# AB.LV

ANNUAL REPORT 2007

AB.NEWS
AB.INTERVIEW
AB.TEAM
AB.PEOPLE
AB.SUPPORT
AB.FINANCE

NO **VICTORY**
WITHOUT THE **TEAM**

PLAYING **COACH**
**OPINION**

MINI-INTERVIEWS ON
**WORK AND**
**SPORT**

**SPORTS**
**GAMES**

# Winning together!

Outlook Vision

Acceleration Initiative

Goal Strategy

Team Partnership

Record Innovation

Teamwork Dialogue

Motion Growth

Endurance Consistency

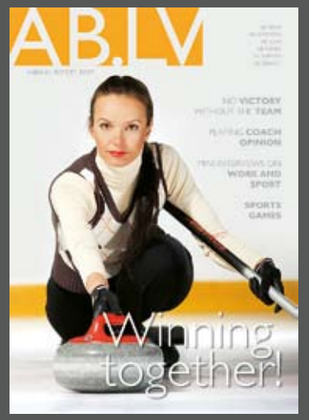
Supporters Contribution

Distance Plan

Battle Challenge

Leadership Competitiveness

Victory Outcome

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# Editor's foreword

## "No victor believes in chance"
/F. Nietzsche/

Dear Ladies and Gentlemen,

In line with tradition, the new AB.LV annual report is in a magazine form, this time as an illustrated sports almanac. You may ask why we have chosen a sports theme, one that it could be said is not at all related to the sphere of banking and finance. But if you look closer, the link will be quite clear. Sport means striving for a better result, for victory. The stiffer the competition, the clearer and more direct is the motivation in the conscience of a true athlete and professional. In a time when competition in the banking business continues to grow, only a bank that is internally ready for a swift sprint can hope to attain victory. One that knows how to work, loves to do so, and is searching for new paths to achieving results. A bank whose strength is in a solid professional team. Thus the association with sports is not accidental. What's more, in the AB.PEOPLE and AB.TEAM sections you will find convincing proof that AB.LV employees are not only professionals in banking, but also excellent athletes.

One cannot hope for a convincing victory without a precise, considered strategy. As Nietzsche said, "No victor believes in chance". Ernests Bernis, co-owner and Chairman of the Board of AB.LV, will share his thoughts on the ability to spot opportunities, ability to change without losing what you have accomplished, of steadfast movement toward new and higher goals, and many other things.

We at AB.LV know that a united team is a significant component of success. We are a united group of like-minded professionals, ready to learn and grow, and we are always in great shape. In 2008 our Bank's team will celebrate its 15th anniversary. No one calls us new anymore, but we are young, strong and adventurous in a good, sporting sense. Such is the conviction of Dace Rūķīte-Kariņa, AB.LV "playing coach". She tells of the Human Resources departmnt's experience in selecting "players" and reveals some secrets of effective training.

In this issue, as the main words and keynote for our further progress we have selected the slogan that you read on the cover of the annual report: "Winning together!" This slogan is supported by the convincing financial indicators that the Bank achieved in 2007. On pages 33–89 of our magazine you may review a detailed AB.LV financial report.

As a child in competition in the swimming pool lane when I sought to be the first to reach the end of the pool, and today on the court, where I'm trying to learn the secrets of squash, I thought then and think now of the people counting on me and who are proud of my achievements. I won't be mistaken if I say that this particular sentiment is applicable to our entire Bank. We work for the good of our clients and do everything possible for clients to trust us even more. So that our Bank's partners and clients would be proud of their cooperation with AB.LV and could deservedly share in our achievements.

With heartfelt wishes of professional and athletic victory,

**Viktorija Ļakiševa,**
Editor, 2007 Annual Report
Head of AB.LV Marketing department

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# AB.NEWS

## New Board and Management structure of AB.LV

**Actively working on the Bank's future operational strategy, at the end of 2007 AB.LV made some changes to its Board and management structure.** Ernests Bernis was again appointed Chairman of the Board, and Oļegs Fiļs Deputy Chairman of the Board. Aleksandrs Pāže, Rolands Citajevs, Vadims Reinfelds and Edgars Pavlovičs were also appointed to the new Board. In future the Bank will be managed on the basis of a functional model. There will be seven Chief Officers, each of whom will be responsible for his own sphere: CEO Ernests Bernis, dCEO Oļegs Fiļs, Chief Compliance Officer Aleksandrs Pāže, Chief Financial Officer Māris Kannenieks, Chief Information Officer Rolands Citajevs, Chief Operating Officer Vadims Reinfelds, and Chief Risk Officer Edgars Pavlovičs. ■

