MORTGAGE AND LAND BANK OF LATVIA

Annual Report for the year ended 31 December 2007

CONTENTS

Report of the Supervisory Council and the Board of Directors

The national economy of Latvia continued a rapid development in 2007, which was secured by the steadily high domestic demand and investment level. Simultaneously, gradual stabilization tendencies of the national economy could be observed in the economic development. Reason for that was the active response from the Latvian government and banks by effecting an inflation curb plan, which encompassed a range of measures to cap consumption growth. To cut down the crediting volume growth, Amendments to Consumer Rights Protection law were effected, enforcing tighter requirements to granting loans to institutions dealing with lending to consumers. Essential changes mainly affected consumption and mortgage loans. As of 10 July 2007, in order to receive a loan (to obtain a good or service of a price exceeding 12 thousand lats and more), borrowers shall have to prove their income by a statement of income issued by the State Revenue Service.

Thus the crediting volume growth tempo and private consumption pressure eased. As a result of it, inflation got restrained and the average inflation of 2007 reached 10.1%, and the annual inflation in December – 14.1%. According to the Bank of Latvia forecasts, the inflation in December 2008 might decrease to approximately 9%.

Fiscal surplus of the Government consolidated general budget, has reached 94.0 mil. lats or 0.7% of the forecasted gross domestic product (GDP) as of the start of the year. It is more than the amended annual budget of 2007 estimated (54.5 mil. lats or 0.4% of the GDP).

The gross domestic product (GDP) increase reached 11% in the nine months of 2007. The main contributors to the Latvian GDP increase still are the domestic demand and investments. GDP increase was fostered by rise in the volumes of the following industries: trade (proportion in GDP structure – 20.1%) – by 14.5%, commercial services (15.3%) – by 10.2%, transport and communications (13.1%) – by 10.4%, construction (9.2%) – by 13.2%. Whereas processing industry, which constitutes 10.7% of GDP, shows decrease by 0.3%. Forecasts tell that the GDP increase in 2008 might reach 7% - 8%. In the same time, the export volumes growth tempo can be noticed to surpass the import volumes growth tempo.

In 2007, the labour market in Latvia was very tight and the unemployment rate gradually decreased, at the end of December reaching 4.9% of economically active population. The lowest unemployment rate was in Riga region – 3.6% (in Riga – 3.1%), whereas the highest preserved in Latgale region – 10.3% (in some areas even up to 16.6%).

Banking services in Latvia in 2007 are provided by 21 bank and three branches of foreign banks. Also, the Bank of Latvia has registered three electronic money institutions and three money market funds. In 2007, the assets of the banks have increased by 38% reaching 21.9 bln lats, deposits (including the transit funds) – by 31%, the volume of granted loans – by 37%, and the capital and reserves of the banks – by 44%.

The Mortgage Bank continues its development in 2007, as it is reflected by all major financial indices. In 2007, the Bank's gross assets have increased to 924 million lats or by 34%. The Mortgage Bank ranked eighth among Latvian commercial banks by its asset volume (market share – 4.2%) by the end of December. The unaudited profit of the bank for the year 2007 reached 6.146 mln lats that was by 0.96 mln lats or 19% more than the previous year.

The gross loan portfolio of the Bank increased by 171 mln lats during 2007 or by 35%, and reached 662 mln lats at the end of December. The Mortgage Bank ranked seventh among Latvian commercial banks by its loans' portfolio volume with a market share of 4.4%. The Mortgage Bank was the 8th largest bank in Latvia by corporate loan volume (market share – 5%) and 7th by loan volume to natural persons (market share – 3.5%).

The volume of deposits with the Mortgage Bank has increased by 8 mln lats during 2007 or 3%, reaching 283 mln lats. The Mortgage Bank ranked eleventh among Latvian commercial banks by its deposits volume (including the transit funds) (market share – 2.7%) by the end of September.

The volume of mortgage bonds issued by the Mortgage Bank increased by 9.4 mln lats in 2007 or 21%, reaching 53.4 mln lats. This year, the Bank did not issue any mortgage bonds and redeemed mortgage bonds for 5 million US dollars and 3 million lats. Meanwhile, Mortgage Bank was the first in the Baltic countries' banking field to issue short-term discount notes – issues of short-term discount notes of 10 million lats and 9 million euros took place in June. The initial offering under the Mortgage Bank short-term discount note issue program passed successfully, attracting investors from all Baltic countries.

Report of the Supervisory Council and the Board of Directors *(continued)*

2007 was significant to the Mortgage Bank in attracting foreign financial resources. To expand and diversify its investor base, Mortgage bank signed a cooperation agreement with Japanese investors for a Syndicated Club Loan of 3 milliards Japanese yens (13 million lats) in June of 2007(maturity – 5 years). It has been the first time in Latvia that a deal is concluded, where both the Arranger and lenders are from Japan.

In September 2007, Mortgage bank signed a syndicated loan agreement of 177.5 million euros loan to 3 years. The total of 15 banks from 9 countries take part in this deal. The pool of lenders comprises both the permanent cooperation partners of Mortgage bank from Western Eu rope, as well as new ones – from Southern Europe and Asia, to whom Latvia is a new and uncharted market.

In the year 2007, the Bank proceeds with implementation of various development programmes, within their framework support is provided to certain group s of entrepreneurs and population as tasked by the government Particular concern this year is referred to programmes run by *Altum* – Mortgage Bank's Promotional programmes board: training and consultations programme to beginners in business, financial support to business start-ups, as well as Housing guarantee programme. The purpose of *Altum* endeavours is broadening financial support opportunities to certain groups of entrepreneurs or population according to priorities as set by the Government. Mortgage Bank has concluded agreements with several commercial banks of Latvia on cooperation in funding the Small and Medium enterprises. The agreements comprise wider scope of opportunities to business start-ups and rapidly growing enterprises to receive additional f unding.

This year the Bank supported the conference to entrepreneurs of Latvia "Dare – find out financial opportunities and work!", organized by the association „Līdere" ("Leader Lady"), unifying Latvian women – entrepreneurs and professionals in their f ield.

In order to stimulate innovative entrepreneurship opportunities and application of public and private partnership principle in implementation of substantial projects a forum "Regions – development of Latvia. Visions. Opportunities. Solutions." was o rganized by the Mortgage Bank in cooperation with the Ministry of Regional Development and Local Government.

In 2007, the Mortgage Bank retained the ratings assigned by the credit rating agency *Moody's Investors Service* unchanged: long-term foreign currency bank deposits – *A2*, short-term foreign currency bank deposits – *P1*, financial strength rating – *D-*, rating of mortgage bonds – *A1*.

Already the fourth year in a row, the Mortgage bank carried out a wide -scale corporate social responsibility project "Mēs paši" ("We can ourselves").

Mortgage bank, in the beginning of 2007, signed cooperation agreements with leaders of regional funds established in Latvia on organization of Mortgage bank's project competition. The Bank supported the best projects submitted to the funds' competition, projects that enhance self -initiative and activity of local population in improvement of their surrounding environment.

In 2007 the Mortgage Bank continued modernization and upgrade the network of its branches and subbranches. A new subbranch got opened in Liepāja at the start of the year. The Bank has 29 branches in district centres of Latvia and also in Riga, and 10 subbranches in all regions of Latvia providing services to the customers in the whole territory of Latvia.

The Mortgage bank's management team would like to express its gratitude to our clients for their loyalty and productive cooperation! Our success is your success!

Thanks to our employees for their contribution in customer service and development of the Bank!

Gundega Šulca	Inesis Feiferis
Chairman of the Council	Chairman of the Board

The Supervisory Council and the Board of Directors of the Bank

Supervisory Council (at 31 December 2007)

Gundega Šulca	Chairman of the Council
Andris Liepiņš	Deputy Chairman of the Council
Vija Gēme	Member of the Council
Jānis Šnore	Member of the Council
Baiba Bāne	Member of the Council
Baiba Paševica	Member of the Council
Dace Ratniece	Member of the Council
Iveta Strautiņa	Member of the Council

During the reporting period, the following Council members resigned: Ms. Zaiga Liepiņa, Mr. Uldis Apels, Ms. Linda Kaņepe, Mr. Māris Klismets and Ms. Laimdota Straujuma.
Mr. Andris Liepiņš, Mr. Jānis Šnore, Ms. Baiba Bāne, Ms. Baiba Paševica, Ms . Dace Ratniece, Ms. Iveta Strautiņa were appointed as Council members.

Board of Directors (at 31 December 2007)

Inesis Feiferis	Chairman of the Board
Rolands Paņko	Deputy Chairman of the Board
Aija Laicāne	Member of the Board
Jēkabs Krieviņš	Member of the Board
Andris Riekstiņš	Member of the Board

The Council appointed Mr. Andris Riekstiņš as a member of the Board of the Bank during the reporting period.

Statement of Responsibility of the Supervisory Council and the Board of Directors

Riga 27 February 2008

The Supervisory Council and the Board of Directors (Management) is responsible for preparing financial statements from the books of prime entry of the Group and the Bank for each financial period that present fairly the state of affairs of the Group and the Bank as at the end of the financial period and the results of their operations and cash flows for that period according to the International Financial Reporting Standards as adopted by the European Union..

Management confirms that suitable accounting policies have been used and applied consistently and reasonable and prudent judgments and estimates have been made in the preparation of the financial statements on pages 8 to 52 for the year 2007. Management also confirms that applicable International Financial Reporting Standards as adopted in EU have been used in preparation of the financial statements and that these financial statements have been prepared on a going concern basis. Appropriate accounting policies have been applied on a consistent basis.

Management is responsible for keeping proper accounting records, for taking reasonable steps to safeguard the assets of the Group and the Bank and to prevent and detect fraud and other irregularities. Management is also responsible for managing the Bank in compliance with the Law on Credit Institutions, regulations of the Bank of Latvia and the Financial and Capital Market Commission as well as other legislation of the Republic of Latvia.

On behalf of the management,

Gundega Šulca
Chairman of the Council

Inesis Feiferis
Chairman of the Board

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of JSC Mortgage and Land Bank of Latvia

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of JSC Mortgage and Land Bank of Latvia and its subsidiaries (the Group) and the financial statements of JSC Mortgage and Land Bank of Latvia (the Bank) on pages 8 to 52 which comprise the balance sheets as of 31 December 2007 and the income statements, statements of changes in equity and cash flow statements for the year then ended and a summary of significant accounting policies and other explanatory notes.

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

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

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

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

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

Report on other legal and regulatory requirements

We have read the Management Report set out on pages 3 to 4 and did not identify material inconsistencies between the financial information contained in the Management Report and that contained in the financial statements for 2007.

PricewaterhouseCoopers SIA
Audit company licence No. 5

Juris Lapshe
Member of the Board

Ilandra Lejina
Certified auditor
Certificate No. 168

Riga, Latvia
27 February 2008

INCOME STATEMENT
(all amounts in thousands of Lats)

	Notes	2007		2006	
		Group	**Bank**	**Group**	**Bank**
Interest income	6	52,447	49,974	32,928	31,644
Interest expense	7	(30,138)	(29,961)	(16,297)	(16,174)
Net interest income		**22,309**	**20,013**	**16,631**	**15,470**
Fee and commission income	8	4,112	4,103	3,533	3,483
Fee and commission expense	9	(924)	(860)	(640)	(618)
Net fee and commission income		**3,188**	**3,243**	**2,893**	**2,865**
Dividend income		-	500	1	-
Net trading income	10	2,142	2,111	1,255	1,272
Other operating income	11	4,207	3,129	3,941	2,978
Staff costs	12	(10,036)	(9,096)	(7,606)	(6,924)
Administrative expenses	13	(8,420)	(7,663)	(6,557)	(6,167)
Depreciation and amortisation		(2,467)	(2,298)	(2,189)	(2,124)
Provision for impairment losses	14	(3,225)	(2,850)	(1,159)	(1,159)
Profit before income tax		**7,698**	**7,089**	**7,210**	**6,211**
Income tax expense	15	(1,183)	(943)	(1,204)	(1,027)
Net profit for the period		**6,515**	**6,146**	**6,006**	**5,184**

The notes on pages 13 to 52 are an integral part of these financial statements.

These financial statements on pages 8 to 52 have been accepted by the Board of Directors on 21 February 2008 and accepted by the Supervisory Council on 27 February 2008 and are signed by:

Gundega Šulca
Chairman of the Council

Inesis Feiferis
Chairman of the Board

BALANCE SHEET
(all amounts in thousands of Lats)

	Notes	31/12/07		31/12/06	
Assets		**Group**	**Bank**	**Group**	**Bank**
Cash and balances with Central Bank	16	66,265	66,265	58,007	58,006
Trading securities	17	3,269	3,269	2,852	2,852
Investment securities – held to maturity	17	13,060	13,060	-	-
Investment securities – available for sale	17	54,131	54,131	50,174	50,174
Due from credit institutions	19	104,871	104,662	72,021	71,949
Derivative financial instruments	20	84	84	2	2
Loans to customers	21	667,858	660,350	499,484	489,250
Investment properties	18	2,116	2,116	2,253	2,253
Investments in subsidiaries and associated undertakings	22	552	922	422	424
Intangible assets	23	2,018	1,927	1,314	1,264
Property and equipment	24	8,975	7,947	8,134	7,822
Other assets		3,580	1,005	2,748	622
Deferred expenses and accrued income		811	689	605	512
Total assets		**927,590**	**916,427**	**698,016**	**685,130**
Liabilities					
Due to credit institutions	25	497,302	488,738	296,229	285,566
Due to customers	26	282,124	282,550	274,043	274,185
Derivative financial instruments	20	130	130	20	20
Transit funds		2,575	2,575	2,869	2,869
Issued debt securities	27	52,494	52,494	43,211	43,211
Other liabilities		11,963	11,211	5,160	4,604
Deferred income and accrued expenses		2,789	2,082	1,778	1,326
Current income tax liabilities		49	-	796	569
Deferred tax liabilities	28	963	936	899	890
Subordinated liabilities	29	13,302	13,302	13,302	13,302
Total liabilities		**863,691**	**854,018**	**638,307**	**626,542**
Shareholder's equity					
Share capital	30	48,513	48,513	48,513	48,513
Reserve capital		2,524	2,063	2,524	2,063
Revaluation deficit on available for sale investments		(1,540)	(1,540)	(615)	(615)
Retained earnings		14,402	13,373	9,287	8,627
Total shareholder's equity		**63,899**	**62,409**	**59,709**	**58,588**
Total liabilities and shareholder's equity		**927,590**	**916,427**	**698,016**	**685,130**
Off balance sheet items					
Contingent liabilities	33	11,456	11,456	11,891	11,891
Financial commitments	33	42,495	66,125	36,077	40,453

The notes on pages 13 to 52 are an integral part of these financial statements.

