2
Deferred tax assets	25	-	-	-	25
Other assets	422	2 604	96	8	3 130
Total assets	**34 989**	**169 981**	**71 245**	**13 912**	**290 127**
Spot foreign exchange receivable [1]	**400**	**79 681**	**57 598**	**25 481**	**163 160**
LIABILITIES					
Due to credit institutions	502	4 010	11 482	567	16 561
Held for trading financial liabilities	2	-	-	-	2
Due to customers	3 689	159 928	60 723	8 357	232 697
Debt securities issued	-	-	3 518	-	3 518
Accrued expenses and deferred income	534	44	83	37	698
Corporate income tax liabilities	766	-	-	-	766
Subordinated liabilities	-	1 208	-	-	1 208
Other liabilities	2 392	725	185	58	3 360
Total liabilities	**7 885**	**165 915**	**75 991**	**9 019**	**258 810**
Spot foreign exchange payable [1]	**349**	**83 589**	**49 385**	**30 135**	**163 458**

NOTES TO THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

In thousands of lats

48 MARKET RISK (continued)

(2) The Bank's currency analysis of assets, liabilities and off-balance sheet items (continued)

31 December 2007	LVL	USD	EUR	Other currencies	Total
Off-balance sheet commitments [3]					
Contingent liabilities	45	3	569	-	617
Commitments to clients	5 832	4 279	8 369	-	18 480
Total off-balance sheet commitments	**5 877**	**4 282**	**8 938**	**-**	**19 097**
Net forward position [2]	**-**	**1 970**	**(1 925)**	**-**	**45**
Net position as at 31 December 2007					
Total amount of the long/(short) position[3]	**27 155**	**2 128**	**1 542**	**239**	**31 064**
Net position[4]	**-**	**2 128**	**1 542**	**239**	**3 909**
% of regulatory capital	**-**	**7.72**	**5.60**	**0.87**	**14.19**

[1] In compliance with the Rules for capital adequacy calculation, the total sums of Spot Agreements are to be included into calculation of currency net open position in case settlement date accounting has been applied for transaction accounting purposes.

[2] According to the Rules for capital adequacy calculation, net forward position i.e. difference between all receivable and payable amounts from concluded foreign currency forward agreements are to be included in the calculation of currency net forward position.

[3] Under the Rules for capital adequacy calculation, off-balance sheet liabilities need not be included in the calculation, if the Bank does not have reason to believe that settlement of the liabilities will be demanded and the means to pay will not be available.

[4] Since 1 January 2005 until 31 December 2006, EUR currency has not been included in the calculation of foreign currency item.

NOTES TO THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

In thousands of lats

48 MARKET RISK (continued)

(2) The Bank's currency analysis of assets, liabilities and off-balance sheet items (continued)

31 December 2006	LVL	USD	EUR	Other currencies	Total
ASSETS					
Cash and balances due from the Bank of Latvia	18 442	111	130	23	18 706
Due from credit institutions with a maturity of less than 3 months	44	137 315	20 140	16 180	173 679
Held for trading financial assets	-	5 129	-	-	5 129
Available for sale financial assets	310	2 987	404	-	3 701
Due from credit institutions with a maturity of more than 3 months	-	6 552	1 507	510	8 569
Loans	5 072	15 922	22 486	-	43 480
Accrued income and deferred expenses	150	32	3	22	207
Long-term projects costs	4 596	-	108	-	4 704
Tangible assets	1 208	-	50	-	1 258
Intangible assets	185	-	-	5	190
Investments in share capital of subsidiary	2	-	-	-	2
Other assets	1 833	1 131	75	3	3 042
Total assets	**31 842**	**169 179**	**44 903**	**16 743**	**262 667**
Spot foreign exchange receivable [1]	**386**	**261 357**	**402 555**	**165 321**	**829 619**
LIABILITIES					
Due to credit institutions	502	3 918	260	289	4 969
Held for trading financial liabilities	3	-	-	-	3
Due to customers	8 633	143 357	57 005	16 364	225 359
Accrued expenses and deferred income	376	44	16	17	453
Provisions for contingent liabilities:	-	21	-	-	21
Corporate income tax liabilities	830	-	-	-	830
Deferred tax liabilities	15	-	-	-	15
Subordinated liabilities	-	1 335	-	-	1 335
Other liabilities	2 491	7 449	28	17	9 985
Total liabilities	**12 850**	**156 124**	**57 309**	**16 687**	**242 970**
Spot foreign exchange payable [1]	**-**	**273 469**	**391 274**	**165 185**	**829 928**

NOTES TO THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

In thousands of lats

48 MARKET RISK (continued)

(2) The Bank's currency analysis of assets, liabilities and off-balance sheet items (continued)

31 December 2006	LVL	USD	EUR	Other currencies	Total
Off-balance sheet commitments [3]					
Contingent liabilities	88	29	470	-	587
Commitments to clients	1 349	8 788	4 193	-	14 330
Total off-balance sheet commitments	**1 437**	**8 817**	**4 663**	**-**	**14 917**
Net forward position [2]	**-**	**(911)**	**908**	**-**	**(3)**
Net position as at 31 December 2006:					
Total amount of the long/(short) position[3]	**19 378**	**32**	**(217)**	**192**	**19 385**
Net position[4]	**-**	**32**	**-**	**192**	**224**
% of regulatory capital	**-**	**0.21**	**-**	**1.28**	**1.50**

[1] In compliance with the Rules for capital adequacy calculation, the total sums of Spot Agreements are to be included into calculation of currency net open position in case settlement date accounting has been applied for transaction accounting purposes.