**1 000 000 000 lats**

**Thanks to the joint, determined efforts of all AB.LV employees, on July 31st, 2007 the scope of our Bank's assets reached a significant milestone – one billion lats.** ■

## Syndicated loan

**On February 20th, 2007 at AB.LV central office in Riga an agreement was signed for receipt of a one-year syndicated loan in the amount of 85 million euros.**
The loan will be utilised for development of the Bank's core business, which will further strengthen AB.LV position among commercial banks in Latvia. The syndicated loan is an affirmation of the Bank's creditworthiness. "In place of the 50 million we requested we received 85, furthermore at a rate 25 percentage points lower than last year. This is a clear indication that the largest banks in the world are confident of the creditworthiness and potential of Aizkraukles Banka. I believe that AB.LV has proven itself as a fully fledged, trustworthy member of the international financial market!", said AB.LV Chairman of the Board and co-owner Ernests Bernis. ■

## A decision regarding construction of AB.LV new office centre

**In 2007 the Management of the Bank adopted a decision regarding construction of AB.LV new office centre – NEW HANZA CITY.** We will also simultaneously finance a development project for the surrounding area. It will be a modern neighbourhood with hotels, sales and entertainment facilities, and restaurants. At the centre of this neighbourhood will be our office building. On December 14th, the results of the tender for an international architectural project for the Bank's new office were announced. The successful bidder was the German company *Schaller Architekten*, the architects of which will bring to life our dream of a new home. ■

## The office of *AB Konsultācijas* in Odessa

**One of AB.LV strategic tasks in the international market is expansion of our network of foreign representative offices.**
Yet another step in this direction was made in 2007 with the opening of the office of the *AB Konsultācijas* in Odessa. The economy of Ukraine is actively developing, and Odessa is a major transport junction and a logistics centre of state importance. The region is home to the largest Ukrainian ports, powerful production companies, refinery businesses related to the maritime business, and the largest food production and light industry companies. Furthermore, Odessa is a popular tourism centre with ancient traditions, a unique climate and a well-developed infrastructure. The Bank sees huge development potential in this region. Just as with the representative office in Kyiv, this new office will represent the interests of both the Bank and its subsidiary *AB Konsultācijas* in Ukraine, study the investment climate and business environment in this country, develop networks of correspondent banks, as well as provide information to all who are interested in services and operations of the Bank and its subsidiaries. The representative office in Odessa is located on 33 Zhukovska Street in the Pokrovskiy office centre. ■

## New Webpage

**On October 15th, 2007 AB.LV presented its new webpage.**
It now consists of two different sites – one for local clients, and one for foreign ones. The address of the webpage is still the same: http://www.ab.lv/, but depending on the client's IP address (local or foreign), the appropriate site is opened. Just as before, this "virtual version" of our Bank was created in the Art. Lebedev Studio, which specialises in web design. ■

## Safe and multifunctional front-office system

**On March 30th, 2007 the Bank signed an agreement with the company NOMAD Software Ltd** regarding acquisition of a new card system. The CORTEX card system is a safe and multifunctional front-office system; it permits processing of data from transactions made with AB.LV payment cards in real time. Along with this system, purchases will include the on-line Stronghold system, which will also operate in real time and permit prevention of fraudulent transactions with our Bank's cards by halting suspicious transactions at the authorisation stage. ■

## European payment system TARGET 2

**On November 19th, 2007 AB.LV successfully began operating in the new European payment system called TARGET 2 (Trans-European Automated Real-Time Gross Settlement Express Transfer System).**
Decision on creation of this new payment system was adopted by the Board of the European Central Bank in October 2002. The Central banks of the Eurozone countries, as well as all EU Central banks, became members of the new system. A significant advantage of TARGET 2 is the ability to make euro payments in real time. Payments received under the framework of the TARGET 2 system will be transferred into our Bank's client accounts on the day funds are subject to transfer. The Bank plans to utilise the possibilities the new payment system brings, so that our clients' payments reach their recipients in the shortest possible time and at the smallest expense. ■

AB.LV Asset Management Latvia

**On March 23rd, 2007 the Financial Capital and Market Commission adopted a positive decision on our Bank's application for registration of two investment funds.**
The funds will be located under the authority of the Bank's subsidiary, AB.LV Asset Management. The AB.LV Emerging Markets Bond Fund will invest assets in the bond markets of developing countries, while the AB.LV Global ETF Fund will invest assets in the world stock markets. The currency of both funds' assets will be US dollars. The minimum amount for purchase of share certificates in the fund is USD 5,000. Fund share certificates may be acquired by any AB.LV client. The funds initiated operation on April 20th, 2007. Share certificates are stored in the Latvian Central Depository, and information regarding the value of shares will be announced on the Riga Stock Exchange. On August 13th, 2007 the Bank offered clients investments in newly opened funds in euros as well. ■