These financial statements on pages 8 to 52 have been accepted by the Board of Directors on 21 February 2008 and accepted by the Supervisory Council on 27 February 2008 and are signed by:

Gundega Šulca	Inesis Feiferis
Chairman of the Council	Chairman of the Board

CONSOLIDATED STATEMENT OF CHANGES IN THE GROUP'S EQUITY
(all amounts in thousands of Lats)

	Share Capital	Reserve capital	Revaluation deficit on available for sale investments	Retained earnings	Total equity
Balance as at 31 December 2005	**48,513**	**2,063**	**(35)**	**5,015**	**55,556**
Distribution of profit – payment for use of state capital	-	-	-	(1,273)	**(1,273)**
Capitalisation of reserves	-	461	-	(461)	**-**
Net loss on available for sale investments	-	-	(580)	-	**(580)**
Profit for the period	-	-	-	6,006	**6,006**
Balance as at 31 December 2006	**48,513**	**2,524**	**(615)**	**9,287**	**59,709**
Distribution of profit – payment for use of state capital	-	-	-	(1,400)	**(1,400)**
Net loss on available for sale investments	-	-	(925)	-	**(925)**
Profit for the period	-	-	-	6,515	**6,515**
Balance as at 31 December 2007	**48,513**	**2,524**	**(1,540)**	**14,402**	**63,899**

The notes on pages 13 to 52 are an integral part of these financial statements.

STATEMENT OF CHANGES IN THE BANK'S SHAREHOLDER'S EQUITY
(all amounts in thousands of Lats)

	Share Capital	Reserve capital	Revaluation deficit on available for sale investments	Retained earnings	Total equity
Balance as at 31 December 2005	**48,513**	**2,063**	**(35)**	**4,716**	**55,257**
Distribution of profit – payment for use of state capital	-	-	-	(1,273)	**(1,273)**
Net loss on available for sale investments	-	-	(580)	-	**(580)**
Profit for the period	-	-	-	5,184	**5,184**
Balance as at 31 December 2006	**48,513**	**2,063**	**(615)**	**8,627**	**58,588**
Distribution of profit – payment for use of state capital	-	-	-	(1,400)	**(1,400)**
Net loss on available for sale investments	-	-	(925)	-	**(925)**
Profit for the period	-	-	-	6,146	**6,146**
Balance as at 31 December 2007	**48,513**	**2,063**	**(1,540)**	**13,373**	**62,409**

The notes on pages 13 to 52 are an integral part of these financial statements.

CASH FLOW STATEMENT
(all amounts in thousands of Lats)

	2007		2006	
	Group	**Bank**	**Group**	**Bank**
Cash flows from operating activities				
Profit before taxation	7,698	7,089	7,210	6,211
Depreciation and amortisation	2,467	2,298	2,189	2,124
Increase / (decrease) in provision for impairment losses	1,450	1,096	(787)	(787)
(Profit) / loss from foreign exchange revaluation	2	33	(105)	(122)
(Profit) / loss from sale of property and equipment	(5)	(8)	18	7
Increase in deferred income and accrued expenses	1,294	1,040	555	354
(Increase) / decrease in deferred expenses and accrued income	(206)	(177)	166	175
(Increase) in other assets	(1,765)	(1,316)	(207)	(583)
Increase in other liabilities	6,913	6,717	3,196	3,295
Increase in cash and cash equivalents from operating activities before changes in assets and liabilities	**17,848**	**16,772**	**12,235**	**10,674**
Increase in balances due from credit institutions	(15,049)	(15,049)	(6,156)	(6,156)
Increase in loans to customers	(169,781)	(172,153)	(122,466)	(109,836)
Increase in trading securities	(398)	(398)	(583)	(583)
Increase in balances due to credit institutions	188,997	191,226	140,661	129,998
Increase in balances due to customers	8,081	8,365	80,394	79,840
Decrease in transit funds	(294)	(294)	(291)	(291)
Increase in debt securities issued	9,283	9,283	9,584	9,584
Increase in cash and cash equivalents from operating activities	**38,687**	**37,752**	**113,378**	**113,230**
Corporate income tax paid	**(2,148)**	**(1,749)**	**(841)**	**(841)**
Cash flows from investing activities				
Increase in investment securities	(17,017)	(17,017)	(25,659)	(25,659)
Purchases of property and equipment	(4,067)	(3,094)	(2,048)	(1,967)
Proceeds from property and equipment disposal	60	16	67	30
Acquisition of investments in associated entities	(130)	(498)	-	50
Cash and cash equivalents used in investing activities	**(21,154)**	**(20,593)**	**(27,640)**	**(27,546)**
Cash flows from financing activities				
Dividend paid	(1,400)	(1,400)	(1,273)	(1,273)
Cash and cash equivalents used in financing activities	**(1,400)**	**(1,400)**	**(1,273)**	**(1,273)**
Increase in cash and cash equivalents	13,985	14,010	**83,624**	**83,570**
Cash and cash equivalents at the beginning of the period	117,953	117,880	34,224	34,188
Effect of exchange rates on cash and cash equivalents	(2)	(33)	105	122
Cash and cash equivalents at the end of the period	**131,936**	**131,857**	**117,953**	**117,880**

The notes on pages 13 to 52 are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1 GENERAL INFORMATION

The Mortgage and Land Bank of Latvia was established as a state-owned commercial bank on 19 March 1993 by the Government of Latvia based on the Decree No 140 adopted by the Cabinet of Ministers. The Bank was registered with the Register of Enterprises of the Republic of Latvia on 3 June 1993. According to the Commercial Law the Bank was registered in the Commercial Register on 14 July 2004.

The operations of the Bank are regulated by the law On Credit Institutions and other effective laws of the Republic of Latvia, the Statutes of the Bank, the instructions of the Bank of Latvia and Financial and Capital Market Commission, as well as the decrees and regulations of the Cabinet of Ministers of the Republic of Latvia. The Bank is under the jurisdiction of the Ministry of Finance of the Republic of Latvia that represents the interests of the shareholder on behalf of the Cabinet of Ministers and holds 100% of the Bank's shares.

2 ACCOUNTING POLICIES

(1) Basis of presentation

These financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) as adopted in the European Union.

The financial statements are prepared under the historical cost convention as modified by the fair valuation of financial assets held as available-for-sale, trading securities, derivative financial instruments and investment properties.

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

The accompanying financial statements are reported in thousands of lats, unless otherwise stated.

The accounting policies used in the preparation of the financial statements for the year ended 31 December 2007 are consistent with those used in the annual financial statements for the year ended 31 December 2006, except as referred to in Note 2 (22) *Adoption of new or revised standards and interpretations and new accounting pronouncements*.

(2) Consolidation and investments in subsidiaries

Consolidation
Subsidiary undertakings, in which the Bank, directly or indirectly, has power to exercise control over financial and operating policies, and where operating volumes are substantial, have been consolidated, by adding together similar types of assets, liabilities, income and expenses.

For the purposes of consolidation, all intercompany transactions, balances and unrealised surpluses and deficits on transactions between the Group companies have been eliminated. Where necessary, accounting policies of subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

Subsidiaries
Investments in subsidiaries are accounted for under the cost method in the separate financial statements of the Bank. The Bank recognises income from the investment only to the extent that the Bank receives dividends from the accumulated profits of the subsidiaries arising after the date of acquisition.

Associates
Associates are all entities over which the Group and the Bank has significant influence but not control. Investments in associates are accounted for under the equity method.

NOTES TO THE FINANCIAL STATEMENTS

2 ACCOUNTING POLICIES (continued)

(3) Foreign currency translation

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

The applicable rates for the principal currencies held by the Group and the Bank were as follows:

31 December 2007			31 December 2006		
1 EUR	=	LVL 0.702804	1 EUR	=	LVL 0.702804
1 USD	=	LVL 0.484000	1 USD	=	LVL 0.536000
1 GBP	=	LVL 0.963000	1 GBP	=	LVL 1.048000

(4) Income and expense recognition

Interest income and expense are recognised in the income statement for all interest bearing instruments on an accrual basis using the effective rate interest method.

Commissions received or incurred in respect of long-term assets or funding are deferred and recognised as an adjustment to the effective interest rate on the asset or liability.

Other commissions and fees are credited and/or charged to the income statement as earned/incurred.

(5) Trading and investment securities

Trading and investment securities are comprised of the following categories:

- Trading securities comprise fixed income securities and equity shares held by the Bank for trading purposes. They are accounted for at fair value and all gains and losses arising from changes in the fair value are included in the income statement.

- Investment securities available-for-sale comprise treasury bills and other fixed income securities held by the Bank for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices. They are stated at fair value with all gains and losses from revaluation recognised in equity, through the statement of changes in equity, except for impairment losses, until derecognition, at which time the cumulative gain or loss previously recognised in equity is recognised in the income statement.

- Investment securities held-to-maturity comprise debt securities with fixed or determinable payments and fixed maturities that the Bank's management has the positive intention and ability to hold to maturity. They are carried at amortised cost, that is calculated based on the purchase price of the securities adjusted by discount or premium amortised over the tem of the securities, using the effective interest rate method.

All purchases and sales of securities that require delivery within the time frame established by regulation or market convention ('regular way' purchases and sales) are recognised at settlement date, which is the date when the asset is delivered to or transferred by the Group and the Bank. Any change in the fair value of the asset during the period between the trade date and the settlement date is recognised in the income statement in respect of available-for-sale assets.

(6) Loans and receivables

Balances due from banks and loans and advances to customers are accounted for as loans and receivables and are carried at amortised cost. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. All loans are recognised when cash is advanced to borrowers.

2 ACCOUNTING POLICIES (continued)

NOTES TO THE FINANCIAL STATEMENTS

(6) Loans and receivables (continued)

For the purposes of these financial statements, finance lease receivables are included in loans and advances to customers.

Management considers risks for all loans to determine the provision for loan impairment and possible losses.

Provisions for individual loan impairment are established if there is objective evidence that it will not be possible to collect all amounts due according to the original contractual terms of loans. The amount of the provision is the difference between the carrying amount and the recoverable amount, being determined as the present value of expected cash flows, including amounts recoverable from guarantees and collateral.

In addition to provisions for individual loans, provisions for homogeneous groups of loans based on similarities of credit risk involved, loan size, quality and loan terms are also established. The provision for loan impairment losses for those loans included within homogeneous groups have been estimated based upon historical patterns of losses in each group, the historic pattern of timeliness of payments and reflecting the current economic climate in which the borrowers operate.

The methodology and assumptions used are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

The Management of the Group and the Bank have made their best estimates of losses, based on objective evidence of impairment and believe those estimates presented in the financial statements are reasonable in light of available information. Nevertheless, it is reasonably possible, based on existing knowledge, that outcomes within the next financial year that are different from assumptions could require an adjustment to the carrying amount of the asset or liability affected.

(7) Intangible Assets

Acquired computer software and licences are recognised as intangible assets on the basis of the costs incurred to acquire and bring to use the software. These costs are amortised on the basis of their expected useful lives (5 years).

Costs associated with developing or maintaining computer software programs are recognised as an expense as incurred.

(8) Property and equipment

All property and equipment is stated at historical cost less accumulated depreciation. Depreciation is provided using the straight-line method to write off the cost of each asset to its residual value over the estimated useful life of the asset.

The annual rates of fixed asset depreciation are:

Category	Depreciation rate
Buildings	2 % p.a.
Furniture and fittings	10 - 20 % p.a.
Computers and equipment	10 - 33 % p.a.
Motor vehicles	20 % p.a.
Leasehold improvements	over the term of the lease agreements

Gains and losses on disposals of property and equipment are recognised in the income statement in the period of disposal. Repairs and maintenance costs are charged to the income statement as incurred. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. Property and equipment are periodically reviewed for impairment. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

NOTES TO THE FINANCIAL STATEMENTS

(9) Investment Properties

Investment property comprises land or buildings, which are held in order to earn rentals or for capital appreciation or both, and which are not occupied by the companies in the Group or otherwise held for sale. Property held under operating lease is classified as investment property if, and only if, it meets the definition of an investment property.

Investment property is carried at fair value. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the asset. If this information is not available, the Group uses alternative valuation methods such as discounted cash flow projections.

Changes in the fair value of investment property are recorded in the income statement.

(10) Leases - when the Group is a lessor

Finance lease receivables at commencement of the lease are recognised at the lower of the fair value of the leased asset or the present value of minimum lease payments. The net investment in finance leases is recorded in the balance sheet net of taxes and the related provision for impairment.

Lease income is recognised over the term of the lease using the net investment method, which reflects a constant periodic rate of return.

Assets under operating leases are recognised as fixed assets at historical cost net of accumulated depreciation. Depreciation is calculated on a straight-line basis to write off the cost of each asset to its residual value over the estimated useful life of fixed assets that is determined based on useful lives of similar assets of the Group.

