

**JSC REĢIONĀLĀ  
INVESTĪCIJU BANKA**

**ABBREVIATED FINANCIAL REPORT FOR THE YEAR ENDED 31 DECEMBER  
2007  
(non-audited)**

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AS Reģionālā Investīciju banka

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## **REPORT OF THE MANAGEMENT**

In 2007 the JSC "Reģionālā investīciju banka" (hereinafter – the Bank) continued its successful growth process, with significant attention paid to improving and upgrading the Bank's internal processes. During this period the Bank has also increased its quantity of Clients, transaction volumes and all important financial indicators.

### **Performance of the Bank during the reporting period**

In the reporting year, the Bank significantly increased its core capital, which currently totals 8.2 million LVL. Due to these changes the Bank's own capital also increased to 10.24 million LVL.

2007 also saw several changes to the Bank's group of shareholders, with the result that the Bank's biggest shareholder – the Ukrainian joint-stock bank "Pivdennyi" – owns 89.02% of the Bank's shares.

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

In 2007 three new units were introduced into the Bank's organizational structure: Operation Conformity Control Department, Records Controlling Section and Remote Service Section. The Securities Section also began active operations. The Bank saw a 19% increase in its staff compared with 2006.

The Bank's dynamic growth and development is affirmed not just by the growth of the Bank's financial indicators, but also by the increasing number of Clients, a figure which rose by 24% in 2007.

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

### **Future perspectives**

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

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Haralds Āboliņš  
Chairman of the Board,  
President

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Jurijs Rodins  
Chairman of the Council

## STATEMENT OF RESPONSIBILITY OF THE MANAGEMENT

The management of AS "Reģionālā Investīciju banka" (hereinafter – the Bank) is responsible for the preparation of the financial statements of the Bank.

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

The financial statements are prepared in accordance with International Financial Reporting Standards, on a going concern basis. Appropriate accounting policies have been applied on a consistent basis. Prudent and reasonable judgments and estimates have been made by the management in the preparation of the financial statements.

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

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Haralds Āboliņš  
Chairman of the Board,  
President

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Jurijs Rodins  
Chairman of the Council

**Income statement for the year 2007**

	<b>Notes</b>	<b>2007 LVL</b>	<b>2006 LVL</b>
Interest income	1	5,658,131	3,212,434
Interest expense	1	<u>(1,983,814)</u>	<u>(1,112,267)</u>
<b>Net interest income</b>	1	<b>3,674,317</b>	<b>2,100,167</b>
Fee and commission income	2	1,469,480	1,007,310
Fee and commission expense	2	<u>(1,246,871)</u>	<u>(336,622)</u>
<b>Net fee and commission income</b>	2	<b>222,609</b>	<b>670,688</b>
Profit on securities trading and foreign exchange, net	3	114,037	124,822
Other operating income		25,384	7,447
Impairment losses for loans and advances		(316,383)	(249,314)
Income from reducing reserves		33,841	0
General administrative expenses	4	<u>(2,336,612)</u>	<u>(1,834,955)</u>
Amortization/depreciation charge		(100,538)	(65,230)
Other operating expense		(50,614)	(46,124)
<b>Profit before income tax</b>		<b>1,266,041</b>	<b>707,501</b>
Income tax expense	5	<u>(211,191)</u>	<u>(120,731)</u>
<b>Net profit for the year</b>		<b><u>1,054,850</u></b>	<b><u>586,770</u></b>