# AB.NEWS

## New deposit product

**On June 1, 2007, for clients interested in deposit products, we offered a new type of deposit – one with interest repayment at the end of the term.**
This new deposit, as well as the fact that information concerning deposits is now available from the Internet-bank AB.LV system, renders Aizkraukles Banka line of deposit products of even greater interest to demanding clients. Expansion of our lines of deposit products will help us to satisfy the needs of current clients better, as well as attract new ones. ■

## Single-currency accounts

**On October 1st, 2007 a new AB.LV project was initiated – transformation of payment card accounts into single-currency accounts.**
This project applies to those card products that permitted utilisation of multi-currency accounts. From this moment clients' new card accounts will be opened only in a single payment currency. This novation will provide the opportunity always to obtain precise information regarding card account balances, which will depend upon currency conversion rates, which in turn will permit clients to control and manage sufficiency of funds in their card accounts. ■

## New service in the Internetbank AB.LV

**As of May 2007 the Internetbank AB.LV system offers a new service – on-line information regarding deposit and credit accounts.**
Now every AB.LV client may review deposit balances and interest accrued, as well as request statements on deposit accounts. In turn, the loan section offers information on the principal amount of a loan, amount and date of monthly payment, interest rate, as well as information concerning insurance. It is always our aim for cooperation with us to be as comfortable and efficient as possible for clients. We hope that simplified access to deposit and credit information will stimulate our clients to utilise AB.LV services more actively. ■

**On May 2, 2007 AB.LV offered clients a new service – regular payments to a card account.**
Thus the Bank's portfolio of services was supplemented by a new service – regular payments. The essence of the service is that upon instruction from the client the Bank renders necessary payments from the client's current account to any card account by transferring the necessary funds to repay the credit obligations of the card. This service will permit clients to avoid situations where due to carelessness or absentmindedness the credit obligations of a card are not fulfilled. We always take care of our clients, and in perfecting our services we strive for efficiency and the clients' convenience. ■

**Aizkraukles Banka expanded its range of possibilities for repayment of mortgage loans and from 2007 is offering a new service – loan payments may be made in cash at Latvian post offices.**
Furthermore, no commission is charged for payment in cash at post offices. The service is applicable to loans issued in lats or euros. Payments may be made utilising payment orders prepared by our Bank, which clients may obtain by post by ordering them from our Client line at telephone number 67 77 55 55, or at any Client service centre without an appointment. ■

LATVIJAS PASTS

## The International Forum for Financial Reporting Standards

**On January 24th 2007 Moscow's State Kremlin Palace hosted the International Forum for Financial Reporting Standards, which was sponsored by our Bank.**
Approximately 1,500 participants attended the Forum, representing all regions of Russia. International financial reporting standards are significant both as instruments for attracting investments, as well as an element of high corporate and management culture. These standards play a significant role not only in the development of individual companies, but also in the economic development of the entire country, because they significantly foster the development of a more transparent and open business environment and integration of the country in the world's economic circles. The Deputy Head of AB.LV representative office in Moscow, Oleg Korolov, presented a lecture on the topic of "Regulation of the profession of bookkeepers and auditors – a cornerstone of national financial reporting systems". Support of the Forum was an appropriate step for our Bank, because we consider being of particular importance issues of informational transparency and improvement of reporting from companies. ■

## Successful co-operation

**On September 8th, 2007 at the Embassy of Latvia in Russia an event marking closing of the summer tourist season in Latvia was held with the support of our Bank.**
Representatives of tourism offices and diplomats from Latvia took a ride on the *Soyuz* along the Moscow River. During the trip, results and accomplishments from the tourist season were announced.
Steps taken by Latvia to attract tourists from Russia have shown results. The number of tourists from Russia increases every year. Of particular interest to Russian tourists is Jurmala. In large part this is owing to the Dzintari Concert Hall, where every summer concerts from diverse genres take place, from opera to the KVN musical competition and the New Wave stage show music competition. During the event the ambassador of Latvia to Russia presented to Pavel Zaika, Head of the AB.LV representative office in Moscow, a note of thanks for successful cooperation and financial support. ■

**On March 22 and 23, 2007 an event took place in Riga for AB.LV's foreign partners – companies providing legal and financial consultations.**
Visiting were guests from Russia, Ukraine, Belarus, Estonia, Lithuania, Azerbaijan, Georgia and Moldova. On the first day of the visit a conference was held with Bank management and leading specialists regarding current issues of cooperation, as well as Bank's products and services.