(11) Financial liabilities carried at amortised cost

Financial liabilities carried at amortised cost are mainly amounts due to customers and due to banks. These are recognised initially at cost, being their issue proceeds (fair value of consideration received) net of transaction costs incurred. Financial liabilities are subsequently stated at amortised cost and any difference between net proceeds and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

(12) Derivative financial instruments

Derivative financial instruments including foreign currency swaps are initially recognised at cost and subsequently are remeasured at their fair value. Fair values are obtained from quoted market prices and discounted cash flow models as appropriate. All derivatives are carried as assets when fair value is positive and liabilities when the fair value is negative. Changes in the fair value of derivatives are reported in the income statement. The Group and the Bank do not use hedge accounting.

(13) Corporate income tax

Corporate income tax for the reporting period is included in the financial statements based on the management's calculations prepared in accordance with tax legislation of the Republic of Latvia.

Deferred tax is provided in full, using liability method, on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. The deferred tax is calculated based on currently enacted tax rates that are expected to apply when the temporary differences reverse. The principal temporary differences arise from different fixed asset depreciation rates, revaluation of investment properties, as well as tax losses carried forward.

Where an overall deferred taxation asset arises, it is only recognised in the financial statements where it is probable that future taxable profit will be available against which the temporary differences can be utilised.

NOTES TO THE FINANCIAL STATEMENTS

2 ACCOUNTING POLICIES (continued)

(14) Cash and cash equivalents

Cash and cash equivalents comprise cash and demand deposits with the Bank of Latvia and other credit institutions, deposits with and from other credit institutions with remaining maturity of 3 months or less.

(15) Mortgage bonds coverage register

The coverage register of mortgage bonds at the Bank is maintained in accordance with the legislation of the Republic of Latvia, including regulatory documents covering mortgage transactions.

The Bank manages mortgage claims included in the coverage register of mortgage bonds according to their remaining value, as well as substitute coverage separately from other assets.

The mortgage claims included in the coverage register of mortgage bonds according to their remaining value are used to ensure that those liabilities that result from the issue of mortgage bonds are met.

Mortgage bonds in circulation according to their total face value are fully covered with mortgage loans. The interest expense on mortgage bonds is covered with the interest income from mortgage loans of the same amount.

(16) Provisions

Provisions are recognised when the Group or the Bank has a present legal or constructive obligation as a result of past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. These provisions relate to the guarantees issued and other off balance sheet items.

(17) Employee benefits

The Group and the Bank pays social security contributions for state pension insurance and to the state funded pension scheme in accordance with Latvian legislation. Sta te funded pension scheme is a defined contribution plan under which the Group and the Bank pay fixed contributions determined by the law and they will have no legal or constructive obligations to pay further contributions if the state pension insurance sys tem or state funded pension scheme are not able to settle their liabilities to employees. The social security contributions are recognised as an expense on an accrual basis and are included within staff costs.

(18) Fair values of financial assets and liab ilities

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

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

(19) Off-setting financial instruments

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

2 ACCOUNTING POLICIES (continued)

NOTES TO THE FINANCIAL STATEMENTS

(20) Property held for sale

Property is classified as held for sale if its carrying amount will be recovered pr incipally through a sale transaction rather than through continuing use. Property held for sale is measured at the lower of its carrying amount and fair value less costs to sell.

(21) Critical Accounting Estimates and Judgements

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and based on historical experience and other factors, including expectations of future ev ents that are believed to be reasonable under the circumstances. Such estimates and assumptions are outlined below:

- Impairment losses of loans and advances. The Group reviews its loan portfolio to assess impairment on a regular basis as described in Note 2(6). The Group uses stress tests to determine possible impact of changes in one or more variables used in estimation of the provision for impairment losses on the financial result. To the extent that past due loans in the existing loan portfolio increase by 1%, the provision would be estimated higher by LVL 700 thousand.

(22) Adoption of new or revised standards and interpretations and new accounting pronouncements

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

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

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

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

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

- IFRS 8, *Operating Segments* (effective for annual periods beginning on or after 1 January 2009). The Standard applies to entities whose debt or equity instruments are traded in a public market or that file, or are in the process of filing, their financial statements with a regulatory or ganisation for the purpose of issuing any class of instruments in a public market. IFRS 8 requires an entity to report financial and descriptive information about its operating segments and specifies how an entity should report such information.

NOTES TO THE FINANCIAL STATEMENTS

(22) Adoption of new or revised standards and interpretations and new accounting pronouncements (continued)

- IAS 23, *Borrowing Costs* (revised March 2007; effective for annual periods beginning on or after 1 January 2009). The revised IAS 23 was issued in March 2007. The main change to IAS 23 is the removal of the option of immediately recognising as an expense borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale. An entity is , therefore, required to capitalise such borrowing costs as part of the cost of the asset. The revised Standard applies prospectively to borrowing costs relating to qualifying assets for which the commencement date for capitalisation is on or after 1 January 2009.
- IFRS 3, *Business combinations (revised on 10 January 2008; effective for annual periods beginning on or after 1 July 2009).* The standard continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with some contingent payments subsequently remeasured at fair value through income. Goodwill may be calculated based on the parent's share of net assets or it may include goodwill related to the minority interest. All transaction costs will be expensed.
- IAS 27, *Consolidated and separate financial statements* (revised on 10 January 2008; effective for annual periods beginning on or after1 July 2009). IAS 27 (revised) requires the effects of all transactions with noncontrolling interests to be recorded in equity if there is no change in control. They will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is remeasured to fair value and a gain or loss is recognised in profit or loss.
- Amendment to IFRS 2 dealing with vesting conditions and cancellations (effective for annual periods beginning on or after 1 January 2009, subject also to EU adoption for certain territories). It clarifies that only service conditions and performance conditions are vesting conditions. As such these features need to be included in the grant date fair value for transactions with employees and do not impact the number of awards expected to vest or the valuation subsequent to grant date. It also specifies that all cancellations, should receive the same accounting treatment.
- IFRIC 11, IFRS 2 - *Group and Treasury Share Transactions* (effective for annual periods beginning on or after 1 March 2007);
- IFRIC 12, Service Concession Arrangements (effective for annual periods beginning on or after 1 January 2008);
- IFRIC 13, *Customer Loyalty Programmes* (effective for annual periods beginning on or after 1 July 2008);
- IFRIC 14, IAS 19 - *The Limit on a Defined Benefit Asset*, Minimum Funding Requirements and their Interaction (effective for annual periods beginning on or after 1 January 2008).

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

3 RISK MANAGEMENT

The Group and the Bank manages all the major risks affecting the operation of the Group and the Bank in accordance with the Risk Management Policy approved by the Council of the Bank. The Risk Management Policy stipulates and describes the aggregate of measures used to ensure that a possibility of suffering losses is minimised in the event the invested or receivable resources would not be repaid or recovered in due time or full amount or the Group or the Bank would suffer other losses or would not derive the planned profit.

3 RISK MANAGEMENT (continued)

The Group and the Bank abides by the following principles in its risk management:

NOTES TO THE FINANCIAL STATEMENTS

- while assuming the risks the Group and the Bank shall be capable of implementing the aims and assignments defined in its development strategy in a longer run;
- the Group and the Bank shall operate by maintaining an optimum balance between profitability and safeguarding against the risks, i.e. the profitability must be as large as possible, however, the Group and the Bank shall not be exposed to the risks;
- risk assessment and management shall be an integral component of the every-day functions of the Group and the Bank;
- in accordance with their authority and competence the employees of the Group and the Bank shall know a customer and understand fully the nature of each transaction (operation) to be able to identify and assess the risks associated with the transaction (operation) and find the best solution both for the customer and the Group or the Bank;
- the Group and the Bank shall assess the probable losses that it might incur by assuming the risks and avoid extraordinary losses in its operation;
- the Group and the Bank shall identify and assess the probable risks before launching of new products or services or entering new markets;
- where necessary, the Group and the Bank shall reduce the risk limits, sell the assets subject to the risk or even leave the respective markets should these be assessed as excessively risky.

In managing the risks the Group and the Bank applies various methods for measuring the risks, sets the limits and maintains the appropriate controls. All risk policies are approved by the Council of the Bank.

Credit Risk

The Group and the Bank is subject to the credit risk. The credit risk is the risk of the customer or co-operation partner not being able to or refusing to meet its liabilities towards the Group or the Bank in full amount and due time.

The Group and the Bank manages the credit risk according to the Credit Policy as well as internal regulations, procedures and instructions of credit operations. The Credit Policy of the Bank describes and defines the principles for the management of the credit risk and it relates to all activities of the Group and the Bank involving credit risk – lending, financial market transactions (operations), intermediary activities on behalf of the clients and issue of guarantees to third parties.

The Bank's Risk Management Committee monitors the credit risk, including credit risk concentrations, and the quality of the credit portfolio, whereas central, regional and branch credit committees are taking decisions on the credit risk within the approved limits. The Bank's Risk Management Department is responsible for analysis of the credit risk concentration, setting and controlling the limits as well as the evaluation of the quality of the credit portfolio, whereas the Bank's Loan Department and Treasury Department is responsible for daily credit risk management in lending operations and operations with financial instruments respectively.

The Group and the Bank monitors the credit risk by assessing the creditworthiness and adequacy of collateral of the customer or counterparty on a regular basis as well as controls the credit risk at the level of customer, related customers and sectors of economy according to the risk limits set at the Group and the Bank. The principal collateral types for loans and advances are mortgages over residential properties, charges over business assets such as premises, inventory and accounts receivable.

The Group and the Bank manages credit risk concentrations according to the Risk Exposures Controlling Policy that stipulates the methods of analysis of the credit risk concentrations and its controlling instruments including limits on credit risk concentrations. Credit risk concentrations are managed by measuring and setting limits on the following concentrations:

- ratio of large exposure concentration and own funds (internal limit - 400%, limit set by the Law on Credit Institutions – 800%), as of 31.12.2007. was 79% (as of 31.12.2006. -62%);
- ratio of single client's (related clients' group) large exposure and own funds, which can not exceed 25%, as of 31.12.2007. was 16.6% (as of 31.12.2006.-15.2%);
- proportion of risk concentration in single economic sector in the Bank's credit portfolio as of 31.12.2007. was 25.1% (as of 31.12.2006.-25.7%);
- ratio of risk exposures with persons related to the Bank and own funds, which can not exceed 15%, as of 31.12.2007. was 6.1% (as of 31.12.2006. -8.7%).

3 RISK MANAGEMENT (continued)

Since the Bank's strategy is not focused on servicing the non-residents business, the proportion of the Bank's

NOTES TO THE FINANCIAL STATEMENTS

total claims to non-residents was small and as of 31.12.2007. was 7.7% (as 31.12.2006. –9.6%) of the Bank's total assets. The Group and the Bank manages the country risk that results from the lending operations to non - residents according to the Country Risk Management Policy.

Liquidity Risk

The liquidity risk relates to the ability of the Group and the Bank to redeem the legally valid claims of its customers and other creditors in due time and secure that the increase of the anticipated claims presents reasonable costs. The Liquidity Risk Management Policy of the Bank stipulates the principles for management of liquidity risk. The Bank shall ensure that the liquid assets are not less than 30% (set by the FCMC) of its short-term liabilities at all times. The Assets and Liabilities Committee of the Bank stipulates the guidelines for liquidity risk management and controls compliance thereof, whereas the Treasury Department provides for daily management of the liquidity risk. To evaluate the liquidity risk, the Bank uses the GAP method. The Bank has set liquidity net position limit in each significant currency and total liquidity net position limit as well as maximum deposit amount from a single depositor to control the liquidity risk. Liquidity ratio (min – 30%) as of 31.12.2007. was 99.4% (as of 31. 12.2006.-104.1%). The Note 38 to these financial statements discloses the liquidity ratios of the Group and the Bank as at 31 December 2007.

Foreign Currency Risk

The foreign currency risk occurs due to the differences between the asset and liability positions of foreign currencies that, as a result of the fluctuations of the exchange rates, affect the cash flow and financial results of the Group and the Bank. The Currency Risk Management Policy of the Bank stipulates the principles for the management of the foreign currency risk.

The Group and the Bank controls the foreign currency risk by imposing limits on the open currency positions for each currency and all currencies together consolidating in lats and by complying with the open currency position limits established in the law On Credit Institutions. The Assets and Liabilities Committee of the Bank stipulates the guidelines for foreign currency risk management and controls compliance thereof, whereas the Treasury Department provides for daily management of the foreign currency risk. The Note 40 to these financial statements discloses the open currency positions of the Group and the Bank by currencies as at 31 December 2007.

Interest Rate Risk

The interest rate risk is related to the influence of the fluctuations of the market rates onto the interest income and expenses of the Group and the Bank. To assess the interest rate risk the Bank analyses the maturity structure of the assets and liabilities sensitive to the changes in interest rates and susceptibility of the maturity structure to the potential fluctuations of the interest rates on a regular basis.

The Assets and Liabilities Management Committee monitors the interest rate risk, whereas the Treasury Department is responsible for the daily management of the interest rate risk. The Bank has set limit on changes in economic value of the Bank at 10% of own funds and limit on changes in net interest income at 2% of own funds which as of 31.12.2007. were 7.96% (as of 31.12.2006. -5.2%) and 0.93% (as of 31.12.2006.-0.4%) respectively. The Note 39 to these financial statements discloses the Group's and the Bank's assets and liabilities by re-pricing maturity.