[2] According to the Rules for capital adequacy calculation, net forward position i.e. difference between all receivable and payable amounts from concluded foreign currency forward agreements are to be included in the calculation of currency net forward position.

[3] Under the Rules for capital adequacy calculation, off-balance sheet liabilities need not be included in the calculation, if the Bank does not have reason to believe that settlement of the liabilities will be demanded and the means to pay will not be available.

[4] Since 1 January 2005 until 31 December 2006, EUR currency has not been included in the calculation of foreign currency item.

NOTES TO THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

In thousands of lats

48 MARKET RISK (continued)

(3) Analysis of the Bank's exposure to interest rate risks

Currency	Changes in basis points	The Bank 2007 Effect on profit before tax	The Bank 2007 Effect on equity	The Bank 2006 Effect on profit before tax	The Bank 2006 Effect on equity
LVL	+100	243	206	137	116
USD	+50	(205)	(181)	(55)	(46)
EUR	+50	(119)	(104)	(48)	(40)
		(81)	**(79)**	**34**	**30**

Currency	Changes in basis points	The Bank 2007 Effect on profit before tax	The Bank 2007 Effect on equity	The Bank 2006 Effect on profit before tax	The Bank 2006 Effect on equity
LVL	-100	(243)	(206)	(137)	(116)
USD	-225	925	817	248	210
EUR	-50	119	104	48	40
		801	**715**	**159**	**134**

The Bank has been assessing on a regular basis the interest rate risk for each currency for which the extent of the Bank's assets or liabilities exceeds 5 percent of the total balance, and for all currencies on the whole. The analysis of exposure to interest rate risks is calculated as the effect on the net income of interest per year (which equals the effect of pre-tax profit or loss), assuming that the interest rates grew concurrently (regardless of the initial term) for 1 per cent (or 100 basis points).

When calculating the effect of interest rate changes, the interest rate risk's net open position as at 31 December 2007 and 31 December 2006 is multiplied by expected change in interest rates expressed as basis points.

NOTES TO THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

In thousands of lats

48 MARKET RISK (continued)

(4) Analysis of the Bank's exposure to currency risks

		The Bank			
Currency	Changes in %	2007		2006	
		Effect on profit before tax	Effect on equity	Effect on profit before tax	Effect on equity
USD	+5%	106	90	-	-
EUR	+1%	15	13	(2)	-
Other	+5%	113	92	2	-
		39	**33**	**-**	**-**

		The Bank			
Currency	Changes in %	2007		2006	
		Effect on profit before tax	Effect on equity	Effect on profit before tax	Effect on equity
USD	-5%	(106)	(90)	-	-
EUR	-1%	(15)	(13)	2	-
Other	-5%	(113)	(92)	(2)	-
		(39)	**(33)**	**-**	**-**

The analysis of exposure to currency risks is calculated as the effect (which equals the effect of pre-tax profit or loss) on the net income of interest. As the actual market situation changes, its effect may change either positively or negatively.

NOTES TO THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

In thousands of lats

49 CALCULATION OF CAPITAL ADEQUACY

	The Group		The Bank	
	2007	2006	2007	2006
Tier 1 Equity				
Paid-up share capital	6 337	5 537	6 337	5 537
Share premium	111	111	111	111
Reserve capital	3 804	3 804	3 804	3 804
Accumulated profit	5 138	16	5 142	-
Minority participation share (First level elements)	12	-	-	-
Intangible assets	(205)	(190)	(205)	(190)
Audited profit of the current year of operation	12 164	5 113	12 106	5 142
Total	**27 361**	**14 391**	**27 295**	**14 404**
Tier 2 Equity				
Subordinated capital	255	542	255	542
Total	**255**	**542**	**255**	**542**
Total sum of the first level capital and second level capital, reduced by an equity capital decrease	**27 616**	**14 933**	**27 550**	**14 946**
Third level capital				
First level capital share for covering market risks	-	-	-	-
Total	**-**	**-**	**-**	**-**
Equity Capital	**27 616**	**14 933**	**27 550**	**14 946**
Summary of capital requirement calculations				
Company portfolio credit risk capital requirement	12 640	8 758	12 748	8 795
Foreign currency risk capital requirement	*332*	*35*	*305*	*33*
Item risk capital requirement	*947*	*480*	*947*	*480*
Business partner's risk capital requirement	*14*	*3*	*14*	*3*
Total Sum of market risk capital requirements	1 293	518	1 266	516
Capital requirements covered by equity	**13 683**	**5 657**	**13 536**	**5 635**
Capital adequacy ratio	**15.86**	**12.88**	**15.73**	**12.84**

50 SUBSEQUENT EVENTS

Within the period from the last day of the reporting year till the date of signature of these financial statements there were no subsequent events requiring adjustments to these financial statements or disclosures in these financial statements.

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