## Seminars for clients

**In 2007 the Bank organised traditional seminars for clients. This time they took place in St. Petersburg and Kyiv.**
Our task is to offer clients services of interest to them in a timely and convenient manner. For this reason we consider our travelling seminars and business trips to be an effective form of cooperation. Further, it is a possibility to communicate with each client in the client's own environment. Such contacts serve to bolster the relations in our transactions, and permit us to get to know our clients better and to understand what is necessary for our successful cooperation. ■

**On October 18th in Kyiv the second annual conference "Asset protection – 2007" took place. Topics of interest included business security, preservation of assets, as well as protection against hostile company takeover and fraud.**
The Chairman of the Board of AB.LV subsidiaries AB.LV Asset Management and AB.LV Capital Markets Leonīds Kiļs made a presentation entitled "How to preserve and increase capital". In supporting this forum, AB.LV continued implementing one of its strategic priorities: establishing beneficial contacts among business representatives from Latvia and abroad. ■

A busy day was pleasantly concluded with a nice surprise – guests were invited to a concert by legendary Russian group *Mashina Vremeny*, which was playing in Riga at the time. The second working day was particularly fruitful: we set a curious record, conducting 50 business metings in a single eight-hour workday. The Bank's employees and partners' work capacity was subject to an honest evaluation at the evening's banquet and friendly bowling tournament. The champion's cup was won by AB.LV shareholder Oļegs Fiļs, but second place went to a lady from a partner company, affirming once again that the so-called "weaker gender" is capable of playing at the level of the men. ■

# “There’s no victory without the team”

**Ernests Bernis**
CEO, AB.LV co-owner

## Team

Thoughts regarding a team must begin from within. First of all it is important to formulate one’s own opinions and principles. If these are clear and there is no internal conflict, then forming a team is just a matter of time. You work with the team that you have, not the one you may dream of. Without a doubt, a team can and must be developed and improved, but it should not be idealised. Otherwise you lose touch with reality. You go to battle with the army you have, not the one you might desire.

During all these years our priority has been our own employees and their professional growth. We practice rotation of internal Bank positions. This is no accident. In the Bank’s strategy and in matters of promotion, we look first to our own internal resources – this is our core principle in forming the team. Employee training and advancement in qualification do take time, but the benefit to the team is incomparably greater than “buying” professionals from outside.

Our team pays close attention to the style of work and relations; it is our corporate culture. An individual who has matured at a company and has already climbed the career ladder is prepared to work effectively under the conditions to which he is accustomed. I continue to work with people with whom I started building the Bank 10 or 15 years ago. They are the professional nucleus of our Bank. It is here that I see one of the AB.LV team’s main advantages – my colleagues’ loyalty to the Bank. A readiness to work towards a common goal and to grow together with their Bank.

I agree that five years is the optimal length of time for a person to work in one position. However, to abide by this theory, it is not necessary to leave a company. As I mentioned, at AB.LV we resolve this issue with the help of rotation of positions. In late 2007 and early 2008 the Bank underwent significant rotation of positions; new leaders were appointed to the top management positions. I am convinced that these changes will be effective. I know from my experience as a manager that with time one’s vision loses its clarity, and you feel the need to leave the framework you are accustomed to and view the situation from the side – with a new, fresh look. That is precisely what we offered our recently appointed.

## Principles

At the basis of our work there are precise, time-tested principles. Their essence is an honest and serious attitude toward the business in which we operate. That is the supreme role of the Bank’s leaders – responsibility for results. It is openness in relations with clients. We do not engage in that which we do not entirely understand. For this reason, a significant period of time is spent studying any novation before offering it to clients. We strive to make our rules open and entirely understandable to every client. Not every process unfurls ideally, but we are patient, because we know that this attitude even at the most difficult moments works in favour of our Bank’s reputation and strengthens relations with clients.

First I consider the process, and only then results. As far as I am aware, with regard to this issue the majority of our top-managers are in agreement with me. If it is a quality pro-cess that has been tested, the result will be commensurate. Before us lies a path that is long and, I am certain, full of achievments, and we must go this course in such a way that we won’t have to look back too often. We will seek to pursue this path quickly, much more so than to date. However, at the same time we shall preserve and honour those principles that we have developed in the fifteen years on the path thus far.