Operational Risk

The operational risk results from intentional or unintentional deviations from the standards adopted in daily operation of the Group and the Bank, for example human mistake or fraud, disturbances in the operation of the information systems, insufficient control procedures or their ignorance. The Group and the Bank manages operational risk according to the Operational Risk Management Policy. The Internal Control System provides for management and control of the operational risk in the Group and the Bank. The Group and the Bank uses self-assessment method to measure the operational risk, whereas the Bank's operational risk information system is used to identify, analyse and control the operational risk. The structural units of the Group and the Bank are responsible for the management of the operational risk in the daily operations, but the Risk Management Committee monitor the operational risk. The Risk Management Department is responsible for the implementation of operational risk management in the Group and the Bank.

3 RISK MANAGEMENT (continued)

NOTES TO THE FINANCIAL STATEMENTS

The Bank has implemented Business continuity plan that includes guidelines on actions to be taken by the Bank, its structural units and employees at occurrence of risks that can have substantial negative effect on the Bank's operations.
In the year 2007 the Bank extended its Bankers' Blanket Bond Policy obtained on Lloyd's insurance market. The Policy is a significant risk management instrument that protects the assets and capital of the Bank against various losses the Bank might incur due to its employees or third parties.

Capital Adequacy

Capital adequacy shows those capital resources of the Group and the Bank needed to cover the credit and market risks arising from asset-side and off-balance sheet positions.
As at 31 December 2007 the capital adequacy ratios of the Group and the Bank calculated according to the international standards were 10.4% (as of 31.12.2006. – 13.3%) and 10.2% (as of 31.12.2006. – 13.4%) which exceeded the minimum of 8% set by the Basel Banking Committee in 1998.
As at 31 December 2007 the capital adequacy ratios of the Group and the Bank calculated according to the regulations of the Financial and Capital Market Commission were 10.1% (as of 31.12.2006. – 12.5%) and 9.9% (as of 31.12.2006. – 12.6%) which exceeded the minimum of 8% set by the Law on Credit Institutions and the regulations of the Financial and Capital Market Commission. The Note 41 to these financial statements discloses the Group's and the Bank's capital adequacy calculation.
In 2007 the Bank continued the implementation of the approved action plan to introduce the new EU rules for the calculation of the adequacy of capital (Basel II). Starting from 1 January 2008, the Group and the Bank uses the standardized approach to calculate minimum capital charge for credit and market risks and basic indicator approach – for operational risk.

4 RATINGS ASSIGNED TO THE BANK

Ratings assigned to the Bank by the rating agency *Moody's Investors Service*:

Rating type	Rating	Rating approval date	Rating forecast	Previous rating
For long-term foreign currency deposits	**A2**	21.12.2006.	Stable	**A2**
For short-term foreign currency deposits	**P1**	21.12.2006.	Stable	**P1**
The financial strength rating	**D-**	21.12.2006.	Stable	**D-**
The rating of mortgage bonds issued	**A1**	05.03.2007.	Positive	**A1**

5 THE PERFORMANCE OF THE BANK

The performance ratios of the Bank:

	Accounting period	Previous accounting year
Return on equity (ROE) (%)	10.58%	9.56%
Return on assets (ROA) (%)	0.78%	0.93%

6 INTEREST INCOME

	2007	2006

NOTES TO THE FINANCIAL STATEMENTS

	Group	Bank	Group	Bank
Interest income:				
- Interest on balances due from credit institutions	4,247	4,247	1,733	1,733
- interest on loans to customers	45,196	42,723	29,791	28,507
- interest on investments in securities	3,004	3,004	1,404	1,404
	52,447	**49,974**	**32,928**	**31,644**
Cash flow from interest received	50,428	48,019	31,500	30,233

7 INTEREST EXPENSE

	2007		2006	
	Group	Bank	Group	Bank
Interest expense:				
- interest on balances due to credit institutions	17,008	16,577	6,731	6,606
- interest on current and deposit accounts	9,451	9,705	6,507	6,508
- interest on transit funds	148	148	130	130
- interest on subordinated liabilities	777	777	765	765
- interest on mortgage bonds issued	2,705	2,705	2,125	2,125
- other interest expense	49	49	39	39
	30,138	**29,961**	**16,297**	**16,174**
Cash flow from interest paid	28,081	27,967	15,185	15,062

8 FEE AND COMMISSION INCOME

	2007		2006	
	Group	Bank	Group	Bank
Fee and commission income:				
- from lending activities	1,673	1,625	1,505	1,452
- from money transfers and account servicing	1,409	1,458	1,266	1,292
- from payment cards	816	816	569	569
- from securities accounts	72	72	57	57
- from insurance fiduciary activities	93	83	87	80
- other fee and commission income	49	49	49	33
	4,112	**4,103**	**3,533**	**3,483**

9 FEE AND COMMISSION EXPENSE

	2007		2006	
	Group	Bank	Group	Bank
Fee and commission expense:				
- for account services	226	225	207	207
- for payment cards	512	512	312	312
- for transactions with securities	53	53	40	40
- other fee and commission income	133	70	81	59
	924	**860**	**640**	**618**

NOTES TO THE FINANCIAL STATEMENTS

10 RESULT FROM DEALING WITH SECURITIES AND FOREIGN EXCHANGE

	2007		2006	
	Group	**Bank**	**Group**	**Bank**
Profit from trading securities	292	292	570	570
Profit / (loss) from securities designated at fair value through profit or loss	-	-	(250)	(250)
Profit from dealing with currency exchange and revaluation of foreign currency positions	1,850	1,819	935	952
	2,142	**2,111**	**1,255**	**1,272**

11 OTHER OPERATING INCOME

	2007		2006	
	Group	**Bank**	**Group**	**Bank**
Income from property privatisation services	390	390	443	443
Income from recovery of the State Property Privatisation Fund loans	-	-	16	16
Penalty fees received on overdue loan repayments	662	395	453	376
Compensations	742	742	625	625
Revaluation of investment properties	-	-	114	114
Operating lease income	621	-	341	-
Recovery of loans written off in the previous periods	1,198	1,180	967	967
Other	594	422	982	437
	4,207	**3,129**	**3,941**	**2,978**

12 STAFF COSTS

	2007		2006	
	Group	**Bank**	**Group**	**Bank**
Remuneration to the Council and the Board	507	416	314	275
Remuneration to staff members	7,713	7,035	5,863	5,350
Social security contributions	1,816	1,645	1,429	1,299
	10,036	**9,096**	**7,606**	**6,924**

During the reporting year the Bank employed on average 641 staff members (2006: 608).

13 ADMINISTRATIVE EXPENSES

	2007		2006	
	Group	**Bank**	**Group**	**Bank**
Training and other staff expense	578	559	520	491
Equipment and premises maintenance expense	2,270	2,072	1,767	1,679
Information system and communication expense	1,548	1,474	1,379	1,317
Advertising and public relations	1,971	1,789	1,429	1,338
Professional services	427	444	480	459
Property tax	62	62	56	56
Write off of fixed assets	7	7	34	23
Payments to the deposit guarantee fund	508	508	385	385
Revaluation of investment properties	138	138	-	-
Other expenses	911	610	507	419
	8,420	**7,663**	**6,557**	**6,167**

NOTES TO THE FINANCIAL STATEMENTS

14 PROVISION FOR IMPAIRMENT LOSSES

	2007		2006	
	Group	**Bank**	**Group**	**Bank**
Provision expense:				
- provisions for loans	3,805	3,422	1,887	1,887
- provisions for other assets	155	155	34	34
- provisions for investments in subsidiaries and associated entities	-	-	50	50
- provisions for off balance sheet liabilities	4	4	39	39
- provisions for accrued interest income receivable	326	326	161	161
	4,290	**3,907**	**2,171**	**2,171**
Release of provision:				
- provisions for loans	(765)	(757)	(748)	(748)
- provisions for other assets	(67)	(67)	(26)	(26)
- provisions for off balance sheet liabilities	(43)	(43)	-	-
- provisions for accrued interest income receivable	(190)	(190)	(238)	(238)
	(1,065)	**(1,057)**	**(1,012)**	**(1,012)**
Total provision for impairment losses - expense	**3,225**	**2,850**	**1,159**	**1,159**

15 CORPORATE INCOME TAX

	2007		2006	
	Group	**Bank**	**Group**	**Bank**
Income tax	1,119	897	1,275	1,105
Deferred tax (see Note 28)	64	46	(71)	(78)
	1,183	**943**	**1,204**	**1,027**

Corporate income tax differs from the theoretically calculated tax amount that would arise applying the 15% rate stipulated by the law to profit before taxati on:

	2007		2006	
	Group	**Bank**	**Group**	**Bank**
Profit before tax	**7,698**	**7,089**	**7,210**	**6,211**
Tax calculated at 15%	1,155	1,063	1,082	932
Donations and gifts relief	(161)	(161)	-	-
Expenses not deductible for tax purposes, net	189	41	122	95
Tax expense for the year ended 31 December	**1,183**	**943**	**1,204**	**1,027**

16 CASH AND BALANCES WITH CENTRAL BANK

	31/12/07		31/12/06	
	Group	**Bank**	**Group**	**Bank**
Cash	7,374	7,374	5,678	5,677
Balances with the Bank of Latvia	58,891	58,891	52,329	52,329
	66,265	**66,265**	**58,007**	**58,006**

NOTES TO THE FINANCIAL STATEMENTS

16 CASH AND BALANCES WITH CENTRAL BANK (continued)

The correspondent account with the Bank of Latvia reflects the balance of the Bank's correspondent account, on which interest is paid in the amount of th e compulsory reserve requirement.

The Bank is required to comply with minimum reserve requirements set by the Bank of Latvia. This requires the Bank's monthly average LVL balance on its correspondent account with the Bank of Latvia to exceed a specified minimum during the maintenance period of requirements.

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

17 TRADING AND INVESTMENT SECURITIES

	31/12/07		31/12/06	
	Group	**Bank**	**Group**	**Bank**
Trading securities				
Latvian Treasury bills and government bonds	-	-	379	379
Non-OECD government bonds	619	619	1,238	1,238
Latvian corporate bonds	453	453	95	95
OECD corporate bonds	1,275	1,275	721	721
Non-OECD corporate bonds	712	712	274	274
Equity shares in Latvian corporate entities	100	100	127	127
Equity shares in OECD corporate entities	80	80	-	-
Equity shares in non-OECD corporate entities	30	30	18	18
Total trading securities	**3,269**	**3,269**	**2,852**	**2,852**
Securities held to maturity				
Non-OECD corporate bonds	35	35	-	-
Latvian corporate bonds	13,025	13,025	-	-
Total securities held to maturity	**13,060**	**13,060**	**-**	**-**
Securities available-for-sale				
Latvian Treasury bills and government bonds	13,342	13,342	13,362	13,362
OECD government bonds	2,040	2,040	2,207	2,207
Non-OECD government bonds	8,586	8,586	6,682	6,682
OECD corporate bonds	16,034	16,034	-	-
Non-OECD corporate bonds	12,710	12,710	14,605	14,605
Latvian corporate bonds	1,419	1,419	13,318	13,318
Total securities available-for-sale	**54,131**	**54,131**	**50,174**	**50,174**
Total trading and investment securities	**70,460**	**70,460**	**53,026**	**53,026**

The following table shows the division of the Group's debt securities by r ating agency designation (*Moody`s investors Service*) as at 31 December 2007:

	Trading securities	Investment securities available-for-sale	Securities held to maturity	Total
Aaa	554	975	-	**1,529**
Aa1 - Aa3	369	8,114	-	**8,483**
A1 - A3	352	24,535	-	**24,887**
Baa1 - Baa3	450	11,534	-	**11,984**
Lover than Baa3	1,081	8,223	1,797	**11,101**
Unrated	253	750	11,263	**12,266**
Total	**3,059**	**54,131**	**13,060**	**70,250**

NOTES TO THE FINANCIAL STATEMENTS

17 TRADING AND INVESTMENT SECURITIES (continued)

The following table shows the division of the Group's debt securities by rating agency designation (*Moody`s Investors Service*) as at 31 December 2006:

	Trading securities	**Investment securities available-for-sale**	**Securities held to maturity**	**Total**
Aaa	721	1,051	-	**1,772**
Aa1 - Aa3	-	-	-	**-**
A1 - A3	494	15,574	-	**18,068**
Baa1 - Baa3	-	10,093	-	**10,093**
Lover than Baa3	1,397	9,560	-	**10,957**
Unrated	95	11,896	-	**11,991**
Total	**2,707**	**50,174**	**-**	**52,881**

All securities are quoted on stock exchange. The average yield on investment securities as at 31 December 2007 was 6.6% (2006: 6.1%).

18 INVESTMENT PROPERTIES

	31/12/2007		**31/12/2006**	
	Group	**Bank**	**Group**	**Bank**
Carrying amount at 1 January	**2,253**	**2,253**	**2,139**	**2,139**
Gains / (loss) on fair valuation	(137)	(137)	114	114
Carrying amount at 31 December	**2,116**	**2,116**	**2,253**	**2,253**

Investment properties include real estate at Jēkaba iela 6/8, Riga, with a carrying amount of LVL 2,116 thousand as at 31 December 2007 (LVL 2,253 thousand as at 31 December 2006). Investment properties are held at fair value based on valuations made by independent valuers who have up-to-date experience in valuing real estate in the respective location and category and who hold an appropriate professional qualification for real estate valuation. The valuations are made on the basis of recent comparative data in the local market and/or on the basis of rental returns discounted at an appropriate rate.

19 DUE FROM CREDIT INSTITUTIONS

	31/12/06		**31/12/05**	
	Group	**Bank**	**Group**	**Bank**
Due from credit institutions registered in OECD countries	14,555	14,555	35,565	35,565
Due from credit institutions registered in Latvia	76,537	76,328	33,031	32,959
Due from credit institutions registered in other countries	13,779	13,779	3,425	3,425
	104,871	**104,662**	**72,021**	**71,949**

At 31 December 2007 the Bank had correspondent accounts with 19 banks (2006: 20 banks).