*The accompanying notes are an integral part of these financial reports.*

**Balance sheet as at 31 December 2007**

	<b>Notes</b>	<b>31.12.2007 LVL</b>	<b>31.12.2006 LVL</b>
<b><u>Assets</u></b>			
Cash and balances with the Bank of Latvia	6	6,875,778	4,485,942
Balances due from banks	7	16,802,948	14,083,625
Loans and advances	8	48,452,533	36,932,523
Financial assets at fair value through profit or loss	9	5,779,204	8,473,276
Intangible assets		263,758	58,108
Property and equipment		279,305	172,136
Other assets		437,371	239,956
Deferred expenses	10	91,040	90,529
Current income tax receivable		53,864	58,964
<b>Total assets</b>		<b><u>79,035,801</u></b>	<b><u>64,595,059</u></b>
<b><u>Liabilities</u></b>			
Balances due to banks	11	12,487,226	1,229,646
Due to customers	12	51,691,532	52,491,637
Other liabilities	13	160,326	70,892
Deferred income and accrued expense	14	302,526	168,086
Debt securities in issue		2,850,438	2,845,895
Deferred income tax liability		2,500	2,500
<b>Total liabilities</b>		<b><u>67,494,548</u></b>	<b><u>56,808,656</u></b>
<b><u>Equity</u></b>			
Share capital		8,200,000	5,500,000
Retained earnings		2,286,403	1,699,633
Profit for the year		1,054,850	586,770
<b>Total shareholders' equity</b>		<b><u>11,541,253</u></b>	<b><u>7,786,403</u></b>
<b>Total liabilities and equity</b>		<b><u>79,035,801</u></b>	<b><u>64,595,059</u></b>
<b><u>Memorandum items</u></b>			
Contingent liabilities		570,559	32,580
Financial commitments		11,598,598	7,999,836
Funds under trust management		1,674,335	2,377,319

*The accompanying notes are an integral part of these financial reports.*

**Statement of changes in shareholders' equity for the year ended 31 December 2007**

	<b>Paid-in share capital</b>	<b>Retained earnings</b>	<b>Total</b>
	<b>LVL</b>	<b>LVL</b>	<b>LVL</b>
<b>Balance as at 31 December, 2005</b>	<b>3,300,000</b>	<b>1,699,633</b>	<b>4,999,633</b>
Net profit for the year	-	586,770	586,770
Increase of share capital	2,200,000	-	2,200,000
<b>Balance as at 31 December, 2006</b>	<b>5,500,000</b>	<b>2,286,403</b>	<b>7,786,403</b>
Net profit for the year	-	1,054,850	1,054,850
Increase of share capital	2,700,000	-	2,700,000
<b>Balance as at 31 December, 2007</b>	<b>8,200,000</b>	<b>3,341,253</b>	<b>11,541,253</b>

*The accompanying notes are an integral part of these financial reports.*

**Cash flow statement for the year ended 31 December 2007**

	Notes	2007 LVL	2006 LVL
<b>Cash inflow from operating activities</b>			
Profit before income tax		1,266,041	707,501
Amortization and depreciation		100,538	65,230
Increase in provision for loan impairment		251,812	239,065
Loss / (Profit) from revaluation of foreign currency		35,667	91,310
Profit from disposal of fixed assets		0	1,461
Loss/ (Profit) from revaluation of trading securities		(210,706)	(42,618)
Prepaid expense and accrued income (increase) / decrease		(511)	43,169
Deferred income and accrued expense increase		134,440	(8,494)
(Increase) / Decrease in other assets		(197,413)	(232,531)
Increase in other liabilities		89,434	(2,236)
		<hr/>	<hr/>
<b>Increase in cash and cash equivalents before changes in assets and liabilities, as a result of operating activities</b>		<b>1,469,302</b>	<b>861,857</b>
(Increase) / Decrease in trading securities		2,904,778	(4,576,256)
Decrease in balances due from banks		(4,352,241)	(997,150)
Increase in loans		(11,771,822)	(18,539,739)
Increase in deposits		(800,105)	27,177,715
		<hr/>	<hr/>
<b>Increase in cash and cash from operating activities before income tax</b>		<b>(12,550,088)</b>	<b>3,926,427</b>
Income tax paid		(206,093)	(292,725)
		<hr/>	<hr/>
<b>Net cash and cash equivalents from operating activities</b>		<b>(12,756,181)</b>	<b>3,633,702</b>
<b>Cash outflow from investing activities</b>			
Purchase of fixed and intangible assets		(413,357)	(120,649)
		<hr/>	<hr/>
<b>Decrease in cash and cash equivalents from investing activities</b>		<b>(413,357)</b>	<b>(120,649)</b>
<b>Cash inflow from financing activities</b>			
Increase of share capital		2,700,000	2,200,000
Debt securities issue		4,543	2,845,895
		<hr/>	<hr/>
<b>Increase in cash and cash equivalents from financing activities</b>		<b>2,704,543</b>	<b>5,045,895</b>
<b>Cash and cash equivalents at the beginning of the period</b>		<b>16,313,121</b>	<b>7,845,483</b>
Effect of exchange rates on cash and cash equivalents		(35,667)	(91,310)
		<hr/>	<hr/>
<b>Cash and cash equivalents at the end of the period</b>		<b>5,812,459</b>	<b>16,313,121</b>