## The new

Like with anything else, a strategy has a beginning and an end. Our Bank’s strategy to date has been fulfilled and was achieved at the end of 2007. AB.LV management has a common opinion regarding our primary strategic directives in the subsequent 10 years. We agreed that this is very important. Currently, we are elaborating all of the Bank’s further stages of development. In mid-2008 we plan to introduce our new strategy to our clients and partners. I can say immediately that the new strategic initiatives will not change our operating principles. Yes, there will be changes in the markets in which we are working, in our portfolio of products and services, and in the client segments of strategic importance to us. But the principles will remain unchanged.
I am pleased that a team of likeminded personalities has developed – it consists of managers prepared to implement the most comprehensive projects and ready to as-sume personal responsibility. At present, preparatory tasks are being performed, though these are not publicly visible. For this reason, currently I will not speak in specific details. As they say, don’t count your chickens before their hatched.

Our people reacted to the changes differently. However, we did not introduce anything cardinally new; we did not take a stand and say “now you will have to live completely differently”. We devoted a great deal of time to discussions, exchange of opinions, and even arguing. The entire “maturation” process took a year and a half. Oļegs* and I seriously assessed our outlook for success, and we discussed who from management would be effective in one sphere or another. As a result, we only indicated to the management team the path to pursue. Then began the process by which we involved a rather broad circle of colleagues in developing a specific por-tion of the new strategy. I must say that I did not feel internal opposition in people.
I saw and felt doubts. But that’s the way it has to be. If people have doubts, then they are thinking. At the end of the day, all changes are geared in favour of our clients. We wish to provide them with even more personal, multifaceted, and quality service. Furthermore, our task is to render the bank’s services as simple, comfortable and understandable as possible. We spoke with Bank’s clients a great deal, and in conversations in an informal atmosphere listened to their opinions, feelings and observations regarding their banking and financial services needs in two to five years. These talks are at the foundation of our strategic vision.

## Stars and people

Being a manager is a very great responsibility, because in his hands lies the correct flow of business processes. Of course, everyone makes mistakes. I myself have erred tens of times. For this reason the most important thing is to know how to admit one’s mistakes. There is no “star disease” with us. Stars may fly, but we don’t need any shooting stars crashing down. We have an entirely adequate and considered approach to our selection of managers. A leader needs to understand that he will never reach the established goal alone; one cannot win without the team.

I consider myself primarily the chief office, not its owner. This is my point of reference. In my opinion, the team needs to demonstrate initiative, and we, the management, will always support this initiative. Experience indicates that application of this principle provides a particularly effective return.

I am very proud of my colleagues. I am confident in them and am completely calmly awaiting that which we all have to accomplish. We will achieve it, if not on the first attempt, then on the second for sure. Many interesting events await us, because our future is based on a growth strategy, one with practically unlimited growth potential. Thus we have excellent potential, even taking into consideration the complex economic processes and crisis situations currently taking place or that may yet take place.

The main thing is our conviction that we are needed by our clients. What’s more, we know not only what they need today, but we also understand what they will need tomorrow. For this reason I know completely for sure – we will succeed!

Epilogue

## The personal team

*For this interview Ernest invites us to his home. The conversation takes place in a spacious, well-lit room, the large windows of which provide a view of a pine forest. The house lives its own life: children’s voices can be heard, into the room comes a red tomcat, a real giant, which immediately disappears behind the balcony’s guardrail.*
*“My family always supports me and puts me in good spirits”, says Ernest. “I have a small but strong family. My wife and I have three daughters. The home is something very important. I invited you here with a particular intent – at home I feel entirely comfortable and can speak openly”.*
*Our talk comes to an end. The host escorts us with a smile. It is the smile of a man who lives in harmony with him-self and the surrounding world. And of someone ready for new challenges. With such a team – both personal and professional – he will certainly be successful.* ■

* Oļegs Fiļs – co-owner of AB.LV

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**Garijs Piseckis and Martins Beresņevs**

# What makes a **REAL TEAM**

How straight or winding is its path to success? What personal and team characteristics are important to glorious victories in the future? Offering answers to these and various other questions are our colleagues, to whom hockey and the AB.LV Hockey Team have become an essential component of life.

## Garijs Piseckis

AB.LV Hockey Team Manager
Business Analyst

**You are the manager or administrator of the AB.LV Hockey Team. What is it that you actually manage? And what is your highest aim as a manager that you have set for yourself?**
– No matter how beautiful the weave, the Persian rug does not simply appear! Thus, the role of the team's administrator is to help the artist (coach) craft the proper ornament (team game) from the weave (players) and inspiration (team spirit). I really strive to accomplish that the fans watching the team's game don't notice the problems the team has faced. On the other hand, if after several years today's players come together and common memories will register smiles on their faces, that will be a great and true reward for my work!