The average interest rate on balances due from credit institutions as at 31 December 2007 was 5.5% (2006: 3.9%).

NOTES TO THE FINANCIAL STATEMENTS

20 DERIVATIVE FINANCIAL INSTRUMENTS

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

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

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

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

	31/12/07			31/12/06		
	Contract / national amount	Fair value Assets	Fair value Liabilities	Contract / national amount	Fair value Assets	Fair value Liabilities
Currency swaps	14,509	84	117	7,028	2	20
Currency forwards	504	-	13	-	-	-
Total		**84**	**130**		**2**	**20**

21 LOANS TO CUSTOMERS

Loans by type of borrower:	31/12/07 Group	31/12/07 Bank	31/12/06 Group	31/12/06 Bank
Central governments	7,040	7,028	-	-
Local government	2,179	1,688	957	755
State owned companies	2,353	2,353	362	362
Financial institutions	414	85,186	349	46,803
Private companies	428,055	348,549	304,519	255,098
Individuals	222,736	211,256	190,180	183,382
Management / staff	6,853	5,708	4,516	4,279
Public and religious institutions	714	684	712	699
Total gross loans	**670,344**	**662,452**	**501,595**	**491,378**
Accrued interest on loans	2,520	2,550	1,488	1,471
Provisions for impairment losses on loans	(5,006)	(4,652)	(3,599)	(3,599)
Total net loans	**667,858**	**660,350**	**499,484**	**489,250**

99.9% from loans issued by the Bank and the Group are loans to Latvia residents.

NOTES TO THE FINANCIAL STATEMENTS

21 LOANS TO CUSTOMERS (continued)

Economic sector risk concentrations within the customer loan portfolio are as follows:

	31/12/07		31/12/06	
	Group	**Bank**	**Group**	**Bank**
Agriculture and forestry	90,868	80,105	74,785	69,048
Fishing	5,536	5,430	6,026	5,892
Manufacturing	68,877	56,652	45,128	37,965
Electricity, gas and water utilities	7,818	7,687	4,725	4,627
Construction	15,615	9,706	10,025	7,499
Retail trade and wholesale distribution	50,019	39,347	38,465	31,009
Hotels and restaurants	17,860	17,396	15,644	15,145
Transport, warehousing and communications	43,641	15,082	32,380	13,303
Financial intermediaries	9,079	93,671	501	46,806
Real estate	96,886	97,192	63,355	59,639
Municipal authorities	9,227	8,716	1,065	755
Individuals	229,589	216,964	194,696	187,661
Other industries	25,329	14,504	14,800	12,029
Total gross loans	**670,344**	**662,452**	**501,595**	**491,378**

Analysis of loans by type:

	31/12/07		31/12/06	
	Group	**Bank**	**Group**	**Bank**
Commercial loans	283,640	287,776	202,146	198,964
Consumer loans	63,857	51,829	52,372	45,337
Mortgage loans	236,617	236,617	167,197	167,197
Agricultural development loans	19,877	19,877	19,682	19,682
Rural development loans	712	712	1,167	1,167
Small and Medium Enterprises Development loans	44,205	44,205	38,842	38,842
Residential property development loans	9,837	9,837	16,327	16,327
Other loans	11,599	11,599	3,862	3,862
Total gross loans	**670,344**	**662,452**	**501,595**	**491,378**

The extent of loan and advance concentration with respect to individual non-bank customers with total credit exposures equal to or exceeding Ls 1,000 thousand is presented below:

	31/12/07		31/12/06	
	Group	**Bank**	**Group**	**Bank**
Number of customers	57	57	38	40
Total credit exposure of customers	136,125	219,579	88,584	135,862
Percentage of total gross portfolio of loans	20.3%	33.2%	17.7%	27.6%

At 31 December 2007 the top ten borrowers represented 8.3% (9.2% at 31 December 2006) of the total loan portfolio.

The Latvian banking legislation requires that any credit exposure to a non-related entity or group of non-related entities may not exceed 25% of a credit institution's equity and the total credit exposure to all related parties may not exceed 15% of equity. The Latvian Financial and Capital Market Commission has agreed that these limits are not applicable to the Bank's credit exposure to its fully owned leasing subsidiary SIA Hipolīzings.

As at 31 December 2007, the Bank was in compliance with the legal requirement set for the total amount of non-zero risk credit exposure.

NOTES TO THE FINANCIAL STATEMENTS

21 LOANS TO CUSTOMERS (continued)

Analysis of loans by type of valuation and by risk groups :

	31/12/07		31/12/06	
	Group	**Bank**	**Group**	**Bank**
Individually assessed loans				
Standard	265,730	352,318	278,978	327,711
Watch list	6,823	6,823	9,823	9,823
Below standard	3,977	4,892	1,432	1,432
Doubtful	701	701	2,108	2,108
Lost	181	181	298	298
Provisions for impairment losses on loans	(2,906)	(2,906)	(3,179)	(3,179)
Individually assessed loans, net	**274,506**	**362,009**	**289,460**	**338,193**
Loans assessed on a group basis				
Homogenous groups of loans	395,452	300,087	210,444	151,477
Provisions for impairment losses on loans	(2,100)	(1,746)	(420)	(420)
Loans assessed on a group basis, net	**393,352**	**298,341**	**210,024**	**151,057**
Total net loans	**667,858**	**660,350**	**499,484**	**489,250**

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

	31/12/07		31/12/06	
	Group	**Bank**	**Group**	**Bank**
Loans not impaired				
Loans that are not past due	246,788	333,376	225,179	272,482
Past due loans	21,130	21,130	12,546	12,546
Impaired loans				
Loans that are not past due	345,534	271,936	243,596	192,651
Past due loans	59,412	38,560	21,762	15,170
Total loans	**672,864**	**665,002**	**503,083**	**492,849**
Provisions for impairment losses on loans	(5,006)	(4,652)	(3,599)	(3,599)
Total net loans	**667,858**	**660,350**	**499,484**	**489,250**

Next table provides fair values of collaterals of loans past due for more than 30 days and with outstanding balances exceeding Ls 100 thousand:

	31/12/07		31/12/06	
	Group	**Bank**	**Group**	**Bank**
Loans past due for more than 30 days and outstanding balances exceeding Ls 100 thousand	12,614	12,614	4,134	4,134
Fair value of collateral	**16,981**	**16,981**	**6,446**	**6,446**

NOTES TO THE FINANCIAL STATEMENTS

21 LOANS TO CUSTOMERS (continued)

Analysis of movement in provisions for loan impairment losses

	31/12/07		31/12/06	
	Group	**Bank**	**Group**	**Bank**
As at beginning of the year	3,599	3,599	4,362	4,362
Increase of provisions	4,131	3,748	2,048	2,048
Release from provisions	(955)	(947)	(986)	(986)
Adjustment (foreign exchange fluctuation)	(33)	(33)	(76)	(76)
Write-off of loans	(1,736)	(1,715)	(1,749)	(1,749)
As at end of the year	**5,006**	**4,652**	**3,599**	**3,599**

Maturity profile:

	31/12/07		31/12/06	
	Group	**Bank**	**Group**	**Bank**
Overdue	3,092	2,377	1,969	1,830
Falling due within:				
1 month	18,342	16,507	12,348	11,069
1 – 3 months	31,044	24,309	22,050	19,411
3 – 6 months	53,589	47,433	24,695	20,483
6 –12 months	64,500	53,124	49,462	41,139
1 – 5 years	262,442	200,891	204,305	212,610
more than 5 years	239,855	320,361	188,254	186,307
Total loans	**672,864**	**665,002**	**503,083**	**492,849**
Less provision for loan impairment loss	(5,006)	(4,652)	(3,599)	(3,599)
Total net loans to customers	**667,858**	**660,350**	**499,484**	**489,250**

The following table provides the division of loans and advances to customers past due :

	31/12/07		31/12/06	
	Group	**Bank**	**Group**	**Bank**
Loans that are not past due	592,322	605,312	468,775	465,133
Past due up to 30 days	53,777	40,710	25,556	20,669
Past due 30-60 days	14,483	9,640	3,296	2,472
Past due 60-90 days	6,302	3,971	1,082	619
Past due over 90 days	5,980	5,369	4,374	3,956
Total loans	**672,864**	**665,002**	**503,083**	**492,849**
Less provision for loan impairment loss	(5,006)	(4,652)	(3,599)	(3,599)
Total net loans to customers	**667,858**	**660,350**	**499,484**	**489,250**

The loans to customers include finance lease receivables. As at 31 December 2007 finance lease receivables may be analysed as follows:

	31/12/07	31/12/06
	Group	**Group**
Falling due within:		
1 month	2,518	1,734
1 – 3 months	4,200	3,040
3 – 6 months	5,850	4,214
6 –12 months	11,715	8,329
1 – 5 years	58,976	38,510
more than 5 years	3,675	2,170
Total	**86,934**	**57,997**

NOTES TO THE FINANCIAL STATEMENTS

21 LOANS TO CUSTOMERS (continued)

Finance leases by type of leased assets:

	31/12/07 Group	31/12/06 Group
Manufacturing and agricultural equipment	15,379	10,182
Transport vehicles	71,555	47,815
Total	**86,934**	**57,997**

The average interest rate for the loan portfolio as at 31 December 2007 was 7.5% per annum (6.4% at 31 December 2006).

22 INVESTMENTS IN SUBSIDIARIES AND ASSOCIATED ENTITIES

The Bank's investments in subsidiaries and associated entities are specified as follows:

	Share capital	Total equity	Bank's share (%)	Investment value 31/12/07	Investment value 31/12/06
SIA "Hipolīzings"	645	1,587	100%	300	300
SIA "Hipotēku bankas nekustamā īpašuma aģentūra"	50	598	100%	50	50
SIA „Risku investīciju sabiedrība"	500	502	100%	500	-
KS „Mazo un vidējo komersantu atbalsta fonds"	152	149	47.62%	72	74
Total				**922**	**424**

SIA "Risku investīciju sabiedrība" was registered in the Enterprise Register of the Republic of Latvia on 4 September 2007. The primary business of the Company is risk investments in the equities of companies.

23 INTANGIBLE ASSETS

	Group	Bank
Historical cost		
As at 1 January 2007	**3,159**	**3,083**
Additions	1,305	1,250
As at 31 December 2007	**4,464**	**4,333**
Accumulated depreciation		
As at 1 January 2007	**1,845**	**1,819**
Charge for the period	601	587
As at 31 December 2007	**2,446**	**2,406**
Net book value as at 31 December 2006	**1,314**	**1,264**
Net book value as at 31 December 2007	**2,018**	**1,927**

NOTES TO THE FINANCIAL STATEMENTS

24 PROPERTY AND EQUIPMENT

The following table shows changes in property and equipment of the Bank in 2007:

	Land and buildings	Vehicles	Equipment	Leasehold improvements	Total
Cost					
As at 1 January 2007	**4,010**	**1,043**	**7,687**	**1,179**	**13,919**
Additions	82	155	1,315	292	1,844
Disposals	-	(86)	(184)	(12)	(282)
As at 31 December 2007	**4,092**	**1,112**	**8,818**	**1,459**	**15,481**
Accumulated depreciation					
As at 1 January 2007	**413**	**515**	**4,860**	**309**	**6,097**
Charge for the period	6	196	1,331	108	1,711
Disposals	-	(86)	(177)	(11)	(274)
As at 31 December 2007	**489**	**625**	**6,014**	**406**	**7,534**
Net book value					
As at 31 December 2007	**3,603**	**487**	**2,804**	**1,053**	**7,947**

The following table shows changes in property and equipment of the Bank in 2006:

	Land and buildings	Vehicles	Equipment	Leasehold improvements	Total
Cost					
As at 1 January 2006	**3,803**	**997**	**7,148**	**1,025**	**12,973**
Additions	207	190	944	181	1,522
Disposals	-	(144)	(405)	(27)	(576)
As at 31 December 2006	**4,010**	**1,043**	**7,687**	**1,179**	**13,919**
Accumulated depreciation					
As at 1 January 2006	**347**	**456**	**3,967**	**229**	**4,999**
Charge for the period	66	182	1,282	107	1,637
Disposals	-	(123)	(389)	(27)	(539)
As at 31 December 2006	**413**	**515**	**4,860**	**309**	**6,097**
Net book value					
As at 31 December 2006	**3,597**	**528**	**2,827**	**870**	**7,822**

NOTES TO THE FINANCIAL STATEMENTS

24 PROPERTY AND EQUIPMENT (continued)

The following table shows changes in property and equipm ent of the Group in 2007:

	Land and Buildings	Vehicles	Equipment	Leasehold improvements	Total
Cost					
As at 1 January 2007	**4,217**	**1,104**	**7,864**	**1,180**	**14,365**
Additions	129	843	1,438	352	2,762
Disposals	-	(165)	(188)	(12)	(365)
As at 31 December 2007	**4346**	**1,782**	**9,114**	**1,520**	**16,762**
Accumulated depreciation					
As at 1 January 2007	**445**	**538**	**4,938**	**310**	**6,231**
Charge for the period	86	294	1,373	113	1,866
Disposals	-	(119)	(180)	(11)	(310)
As at 31 December 2007	**531**	**713**	**6,131**	**412**	**7,787**
Net book value					
As at 31 December 2007	**3,815**	**1,069**	**2,983**	**1,108**	**8,975**

The following table shows changes in property and equipment of the Group in 2006:

	Land and Buildings	Vehicles	Equipment	Leasehold improvements	Total
Cost					
As at 1 January 2006	**3,803**	**1,066**	**7,209**	**1,026**	**13,104**
Previously unconsolidated subsidiaries	207	29	74	-	310
Additions	207	204	986	181	1,578
Disposals	-	(195)	(405)	(27)	(627)
As at 31 December 2006	**4,217**	**1,104**	**7,864**	**1,180**	**14,365**
Accumulated depreciation					
As at 1 January 2006	**347**	**460**	**3,988**	**230**	**5,025**
Previously unconsolidated subsidiaries	22	10	28	-	60
Charge for the period	76	194	1,311	107	1,688
Disposals	-	(126)	(389)	(27)	(542)
As at 31 December 2006	**445**	**538**	**4,938**	**310**	**6,231**
Net book value					
As at 31 December 2006	**3,772**	**566**	**2,926**	**870**	**8,134**

NOTES TO THE FINANCIAL STATEMENTS

25 DUE TO CREDIT INSTITUTIONS

	31/12/07		31/12/06	
	Group	**Bank**	**Group**	**Bank**
Due to credit institutions registered in OECD area	491,450	482,886	290,545	279,882
Due to credit institutions registered in Latvia	5,852	5,852	5,684	5,684
	497,302	**488,738**	**296,229**	**285,566**

	31/12/07		31/12/06	
	Group	**Bank**	**Group**	**Bank**
On demand	36	36	116	116
Term balances	497,266	488,702	296,113	285,450
	497,302	**488,738**	**296,229**	**285,566**

The average interest rate for due to credit institutions as at 31 December 2007 was 5.0% (at 31 December 2006: 3.8%).