*The accompanying notes are an integral part of these financial reports.*



## NOTES TO THE FINANCIAL STATEMENTS

### 1. Interest income and expense

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

### 2. Fee and commission income and expense

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

### 3. Profit on securities trading and foreign exchange, net

<b>Profit from trading with securities</b>		
Gains from trading with securities	(3,813)	-
<b>Profit/(loss) from revaluation of securities</b>		
(Loss) / Profit from securities revaluation	(210,706)	(145,944)
<b>(Loss) / profit on securities trading and revaluation, net</b>	<u>(214,519)</u>	<u>(145,944)</u>
<b>Foreign exchange</b>		
Gain from trading with foreign currencies	364,223	362,076
(Loss) / Profit from foreign currency revaluation	(35,667)	(91,310)
<b>Profit on foreign exchange, net</b>	<u>328,556</u>	<u>270,766</u>
<b>Profit on securities trading and foreign exchange, net</b>	<u>114,037</u>	<u>124,822</u>

#### 4. General administrative expense

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

#### 5. Income tax expense

Corporate income tax for the reporting year	211,191	125,531
Increase/(decrease) of provision for deferred tax	-	(4,800)
<b>Total corporate income tax</b>	<u><b>211,191</b></u>	<u><b>120,731</b></u>

#### 6. Cash and balances with the Bank of Latvia

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

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

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

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

#### 7. Balances due from banks

	<b>31.12.2007.</b> <b>LVL</b>	<b>31.12.2006.</b> <b>LVL</b>
Due from Republic of Latvia credit institutions	4,968,290	6,285,768
Due from non-OECD credit institutions	2,231,352	594,368
Due from OECD credit institution	6,264,865	7,148,699
Cash in transit	3,270,669	-
Accrued interest receivable	67,772	54,790
	<u><b>16,802,948</b></u>	<u><b>14,083,625</b></u>

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

On demand	7,923,907	10,832,035
Balances with maturity of three months or less	3,500,000	2,170,000
Other balances due from banks	2,040,600	1,026,800
Cash in transit	3,270,669	-
Accrued interest receivable	67,772	54,790
<b>Total due from banks</b>	<b><u>16,802,948</u></b>	<b><u>14,083,625</u></b>

## 8. Loans and Advances to Customers

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

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

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

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

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

### (b) Analysis of loans by industry

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

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

	31.12.2007. LVL	31.12.2006. LVL
Loans with fixed interest rate	40,186,710	33,680,402
Loans with floating interest rates	8,596,145	3,417,466
<b>Gross loans</b>	<b>48,782,855</b>	<b>37,097,868</b>
Less: provisions for loan impairment losses	(540,198)	(288,386)
Accrued interest receivable	209,876	123,041
<b>Net loans</b>	<b>48,452,533</b>	<b>36,932,523</b>

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

	Loans LVL	Accrued income LVL	Total LVL
<b>Balance as at 31 December 2005</b>	<b>49,321</b>	-	<b>49,321</b>
Increase during the year 2006	261,423	891	262,314
Decrease during the year 2006	(13,000)	-	(13,000)
Write-off from allowances during the year 2006	-	(891)	(891)
Foreign exchange difference	(9,358)	-	(9,358)
<b>Balance as at 31 December 2006</b>	<b>288,386</b>	-	<b>288,386</b>
Increase during the year 2007	312,218	-	312,218
Decrease during the year 2007	(32,428)	-	(32,428)
Write-off from allowances during the year 2007	-	-	-
Foreign exchange difference	(27'978)	-	(27'978)
<b>Balance as at 31 December 2007</b>	<b>540,198</b>	-	<b>540,198</b>