**Do you feel like a team member? What are our team's three main characteristics that you consider most important in bringing about victory?**
– A proper formulation of the question would be whether the players consider me a team mate. I would like to believe so. But with regard to the team's characteristics, sharp skates, strong sticks and a mighty defence – these are our most interesting arguments in the battle on the ice.

**Does the AB.LV team's victory directly depend on you?**
– If before a game a walked into the locker room and asked, "Boys, who hasn't paid up this month?", or simply didn't notify the goalkeeper about a game, that would make the game a lot more interesting for them, don't you think?

**In your opinion, where do professional and athletic accomplishments intersect?**
– It's rather simple. The essence lies in having the right attitude toward what you're doing. If you are able to have your profession and sport complement each other, you will achieve success and distinction in both.

**As a good manager you probably have an action plan for the near future. Kindly share your plans in both sport and at work.**
I have a strong desire to win the league a gold medal. All of our team's efforts are geared in this very direction. We will also take part in various tournaments. The main thing is that I have to start thinking about preparing the team and the games in the 2008/2009 season. We will try to organise some travelling tournaments, because we already have good experience in this regard.
With regard to work, I would like to think of some chic product for our clients and after its implementation for it be copied by our competitors. ■

## Martins Beresņevs

AB.LV Hockey Team coach
Senior private banker

**You were once a professional hockey player. Is being coach easier or more difficult than being a player?**
– I like hockey, so I'm ready to pursue the sport in any capacity. Of course, given a choice, I prefer the role of player, probably because I'm still young and full of strength… Also, it's interesting to test myself in a new capacity. My father is a hockey coach, and I have an opportunity to follow his footsteps and test my ability in a new role. They say the team is responsible for winning and the coach for losing. Thus, from my perspective, being a coach is more complicated and a more responsible position. A player is only responsible for his game, but the coach is responsible for that of the entire team.

**What is it that you usually tell our boys before they head onto the ice? Are there some special phrases or magic words that gear the players toward victory?**
– I don't know any magic words, but before every game I always try to prepare the boys properly, instilling in them a readiness to do everything possible to win. Usually before each game we come together for 10 minutes, where I give tactical instructions and draw the players' attention to the opponents' strengths and weaknesses.

**What are the characteristics of a good coach? Are these also necessary for you to achieve professional success?**
– A good coach is judged by the team's success. If a team is constantly losing, then there is no point in the coach's knowledge and characteristics. However, the ability to ensure victory, to find a common language with all players, to organise practices effectively, to sense which substitution will be the most effective, and the ability to remain calm in complicated circumstances, these are the very characteristics necessary in the coaching profession.

If speaking of the applicability of these characteristics in my professional sphere, they are definitely necessary. A bank has goals of its own; a bank is a team of employees who must be able to work together successfully in order to execute the tasks of the management and to render the best results.

**What in your opinion makes up a true team? Where does the strength of the AB.LV banking team lie?**
– Having a common goal is not enough to make up a true team. Passengers on a tram travelling in the same direction also have a common aim, but they are not a team. Members of a hockey team must truly be able to comprise a united whole, to support one another, to work towards a common team result, without anyone trying to be an individual star. If every hockey player drives towards the goal to knock in the puck, then there will be no point to the game. Success is achieved by a series of passes, where each player has his role and task. The AB.LV Hockey Team is truly the child of its parent, Aizkraukles Banka – just as focused, energetic, resourceful and unified, at the same time unafraid of setting lofty goals and achieving them. This is demonstrated both by the Bank's 2007 operational indicators, as well as by the achievements of the AB.LV Hockey Team.

**What is it that you do off the ice?**
– Considering that outside of hockey I work at the Bank and I am studying, it is difficult for me to imagine another activity for which I would have enough time. But if I didn't have hockey and ice, then purely theoretically a hobby in my life could be in theatre. ■

Oļegs Fiļs

## Oļegs Fiļs

Forward
Co-owner of AB.LV,
Deputy Chief Executive Officer

**Professionally you are a leader, head of a large company. On the AB.LV Hockey Team you are one of the players, whose activities are managed both by the coach and the team captain. Does performing in two so very different roles come easily?**
– I'm very partial to team sports. A true team means common spirit and strength, by which it is possible to achieve the very best results. Likewise, a good team must have leaders capable of motivating colleagues, setting an example and leading the team to victory. I must say that in hockey a leader's status in greatly determined by the professionalism of a team's members. In our team I am happy to learn the art of the game from my more experienced team mates and I listen to their points of view. Just as in matters of banking, where I'm always glad to help my colleagues on the Bank's team with my knowledge and experience. For this reason I can say that role reversal is quite normal. No person can be a professional at everything. However, one can learn and strive for a new, higher level of knowledge and professionalism.