26 DUE TO CUSTOMERS

	31/12/07		31/12/07	
	Group	**Bank**	**Group**	**Bank**
Local government	6,720	6,720	13,023	13,023
State owned companies	5,885	5,885	11,243	11,243
Financial institutions	26,319	26,656	22,652	22,784
Private companies	36,971	37,058	43,388	43,398
Individuals	200,670	200,670	179,117	179,117
Public and religious organisations	2,663	2,663	2,405	2,405
	279,228	**279,652**	**271,828**	**271,970**
Accrued interest	2,896	2,898	2,215	2,215
Total due to customers	**282,124**	**282,550**	**274,043**	**274,185**

	31/12/07		31/12/07	
	Group	**Bank**	**Group**	**Bank**
On demand	79,310	79,413	81,640	81,782
Term balances	202,814	203,137	192,403	192,403
Total due to customers	**282,124**	**282,550**	**274,043**	**274,185**

99.6% of the deposits with the Bank are the Bank's liabilities to residents of Latvia, the remaining 0.4% of the deposits are liabilities to other countries residents.

The average interest rate for demand deposits at 31 December 2007 was 0.5% (0.6% at 31 December 2006), for term deposits – 5.8% (4.5% at 31 December 2005).

NOTES TO THE FINANCIAL STATEMENTS

27 ISSUED DEBT SECURITIES

	30/09/07 Bank	31/12/06 Bank
Mortgage bonds	37,317	43,211
Other debt securities	15,177	-
Total	**52,494**	**43,211**

The purpose of mortgage bonds issuing was to attract financial resources for refinancing of the long-term mortgage loans. The purpose of debt securities issuing was to attract financial resources for financing general Bank activities.

All mortgage bonds issued by the Bank are assigned A1 rating by Moody's Investors Service. All issued debt securities are quoted on the Official List of the Riga Stock Exchange.

During the 2007, the Bank issued P01AO and P01CB series debt securities for total amount of LVL 10,000 thousand and EUR 9,047 thousand, but redeemed LVL 3,000 thousand of AG and USD 5,000 thousand BB series mortgage bonds.

The average annual interest rate of the issued securities was 5.9% (as at 31 December 2006: 5.2%).

Statement on Mortgage bond coverage as at 31 December 2007

(a) Issued mortgage bonds

ISIN	Security class	Number of mortgage bonds	Face value	Registered volume	Coupon rate, %	Maturity date	Outstanding volume, LVL	Book value LVL
LV0000800118	AI	20,000	100 LVL	2,000,000	7.0%	15.08.2008.	1,039,200	1,078,400
LV0000800167	AJ	30,000	100 LVL	3,000,000	6.5%*	15.08.2008.	2,995,000	3,068,544
LV0000800183	AK	30,000	100 LVL	3,000,000	6.5%*	15.08.2009.	2,910,600	2,982,071
LV0000800266	AN	30,000	100 LVL	3,000,000	8.125%*	15.08.2010.	3,000,000	3,096,506
LV0000800100	AH	20,000	100 LVL	2,000,000	7.5%	15.08.2011.	1,130,200	1,159,617
LV0000800217	BA	100,000	100 USD	10,000,000	6.125%**	15.08.2011.	2,904,000	2,971,195
LV0000800340	CA	200,000	100 EUR	20,000,000	4.719***	15.02.2012.	14,049,474	14,299,925
LV0000800142	AL	50,000	100 LVL	5,000,000	6.0%	15.08.2012.	4,758,000	4,858,315
LV0000800159	AM	70,000	100 LVL	7,000,000	5.25%	15.08.2013.	3,745,000	3,802,594
						Total	**36,531,474**	**37,317,167**

* floating coupon rate (6 month RIGIBOR plus 0.5%) that is revised twice every year on 15 February and 15 August
** floating coupon rate (6 month LIBOR plus 0.8%) that is revised twice every year on 15 February and 15 August
***floating coupon rate (6 month EURIBOR plus 0.29%) that is revised twice every year on 15 February and 15 August

(b) Structure of Mortgage bond coverage

Mortgage bonds in circulation are secured by assets included in the Mortgage Bond Cover Register which as of 31 December 2007 amounted to LVL 145,788 thousand (as at 31 December 2006: LVL 115,083 thousand). Assets included in the Mortgage Bond Cover Register consisted of mortgage loans (ordinary cover) in the amount of LVL 145,053 thousand (as at 31 December 2006: LVL 113,986 thousand) and substitute cover amounting to LVL 3,735 thousand (as at 31 December 2006: LVL 1,097 thousand).

As at 31 December 2007, a ratio of substitute cover against amount of mortgage bonds in circulation (maximum statutory allowed – 20%) was 10.1% (as at 31 December 2006: 2.5%), while the amount of assets included in the Mortgage Bond Cover Register exceeds the amount of mortgage bonds in circulation by 77.1% (as at 31 December 2006: 63.2%) of the amount of weighted assets included in the Mortgage Bond Cover Register (minimum statutory requirement: 10%).

NOTES TO THE FINANCIAL STATEMENTS

27 ISSUED DEBT SECURITIES (continued)

(c) Sufficiency Calculation of Cover of Mortgage Bonds in Circulation

M-Bonds Redemption and Coupon Payment Dates	Mortgage Bond Cover Sufficiency on the last Payment Date*	Mortgage Payments receivable		Payments of Mortgage Bonds in Circulation		Substitute Cover	Mortgage Bond Cover Sufficiency
		Principal Payments	Interest Payments	Redemption Payments	Interest Payments		(1+2+3-4-5+6)
A	1	2	3	4	5	6	7
15.02.2008	-	867	1,224	-	(1,069)	-	(1,022)
15.08.2008	867	4,423	5,138	(4,050)	(1,069)	-	(5,309)
15.02.2009	1,240	12,005	4,839	-	(934)	-	(17,150)
15.08.2009	13,245	6,464	4,519	(3,000)	(934)	-	(20,294)
15.02.2010	16,709	6,669	4,232	-	(837)	-	(26,773)
15.08.2010	23,378	4,131	4,028	(3,000)	(837)	-	(27,700)
15.02.2011	24,509	4,228	3,856	-	(715)	-	(31,878)
15.08.2011	28,737	4,950	3,676	(4,054)	(715)	-	(32,594)
15.02.2012	29,633	3,739	3,504	(14,056)	(583)	-	(22,237)
15.08.2012	19,316	3,795	3,355	(5,000)	(251)	-	(21,215)
15.02.2013	18,111	3,984	3,196	-	(101)	-	(25,190)
15.08.2013	22,095	5,752	3,022	(3,862)	(101)	-	(26,906)
15.02.2014	23,985	4,418	2,818	-	-	-	(31,221)
15.08.2014	28,403	58,816	20,788	-	-	-	(108,007)
15.02.2015	87,219	17,812	8,343	-	-	-	(113,374)
Total		**142,053**	**76,538**	**(37,022)**	**(8,146)**		**-**

* mortgage Bond Cover sufficiency on the last Payment Date is calculated: figures showed in Column 7 – (Column 3 – Column 5) on the last Payment Date

(d) Analysis of mortgage loans included in Mortgage bond coverage by type of real estate

	31/12/07 Bank	31/12/06 Bank
Residential mortgage loans	81,388	65,182
Commercial mortgage loans	60,665	48,804
Total	**142,053**	**113,986**

28 DEFERRED TAX LIABILITIES

Movements in the provision for deferred tax liability:

	31/12/07		31/12/06	
	Group	**Bank**	**Group**	**Bank**
Deferred tax liability at the beginning of the reporting year	**899**	**890**	**970**	**968**
Change in deferred tax liabilities	64	46	(71)	(78)
Deferred tax liability at the end of the reporting year	**963**	**936**	**899**	**890**

NOTES TO THE FINANCIAL STATEMENTS

28 DEFERRED TAX LIABILITIES (continued)

Deferred income tax assets and liabilities are attributable to the following items:

	31/12/07		31/12/06	
	Group	**Bank**	**Group**	**Bank**
Deferred tax liabilities:	**1,169**	**1,123**	**1,085**	**1,070**
Temporary difference of property and equipment depreciation	859	813	803	788
Revaluation of investment property	262	262	282	282
Other temporary differences	48	48	-	-
Deferred tax assets:	**206**	**187**	**186**	**180**
Provision for employee holiday pay	59	53	49	45
Other temporary differences	147	134	137	135
Total provision for deferred taxation	**963**	**936**	**899**	**890**

29 SUBORDINATED DEBT

On 1 August 2001, an agreement was concluded between the Bank and the Ministry of Finance on issuing of subordinated debt of LVL 3,300 thousand, with a maturity of 31 August 2008 and an interest rate of 6.46% as at 31 December 2007.

On 27 November 2003 the Bank and the Ministry of Finance concluded an agreement on attraction of subordinated debt in the amount of LVL 10,000 thousand, with the maturity of 7 February 2013 and a n interest rate of 5.60% as at 31 December 2007.

30 SHARE CAPITAL

Share capital as at 31 December 2006 and 31 December 2007 was as follows:

		31/12/07		31/12/06
Fully paid share capital	**Number**	**LVL**	**Number**	**LVL**
Ordinary shares	48,513,143	48,513,143	48,513,143	48,513,143
Total fully paid share capital	**48,513,143**	**48,513,143**	**48,513,143**	**48,513,143**

According to the Articles of Association, the fully paid share capital of the Bank consists of 48,513,143 ordinary shares in the total amount of LVL 48,513,143 , owned by the Republic of Latvia. The nominal value of each share is LVL 1.

In 2007, the Bank distributed LVL 1,400 thousand to the Ministry of Finance for the use of the stat e funds from the profit for 2006. According to the Cabinet of Ministers regulat ions for the reporting year t he Bank has calculated LVL 1,659 thousand as a payment for the use of the state capital to the Ministry of Fina nce in respect of 2007 which represents 27% of the Bank's net profit.

NOTES TO THE FINANCIAL STATEMENTS

31 CASH AND CASH EQUIVALENTS

	31/12/07		31/12/06	
	Group	**Bank**	**Group**	**Bank**
Cash	7,374	7,374	5,678	5,677
Placements with the Bank of Latvia	58,891	58,891	52,329	52,329
Placements with other credit institutions	21,552	21,343	61,621	61,549
Placements with other credit institutions with remaining maturity up to 3 months	61,883	61,883	4,013	4,013
Placements from other credit institutions with remaining maturity up to 3 months	(17,764)	(17,634)	(5,688)	(5,688)
	131,936	**131,857**	**117,953**	**117,880**

32 RELATED PARTY TRANSACTIONS

Related parties are defined as shareholder who has significant influence over the Bank, members of the Council, the Board of Directors and the Bank's higher level management, their close relatives and companies in which they have a controlling interest as well as Bank's subsidiaries and companies, in which the Bank is having a significant influence.

The following loans and deposits were held with related parties at 31 December 2007:

	31/12/07	31/12/06
	Bank	**Bank**
Loans:		
- Members of the Council, the Board and high level management	1,758	1,489
- subsidiaries	86,394	47,221
- other related parties	1,227	1,783
Total loans held by related parties	**89,379**	**50,493**
Deposits:		
- Members of the Council and the Board and high level management	524	553
- subsidiaries	431	144
- other related parties	246	40
Total deposits held by related parties	**1,201**	**737**

Bank's income / (expenses) from transactions with related parties:

	2007	2006
	Bank	**Bank**
Interest income from loans to related parties	3,573	1,630
Interest expenses for deposits held from related parties	(273)	(14)
Total income, net	**3,300**	**1,616**

The average interest rate as at 31 December 2007 on loans issued to related parties was 5.1% per annum (4.1% as at 31 December 2006). The average interest rate as at 31 December 2007 on deposits held for related parties was 3.9% per annum (2.4% as at 31 December 2005).