9. Financial assets at fair value through profit and loss

	31.12.2007. LVL	31.12.2006. LVL
Latvian government securities	2,238,365	5,433,853
Non-OECD region corporate debt securities	2,368,273	2,395,026
Latvian corporate debt securities	1,059,343	525,933
Accrued interest receivable	113,223	118,464
	<b>5,779,204</b>	<b>8,473,276</b>

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

10. Deferred expenses and accrued income

	31.12.2007. LVL	31.12.2006. LVL
Deferred expenses	91,040	90,529
	<b>91,040</b>	<b>90,529</b>

## 11. Balances due to banks

	31.12.2007. LVL	31.12.2006. LVL
Loans against security pledge	1,887,600	702,804
Term deposit of bank Pivdenny	27,621	525,928
Borrowings with LVL collateral	4,065,600	-
Borrowings within interbank limits	3,539,200	-
Cash in transit	2,945,341	-
Accrued interest payable	21,864	914
	<u>12,487,226</u>	<u>1,229,646</u>

## 12. Due to customers

### (a) Analysis of deposits by client type

	31.12.2007. LVL	31.12.2006. LVL
<i>Maturity profile:</i>		
Demand deposits	28,265,618	22,483,697
Term deposits	23,198,839	26,825,333
Cash in transit	20,802	2,864,300
Accrued interest payable	206,273	318,307
<b>Total due to customers:</b>	<u>51,691,532</u>	<u>52,491,637</u>

### *Sector profile:*

Private companies	41,109,981	43,555,761
Private individuals	7,906,823	6,932,949
Financial institutions	2,428,897	1,675,229
Non-profit institutions	37,172	7,223
Central government	2,386	2,168
Accrued interest payable	206,273	318,307
<b>Total due to customers:</b>	<u>51,691,532</u>	<u>52,491,637</u>

### (b) Analysis of deposits by location of depositor

	31.12.2007. LVL	31.12.2006. LVL
Non-residents	40,485,695	40,716,730
Residents	10,999,564	11,456,600
Accrued interest payable	206,273	318,307
<b>Total deposits:</b>	<u>51,691,532</u>	<u>52,491,637</u>

## 13. Other liabilities

	31.12.2007. LVL	31.12.2006. LVL
Liabilities in clearance	10,820	58,788
Settlements on behalf of a closed bank	11,656	11,656
VAT settlements	748	448
Settlements with creditors	137,102	-
	<u>160,326</u>	<u>70,892</u>

#### 14. Income from next period and accrued costs

	<b>31.12.2007.</b> <b>LVL</b>	<b>31.12.2006.</b> <b>LVL</b>
Accrued employee holiday pay	129,926	102,050
Accrued for guarantee fund and FCMC financing	30,331	24,249
Accrued commission costs	61,361	-
Other accrued costs	80,908	41,787
	<u><b>302,526</b></u>	<u><b>168,086</b></u>

#### 15. Cash and cash equivalents

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

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

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

#### 16. Taxes

	<b>Balance</b> <b>31.12.2006</b> <b>LVL</b>	<b>Calculated in</b> <b>2007</b> <b>LVL</b>	<b>Paid in</b> <b>2007</b> <b>LVL</b>	<b>Balance</b> <b>31.12.2007</b> <b>LVL</b>
Corporate income tax	(58,964)	211,191	206,091	(53,864)
State compulsory social insurance contributions	-	231,191	231,191	-
Personal income tax	-	242,266	242,266	-
Value added tax	448	17,357	17,057	748
<b>(Overpaid)</b>	<u><b>(58,964)</b></u>			<u><b>(53,864)</b></u>
<b>Liabilities</b>	<u><b>448</b></u>			<u><b>748</b></u>