**What place does sport have in your life? And does it also affect your professional activities?**
– I have been active in sports from early childhood, and sport continues to be an important part of my life. Just as in business, sport constitutes a daily process of competition. In these times the level of competition is very high, which, in my view, is a powerful stimulus for development and advancement. If you stay where you are, satisfied with what you already have, you'll never ascend to the top of the podium. In order to win, you constantly need to develop, grow, set new goals and relentlessly strive for perfection. This is what sport teaches me, and these lessons really help me in business.

**You're keen on many different kinds of sports. Of all of them, which is your favourite?**
– Football – it is my first and greatest "love" in sports. In my youth I tended the goal of the Latvian national team. Then at one point I had to choose between a career in sports and one in finance, and I chose finance. But professional sports were truly a school of life, one where I learned a great deal. Now I only take part in amateur league competitions; I play forward on the AB.LV hockey and volleyball teams. I like to play attack, where the game is focused on attaining a result – both in sports as well as business. The main thing is to be aware of your responsibility for your actions and decisions and, of course, you have to feel solid support from the entire team. ■

## Dzintars Osis

Team Captain
Specialist of Customers' Business

Dzintars Osis

**How did you become a team captain? Is it an elected position? What does it take to be a good captain?**
– At the beginning of the season the AB.LV Hockey Team fundamentally changed its attitude toward the game of hockey, meaning that we came up with and established specific goals, and the position of manager was created in the team's structure.
Also, in the beginning of the season the players voted and elected a team captain. It turned out that a majority of the team voted for me, and that was encouraging. I think that a good captain must first of all love what he does, in this case, play hockey. Also, a good captain must know how to inspire the team, make others believe in their abilities and unite the emotions of all the players into a single whole for the sake of victory.

**If we compare two AB.LV teams – the hockey and Bank teams, what common characteristics do you see? What helps both teams remain competitive?**
– The main thing, of course, that one sees comparing both teams is a common starting-point – we strive to win, to be the best. Yes, we want to prove, foremost to ourselves, that we can be the best. And the second thing that both teams have in common is having the shoulder of your team mate to lean on. You can be sure of receiving support; you'll always have a team mate or colleague next to you who will support you, because strength lies in unity. If we have a common goal and everyone gives all they can to achieve it, then we are unbeatable. For this very reason our teams are competitive. ■

Jānis Bunte

## Jānis Bunte

Assistant Captain, Defender
PR Specialist

**As a PR specialist, do you take the view that the AB.LV Hockey Team helps form the reputation of our Bank? And, on the other hand, might it not be harmful to that reputation that, sometimes, in the heat of the battle, our players, say, dish out a rough hit?**
– Definitely. In amateur hockey circles we have already attained some level of recognition as a team comprised of Bank employees. Although supporting a Hockey Team is a bit of an indulgence for the Bank, among employees this investment nevertheless bears a handsome profit. The uniting team spirit that prevails among team mates is also presented publicly to opponents on the ice – I have never heard insulting words spoken among the team. To the contrary, we always try to encourage one another, and to help each other to get over mistakes that may have been made.

Hockey is a true man's game. It's no coincidence that there is a song devoted to hockey, with words translated from Russian "The fearful don't play hockey". Thus every AB.LV team player stepping onto the ice is prepared for serious battle and will put forth all of his efforts to achieve the maximum result. I'd like to draw a parallel here with our attitude on work issues. But, back to hockey, shoving matches are a component of the game, thus emotions expressed in the heat of battle are forgotten after the final whistle blows. We can then shake the hands of our opponents, smile, and, if necessary, also congratulate our opponents on their victory.

**How do you rate the AB.LV team's chances of getting 1st place in our league this season?**
– In any project, job or sporting match I always strive for the maximum – this needs to be the primary motivation, because being satisfied with the status quo is not in my or my colleagues' nature. For this reason we must work hard at training sessions and think how to improve the team's game in order to finish first. Our competitors will do the very same, bet we will be better! ■

**Sergejs Ščuļipenko**

## Sergejs Ščuļipenko

Forward
Senior Private Banker

**What qualities are most important for a hockey forward? And do these qualities help you in your work with clients?**
– In my opinion, it is very important for a forward to make decisions quickly, including in extraordinary situations, because that is what makes the team win. Hockey is a team game, where you feel the support of your team mates and a common aspiration for victory. This provides additional strength even in very difficult situations. In our Bank a set group of clients is serviced by a team of three private bankers. There my work is very similar to that of a trio of hockey forwards – all three have one aim, and each must be capable of effectively making the right decisions, which, of course, is not possible without the feel of the friendly shoulder of your colleagues.