NOTES TO THE FINANCIAL STATEMENTS

32 RELATED PARTY TRANSACTIONS (continued)

Table below provides assets and liabilities of the Bank related to transactions with the government of the Republic of Latvia, state controlled entities and institutions:

	31/12/07 Bank	31/12/06 Bank
Assets:		
Latvian Treasury bills and government bonds	13,342	13,741
Loans to state controlled entities	9,381	362
Total	**22,723**	**14,103**
Liabilities:		
Subordinated liabilities	13,302	13,302
Deposits of central government and state controlled entities	5,885	11,243
Total	**19,187**	**24,545**

Bank's income / (expenses) from transactions with the government of the Republic of Latvia, state controlled entities and institutions:

	2007 Bank	2006 Bank
Interest income	656	627
Interest expense	(1,070)	(1,625)
Total expenses, net	**(414)**	**(998)**

33 OFF BALANCE SHEET ITEMS AND CONTINGENT LIABILITIES

	31/12/06		31/12/05	
	Group	**Bank**	**Group**	**Bank**
Contingent liabilities				
outstanding guarantees	11,456	11,456	11,891	11,891
Financial commitments				
unutilised loan facilities	40,781	64,411	35,519	39,895
other	1,714	1,714	558	558

NOTES TO THE FINANCIAL STATEMENTS

34 MAXIMUM EXPOSURE TO CREDIT RISK

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

	31/12/07		31/12/06	
	Group	**Bank**	**Group**	**Bank**
Credit risk exposures relating to on-balance sheet assets are as follows:				
Trading securities	3,269	3,269	2,852	2,852
Investment securities – held to maturity	13,060	13,060	-	-
Investment securities – available for sale	54,131	54,131	50,174	50,174
Due from credit institutions	104,871	104,662	72,021	71,949
Derivative financial instruments	84	84	2	2
Loans to customers	667,858	660,350	499,484	489,250
Other assets	3,580	1,005	2,748	622
Credit risk exposures relating to off-balance sheet items are as follows:				
Contingent liabilities	11,456	11,456	11,891	11,891
Financial commitments	42,495	66,125	36,077	40,453

35 FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

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

	31/12/07		31/12/06	
	Book value	**Fair value**	**Book value**	**Fair value**
<u>Assets</u>				
Due from credit institutions	104,871	104,853	72,021	72,013
Loans to customers	667,858	665,434	499,484	500,016
<u>Liabilities</u>				
Due to credit institutions	497,302	497,284	296,229	296,204
Due to customers	282,124	281,458	274,043	272,314
Mortgage bonds	52,494	52,908	43,211	43,800

In assessing the differences of fair value to carrying value, management has performed discounted cash flow analysis where financial assets and liabilities are at fixed rates of interest for fixed period. All items where interest rates are pegged to floating market interest rates have not been recalculated; the carrying value is considered equal to fair value.

NOTES TO THE FINANCIAL STATEMENTS

36 CONTINGENT LIABILITIES

The tax authorities may at any time inspect the books and records within 3 years subsequent to the reported tax year and may impose additional tax assessments and penalties, if any. The Group's management is not aware of any circumstances which may give rise to a potential material liability in this respect.

37 MOVEMENT IN REVALUTION RESERVE OF INVESTMENT SECURITIES AVAILABLE FOR SALE

	2007		**2006**	
	Group	**Bank**	**Group**	**Bank**
At 1 January	(615)	(615)	(35)	(35)
Net losses from changes in fair value	(925)	(925)	(580)	(580)
Net losses transferred to net profit on disposal	-	-	-	-
At 31 December	**(1,540)**	**(1,540)**	**(615)**	**(615)**

NOTES TO THE FINANCIAL STATEMENTS

38 MATURITY ANALYSIS OF ASSETS AND LIABILITIES

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

	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	Over 5 years and undated	**Total**
ASSETS							
Cash and balances with the Central Bank	66,265	-	-	-	-	-	**66,265**
Securities	2,309	5,792	5,849	5,986	38,672	11,852	**70,460**
Investment properties	-	-	-	-	-	2,116	**2,116**
Due from credit institutions	76,484	6,951	6,574	8,219	6,643	-	**104,871**
Derivative financial instruments	13	-	71	-	-	-	**84**
Loans to customers	20,642	30,653	53,165	64,202	260,736	238,460	**667,858**
Investment in subsidiaries and associated undertakings	-	-	-	-	-	552	**552**
Intangible assets	-	-	-	-	-	2,018	**2,018**
Property and equipment	-	-	-	-	-	8,975	**8,975**
Other assets		-	-	-	-	3,580	**3,580**
Deferred expenses and accrued income	-	-	-	-	-	811	**811**
Total assets	**165,713**	**43,396**	**65,659**	**78,407**	**306,051**	**268,364**	**927,590**
LIABILITIES AND SHAREHOLDERS EQUITY							
Due to credit institutions	1,080	16,684	9,145	47,066	393,741	29,586	**497,302**
Due to customers	128,358	50,585	35,345	51,119	16,312	405	**282,124**
Derivative financial instruments	100	18	12	-	-	-	**130**
Transit funds	-	-	171	151	1,317	936	**2,575**
Mortgage bonds	-	807	15,177	4,046	28,738	3,726	**52,494**
Other liabilities	-	-	-	-	-	11,963	**11,963**
Deferred income and accrued expenses	-	-	-	-	-	2,789	**2,789**
Current income tax liability	-	-	-	-	-	49	**49**
Deferred tax liabilities	-	-	-	-	-	963	**963**
Subordinated debt	-	-	2	3,300	-	10,000	**13,302**
Shareholder's equity	-	-	-	-	-	63,899	**63,899**
Total liabilities and shareholder's equity	**129,538**	**68,094**	**59,852**	**105,682**	**440,108**	**124,316**	**927,590**
Net liquidity	**36,175**	**(24,698)**	**5,807**	**(27,275)**	**(134,057)**	**144,048**	**-**
<u>As at 31 December 2006</u>							
Total assets	**133,044**	**26,415**	**28,931**	**54,029**	**240,750**	**214,847**	**698,016**
Total liabilities and shareholder's equity	**202,134**	**20,371**	**16,764**	**47,925**	**261,389**	**149,433**	**698,016**
Net liquidity	**(69,090)**	**6,044**	**12,167**	**6,104**	**(20,639)**	**65,414**	**-**

NOTES TO THE FINANCIAL STATEMENTS

38 MATURITY ANALYSIS OF ASSETS AND LIABILITIES (continued)

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

	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	Over 5 years and undated	Total
ASSETS							
Cash and balances with the Central Bank	66,265	-	-	-	-	-	**66,265**
Securities	2,309	5,792	5,849	5,986	38,672	11,852	**70,460**
Investment properties	-	-	-	-	-	2,116	**2,116**
Due from credit institutions	76,275	6,951	6,574	8,219	6,643	-	**104,662**
Derivative financial instruments	13	-	71	-	-	-	**84**
Loans to customers	18,103	23,945	47,032	52,871	199,416	318,983	**660,350**
Investment in subsidiaries and associated undertakings	-	-	-	-	-	922	**922**
Intangible assets	-	-	-	-	-	1,927	**1,927**
Property and equipment	-	-	-	-	-	7,947	**7,947**
Other assets	-	-	-	-	-	1,005	**1,005**
Deferred expenses and accrued income	-	-	-	-	-	689	**689**
Total assets	**162,965**	**36,688**	**59,526**	**67,076**	**244,731**	**345,441**	**916,427**
LIABILITIES AND SHAREHOLDERS EQUITY							
Due to credit institutions	1,080	16,554	9,145	38,632	393,741	29,586	**488,738**
Due to customers	128,784	50,585	35,345	51,119	16,312	405	**282,550**
Derivative financial instruments	100	18	12	-	-	-	**130**
Transit funds	-	-	171	151	1,317	936	**2,575**
Mortgage bonds	-	807	15,177	4,046	28,738	3,726	**52,494**
Other liabilities	-	-	-	-	-	11,211	**11,211**
Deferred income and accrued expenses	-	-	-	-	-	2,082	**2,082**
Current income tax liability	-	-	-	-	-	-	**-**
Deferred tax liabilities	-	-	-	-	-	936	**936**
Subordinated debt	-	-	2	3,300	-	10,000	**13,302**
Shareholder's equity	-	-	-	-	-	62,409	**62,409**
Total liabilities and shareholder's equity	**129,964**	**67,964**	**59,852**	**97,248**	**440,108**	**121,291**	**916,427**
Net liquidity	**33,001**	**(31,276)**	**(326)**	**(30,172)**	**(195,377)**	**224,150**	**-**
As at 31 December 2006							
Total assets	**131,553**	**23,776**	**24,720**	**45,706**	**249,055**	**210,320**	**685,130**
Total liabilities and shareholder's equity	**202,276**	**20,250**	**16,764**	**37,383**	**261,389**	**147,068**	**685,130**
Net liquidity	**(70,723)**	**3,526**	**7,956**	**8,323**	**(12,334)**	**63,252**	**-**

NOTES TO THE FINANCIAL STATEMENTS

38 MATURITY ANALYSIS OF ASSETS AND LIABILITIES (continued)

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

	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	Over 5 years and undated	**Total**
Due to credit institutions	1,156	20,610	15,286	59,208	435,336	33,466	**565,062**
Due to customers	128,593	51,527	36,427	52,812	17,648	405	**287,412**
Transit funds	-	-	225	223	1,722	1,020	**3,190**
Mortgage bonds		1,051	15,613	5,086	34,426	3,940	**60,116**
Other liabilities	-	-	-	-	-	11,963	**11,963**
Subordinated debt	-	-	391	3,623	2,272	10,059	**16,345**
	129,749	**73,188**	**67,942**	**120,952**	**491,404**	**60,853**	**944,088**

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

	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	Over 5 years and undated	**Total**
Due to credit institutions	1,156	20,400	15,286	50,564	435,336	33,466	**556,208**
Due to customers	129,019	51,527	36,427	52,812	17,648	405	**287,838**
Transit funds	-	-	225	223	1,722	1,020	**3,190**
Mortgage bonds	-	1,051	15,613	5,086	34,426	3,940	**60,116**
Other liabilities	-	-	-	-	-	11,211	**11,211**
Subordinated debt	-	-	391	3,623	2,272	10,059	**16,345**
	130,175	**72,978**	**67,942**	**112,308**	**491,404**	**60,101**	**934,908**

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

	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	Over 5 years and undated	**Total**
Derivatives settled on a gross basis							
Foreign exchange derivatives							
outflow	7,622	3,076	4,376	-	-	-	**15,074**
inflow	7,535	3,060	4,435	-	-	-	**15,030**

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

	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	Over 5 years and undated	**Total**
Derivatives settled on a gross basis							
Foreign exchange derivatives							
outflow	7,622	3,076	4,376	-	-	-	**15,074**
inflow	7,535	3,060	4,435	-	-	-	**15,030**

NOTES TO THE FINANCIAL STATEMENTS

39 RE-PRICING MATURITY ANALYSIS

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

	Up to 1 month	1 to 3 month	3 to 6 month	6 to 12 month	1 to 5 years	Over 5 years	Non-interest bearing	**Total**
ASSETS								
Cash and balances with the Central Bank	66,265	-	-	-	-	-	-	**66,265**
Securities	4,356	8,150	16,368	3,884	25,640	11,852	210	**70,460**
Investment properties	-	-	-	-	-	-	2,116	**2,116**
Due from credit institutions	83,002	12,571	9,141	9	148	-	-	**104,871**
Derivative financial instruments	13	-	71	-	-	-	-	**84**
Loans to customers	180,401	159,586	221,200	13,407	82,080	11,184	-	**667,858**
Investment in subsidiaries and associated undertakings	-	-	-	-	-	-	552	**552**
Intangible assets	-	-	-	-	-		2,018	**2,018**
Property and equipment	-	-	-	-	-	-	8,975	**8,975**
Other assets	-	-	-	-	-	-	3,580	**3,580**
Deferred expenses and accrued income	-	-	-	-	-	-	811	**811**
Total assets	**334,037**	**180,307**	**246,780**	**17,300**	**107,868**	**23,036**	**18,262**	**927,590**
LIABILITIES AND SHAREHOLDERS EQUITY								
Due to credit institutions	17,030	421,250	57,993	1,029	-	-	-	**497,302**
Due to customers	128,358	50,585	35,345	51,119	16,312	405	-	**282,124**
Derivative financial instruments	100	18	12	-	-	-	-	**130**
Transit funds	-	-	2,575	-	-	-	-	**2,575**
Mortgage bonds	-	26,668	15,177	1,051	5,872	3,726	-	**52,494**
Other liabilities	-	-	-	-	-	-	11,963	**11,963**
Deferred income and accrued expenses	-	-	-	-	-	-	2,789	**2,789**
Deferred income and accrued expenses	-	-	-	-	-	-	49	**49**
Current income tax liability	-	-	-	-	-	-	963	**963**
Subordinated debt	-	-	2	3,300	-	10,000	-	**13,302**
Shareholder's equity	-	-	-	-	-	-	63,899	**63,899**
Total liabilities and shareholder's equity	**145,488**	**498,521**	**111,104**	**56,499**	**22,184**	**14,131**	**79,663**	**927,590**
On balance sheet interest sensitivity analysis	**188,549**	**(318,214)**	**135,676**	**(39,199)**	**85,684**	**8,905**	**(61,401)**	**-**
As at 31 December 2006								
Total assets	**241,888**	**141,420**	**187,016**	**12,205**	**77,675**	**22,191**	**15,621**	**698,016**
Total liabilities and shareholder's equity	**218,620**	**287,395**	**53,112**	**35,080**	**16,585**	**18,882**	**68,342**	**698,016**
On balance sheet interest sensitivity analysis	**23,268**	**(145,975)**	**133,904**	**(22,875)**	**61,090**	**3,309**	**(52,721)**	**-**

NOTES TO THE FINANCIAL STATEMENTS

39 RE-PRICING MATURITY ANALYSIS (continued)

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

	Up to 1 month	1 to 3 month	3 to 6 month	6 to 12 month	1 to 5 years	Over 5 years	Non-interest bearing	**Total**
ASSETS								
Cash and balances with the Central Bank	66,265	-	-	-	-	-	-	**66,265**
Securities	4,356	8,150	16,368	3,884	25,640	11,852	210	**70,460**
Investment properties	-	-	-	-	-	-	2,116	**2,116**
Due from credit institutions	82,793	12,571	9,141	9	148	-	-	**104,662**
Derivative financial instruments	13	-	71	-	-	-	-	**84**
Loans to customers	172,578	160,328	221,121	13,238	81,650	11,435	-	**660,350**
Investment in subsidiaries and associated undertakings	-	-	-	-	-	-	922	**922**
Intangible assets	-	-	-	-	-	-	1,927	**1,927**
Property and equipment	-	-	-	-	-	-	7,947	**7,947**
Other assets	-	-	-	-	-	-	1,005	**1,005**
Deferred expenses and accrued income	-	-	-	-	-	-	689	**689**
Total assets	**326,005**	**181,049**	**246,701**	**17,131**	**107,438**	**23,287**	**14,816**	**916,427**
LIABILITIES AND SHAREHOLDERS EQUITY								
Due to credit institutions	17,030	412,686	57,993	1,029	-	-	-	**488,738**
Due to customers	128,784	50,585	35,345	51,119	16,312	405	-	**282,550**
Derivative financial instruments	100	18	12	-	-	-	-	**130**
Transit funds	-	-	2,575	-	-	-	-	**2,575**
Mortgage bonds	-	26,668	15,177	1,051	5,872	3,726	-	**52,494**
Other liabilities	-	-	-	-	-	-	11,211	**11,211**
Deferred income and accrued expenses	-	-	-	-	-	-	2,082	**2,082**
Deferred income and accrued expenses	-	-	-	-	-	-	-	**-**
Current income tax liability	-	-	-	-	-	-	936	**936**
Subordinated debt	-	-	2	3,300	-	10,000	-	**13,302**
Shareholder's equity	-	-	-	-	-	-	62,409	**62,409**
Total liabilities and shareholder's equity	**145,914**	**489,957**	**111,104**	**56,499**	**22,184**	**14,131**	**76,638**	**916,427**
On balance sheet interest sensitivity analysis	**180,091**	**(308,908)**	**135,597**	**(39,368)**	**85,254**	**9,156**	**(61,822)**	**-**
<u>As at 31 December 2006</u>								
Total assets	**230,563**	**141,821**	**187,018**	**12,209**	**78,063**	**22,414**	**13,042**	**685,130**
Total liabilities and shareholder's equity	**218,762**	**276,732**	**53,112**	**35,080**	**16,585**	**18,882**	**65,977**	**685,130**
On balance sheet interest sensitivity analysis	**11,801**	**(134,911)**	**133,906**	**(22,871)**	**61,478**	**3,532**	**(52,935)**	**-**

NOTES TO THE FINANCIAL STATEMENTS

40 CURRENCY ANALYSIS OF ASSETS AND LIABILITIES

The following table provides the analysis of the Group's assets, liabilities and shareholders' equity as well as memorandum items outstanding as at 31 December 2007 by currency profil e:

	LVL	USD	EUR	Other	**Total**
ASSETS					
Cash and balances with the Central Bank	64,699	429	772	365	**66,265**
Securities	14,166	18,785	37,509	-	**70,460**
Investment properties	2,116	-	-	-	**2,116**
Due from credit institutions	27,448	16,296	60,905	222	**104,871**
Derivative financial instruments	84	-	-	-	**84**
Loans to customers	150,795	6,662	510,392	9	**667,858**
Investment in subsidiaries and associated undertakings	552	-	-	-	**552**
Intangible assets	2,018	-	-	-	**2,018**
Property and equipment	8,975	-	-	-	**8,975**
Other assets	3,303	30	237	10	**3,580**
Deferred expenses and accrued income	680	2	129	-	**811**
Total assets	**274,836**	**42,204**	**609,944**	**606**	**927,590**
LIABILITIES AND SHAREHOLDERS EQUITY					
Due to credit institutions	5,852	-	491,450	-	**497,302**
Due to customers	157,282	27,258	97,140	444	**282,124**
Derivative financial instruments	130	-	-	-	**130**
Transit funds	466	-	2,109	-	**2,575**
Mortgage bonds	29,664	2,971	19,859	-	**52,494**
Other liabilities	11,360	22	581	-	**11,963**
Deferred income and accrued expenses	2,767	1	21	-	**2,789**
Current income tax liability	49	-	-	-	**49**
Deferred tax liabilities	963	-	-	-	**963**
Subordinated debt	13,302	-	-	-	**13,302**
Shareholders equity	63,899	-	-	-	**63,899**
Total liabilities and shareholder's equity	**285,734**	**30,252**	**611,160**	**444**	**927,590**
Spot foreign exchange receivables / (payables)	696	142	(893)	49	(6)
Forward foreign exchange receivables / (payables)	11,925	(12,462)	492	-	(45)
Currency position	**1,723**	**(368)**	**(1,617)**	**211**	**(51)**
<u>As at 31 December 2006</u>					
Total assets	**305,705**	**43,755**	**347,812**	**744**	**698,016**
Total liabilities and shareholder's equity	**298,300**	**36,964**	**362,321**	**431**	**698,016**
Spot foreign exchange receivables / (payables)	-	1	(103)	102	-
Forward foreign exchange receivables / (payables)	-	(7,046)	7,028	-	(18)
Currency position	**7,405**	**(254)**	**(7,584)**	**415**	**(18)**

NOTES TO THE FINANCIAL STATEMENTS

40 CURRENCY ANALYSIS OF ASSETS AND LIABILITIES (continued)

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

	LVL	USD	EUR	Other	**Total**
ASSETS					
Cash and balances with the Central Bank	64,699	429	772	365	**66,265**
Securities	14,166	18,785	37,509	-	**70,460**
Investment properties	2,116	-	-	-	**2,116**
Due from credit institutions	27,391	16,296	60,753	222	**104,662**
Derivative financial instruments	84	-	-	-	**84**
Loans to customers	150,570	6,649	503,122	9	**660,350**
Investment in subsidiaries and associated undertakings	922	-	-	-	**922**
Intangible assets	1,927	-	-	-	**1,927**
Property and equipment	7,947	-	-	-	**7,947**
Other assets	838	30	127	10	**1,005**
Deferred expenses and accrued income	558	2	129	-	**689**
Total assets	**271,218**	**42,191**	**602,412**	**606**	**916,427**
LIABILITIES AND SHAREHOLDERS EQUITY					
Due to credit institutions	5,852	-	482,886	-	**488,738**
Due to customers	157,614	27,262	97,230	444	**282,550**
Derivative financial instruments	130	-	-	-	**130**
Transit funds	466	-	2,109	-	**2,575**
Mortgage bonds	29,664	2,971	19,859	-	**52,494**
Other liabilities	11,137	22	52	-	**11,211**
Deferred income and accrued expenses	2,065	1	16	-	**2,082**
Current income tax liability		-	-	-	**0**
Deferred tax liabilities	936	-	-	-	**936**
Subordinated debt	13,302	-	-	-	**13,302**
Shareholders equity	62,409	-	-	-	**62,409**
Total liabilities and shareholder's equity	**283,575**	**30,256**	**602,152**	**444**	**916,427**
Spot foreign exchange receivables/ (payables)	696	142	(893)	49	(6)
Forward foreign exchange receivables/ (payables)	11,925	(12,462)	492	-	(45)
Currency position	**264**	**(385)**	**(141)**	**211**	**(51)**
<u>As at 31 December 2006</u>					
Total assets	**304,414**	**43,846**	**336,126**	**744**	**685,130**
Total liabilities and shareholder's equity	**296,372**	**36,970**	**351,357**	**431**	**685,130**
Spot foreign exchange receivables/ (payables)	-	1	(103)	102	-
Forward foreign exchange receivables/ (payables)	-	(7,046)	7,028	-	(18)
Currency position	**8,042**	**(169)**	**(8,306)**	**415**	**(18)**

NOTES TO THE FINANCIAL STATEMENTS

41 CAPITAL ADEQUACY CALCULATION

Based on the requirements set by the Financial and Capital Market Commission (FCMC), the Group's and the Bank's equity to be utilised in the capital adequacy ratio as at 31 December 2007 has been calculated as follows:

	31/12/2007	
	Group	**Bank**
Tier 1		
- paid-in share capital	48,513	48,513
- legal and other reserves	2,524	2,063
- audited retained earnings	7,887	7,227
- audited profit for the current period and negative revaluation reserve on investment securities available-for-sale	4,975	4,606
- intangible assets	(2,018)	(1,927)
Total Tier 1	**61,881**	**60,482**
Tier 2		
- subordinated capital (restricted to 50% of Tier 1)	10,000	10,000
Total Tier 2	**10,000**	**10,000**
Deductions from capital		
- investment in insurance companies	-	-
- investment in subordinated capital of insurance companies	-	-
Capital base	**71,881**	**70,482**

The total of Tier 2 may not exceed the total of Tier 1.

NOTES TO THE FINANCIAL STATEMENTS

41 CAPITAL ADEQUACY CALCULATION (continued)

The following table shows the Group's asset weightings used in calculation of capital adequacy ratio according to the FCMC requirements and calculation of the Group's capital adequacy ratio according to the FCMC requirements:

	Credit equivalent	Balance	Risk weight-ing	Risk weighted assets
Assets				
Cash and cash equivalents		6,262	0%	-
Money in transit		1,113	20%	223
Claims on A zone Central Governments and Central Banks		85,723	0%	-
Claims guaranteed by A zone Central Governments and Central Banks		11,137	0%	-
Claims secured by deposit		677	0%	-
Claims on A zone Local Governments		1,690	20%	338
Claims guaranteed by A zone Local Governments		-	20%	-
Claims on A zone credit institutions		123,815	20%	24,763
Claims guaranteed by A zone credit institutions		11,088	20%	2,218
Prepayments and accrued income		811	50%	406
Loans fully secured by mortgage on residential property		67,708	50%	33,854
Claims on B zone Central Governments		4,782	100%	4,782
Claims on B zone credit institutions		25,408	100%	25,408
Claims on borrowers who are not credit institutions, Central Governments, Central Banks, Local Governments, except for claims with a lower risk weighting considering their collateral		570,051	100%	570,051
Investments in equity shares		552	100%	552
Property and equipment		8,975	100%	8,975
Other assets		5,696	100%	5,696
Derivative financial instruments	60	84	20%	29
Deductions from capital				
-intangible assets		2,018	*	
Assets included in market risk capital requirements calculation		-	*	
Total assets		**927,590**		**677,295**
Memorandum items				
Agreements on buying assets in certain future date	100%	-	100%	-
Guarantees				
100% risk weighted	100%	11,456	100%	11,456
Irrevocable letters of credit				
100% risk weighted	50%	1,714	100%	1,714
Credit commitments				
0% risk weighted	50%	2,245	0%	-
20% risk weighted	50%	1,405	20%	141
50% risk weighted	50%	-	50%	-
100% risk weighted	50%	37,131	100%	18,566
Total memorandum items		**53,951**		**31,020**
Calculation of capital requirements				
Capital requirement for the Group's portfolio credit risk	8%			56,665
Capital requirements for market risk				-
Capital requirement for the Group's portfolio credit risk and market risk				**56,665**
Capital base				**71,881**
Capital adequacy ratio (Capital base / Capital requirement x 8%)				**10.1%**

NOTES TO THE FINANCIAL STATEMENTS

41 CAPITAL ADEQUACY CALCULATION (continued)

The following table shows the Bank's asset weightings used in calculation of capital adequacy ratio according to the FCMC requirements and calculation of the Bank's capital adequacy ratio according to the FCMC requirements:

	Credit equivalent	Balance	Risk weight-ing	Risk weighted assets
Assets				
Cash and cash equivalents		6,262	0%	-
Money in transit		1,113	20%	223
Claims on A zone Central Governments and Central Banks		85,723	0%	-
Claims guaranteed by A zone Central Governments and Central Banks		11,137	0%	-
Claims secured by deposit		677	0%	-
Claims on A zone Local Governments		1,690	20%	338
Claims guaranteed by A zone Local Governments		-	20%	-
Claims on A zone credit institutions		123,607	20%	24,721
Claims guaranteed by A zone credit institutions		11,088	20%	2,218
Prepayments and accrued income		689	50%	345
Loans fully secured by mortgage on residential property		67,708	50%	33,854
Claims on B zone Central Governments		4,782	100%	4,782
Claims on B zone credit institutions		25,408	100%	25,408
Claims on borrowers who are not credit institutions, Central Governments, Central Banks, Local Governments, except for claims with a lower risk weighting considering their collateral		562,542	100%	562,542
Investments in equity shares		922	100%	922
Property and equipment		7,947	100%	7,947
Other assets		3,121	100%	3,121
Derivative financial instruments	60	84	20%	29
Deductions from capital				
-intangible assets		1,927	*	
Assets included in market risk capital requirements calculation		-	*	
Total assets		**916,427**		**666,450**
Memorandum items				
Agreements on buying assets in certain future date	100%	-	100%	-
Guarantees				
100% risk weighted	100%	11,456	100%	11,456
Irrevocable letters of credit				
100% risk weighted	50%	1,714	100%	857
Credit commitments				
0% risk weighted	50%	2,245	0%	-
20% risk weighted	50%	1,405	20%	141
50% risk weighted	50%	-	50%	-
100% risk weighted	50%	60,762	100%	30,381
Total memorandum items		**77,581**		**42,835**
Calculation of capital requirements				
Capital requirement for the Bank's portfolio credit risk	8%			56,743
Capital requirements for market risk				-
Capital requirement for the Bank's portfolio credit risk and market risk				**56,743**
Capital base				**70,482**
Capital adequacy ratio (Capital base / Capital requirement x 8%)				**9.9%**

NOTES TO THE FINANCIAL STATEMENTS