**Do you consider hockey to be a high-risk sport? What are your arguments "for" and "against" playing?**
– Hockey truly is a rather risky game. It is a manly sport and the level of risk that you will sustain an injury, perhaps even a serious one, is quite high. But when you're on the ice playing hockey, the air there is literally overflowing with drastically differing, even contradictory, emotions, for example, playing with a cool mind and completely forgetting the boundaries of risk. This explosive mix is truly worth trying, and I have only one argument – I'm "for". ■

## Valdis Majors

Defender
Head of AB.LV Client Line

**In hockey you play defence well. But do you often have to defend yourself from clients calling the Client line?**
– Sometimes that actually happens. In the course of managing the Client line, sometimes we manage clients who find themselves in various situations, including emotional situations and ones of heightened stress. If you mean… no, no, at work I don't take the same measures as on the ice. In telephone conversations with clients, nobody does any pushing around.

**Long ago among hockey fans there was a popular song about how "hockey is a true man's game, and that wimps don't play hockey". What characteristics describe the true men of AB.LV?**
– It's not the case that if you don't play hockey, then you're not a true man. Of course, each of us is aware that hockey is a contact sport. This means not only using your mind, but also applying strength, reflexes and technique. This package boosts adrenaline and makes the process more exciting.
Compared to forwards, defenders comparatively rarely have the opportunity of put-

**Valdis Majors**

**Edgars Pavlovičs**

ting the puck in the opponent's goal, but a good pass or a swift opponent's attack that is thwarted definitely brings satisfaction. In my opinion those traits characteristic of AB.LV hockey players are relentlessness, the ability to be unafraid and concentrate on going out on the ice, and battling in any situation and in any line up. No matter how powerful the opponent, relentlessly to seek out his weaknesses in order to demonstrate your own persistence. Even great tests with outcomes unfavourable for us have not broken the team's fighting spirit. On the contrary, they have brought experience and strengthened the desire for achievement. ■

## Edgars Pavlovičs

Defender
Chief Risk Officer,
Member of the Board

**Quite recently you attained the position of Chief Officer and became a member of the Bank's Board. Being in such a highly responsible position, how do you manage to find time for sports? Don't they interfere with each other? Or perhaps sport helps?**
– It definately helps. Because sports, in my case hockey, teach one to be disciplined, to concentrate one's attention, to have healthy ambitions, and to be focused on the goal: victory. And, also, after an intense workday a game of hockey provides a whole sea of positive energy

**Edgars Bērziņš**

and, most importantly, an excellent frame of mind for a number of days.

**You have a young son. Are you preparing him for hockey as well? Or do you have another sport in mind, one more suitable to you as a father?**
– Of course I'm preparing him! Hockey is played by true men. Dad has already provided the first skating lessons, hand-in-hand, and the first goals have been scored with Dad's "giant stick". But my son is still too small to stand firmly on skates, so he is engaged in a sports no less interesting, namely, judo. In his three years he hasn't yet received his black belt, but he's already taken me down a couple of times. I am convinced that he will learn to be a good team member and will acquire a good foundation for a sports that he will later choose himself. Of course, I will help him choose and will support his efforts in his chosen sports. And I am already providing support: in order to raise his interest in ice hockey, we bought a table hockey set. ■

## Edgars Bērziņš

Forward
Assistant of Corporate Customers
Service Manager

**What does hockey mean to you – an exciting game or a serious sport, an opportunity to unwind from the stress of a heavy workday, or maybe simply the chance to spend time with colleagues outside the framework of work relations?**
– Hockey means a great deal to me. Already as a child I dreamt of playing hockey for pleasure, because I have never done so professionally. Before I started working at AB.LV I played hockey on natural ice with friends, but as soon as I started working at the Bank I knew I would definitely play for the AB.LV Hockey Team. Thanks to hockey I have become better friends with my colleagues, team mates, and without a doubt this also improves cooperation in the work environment. Hockey is my sport, and I won't change it for any other.

**Do you have any personal supporters, family or friends, for instance? What do you say to them if the team loses? Or maybe they console you?**
– Sure I do. My biggest fan is my Dad, who films my games, provides advice and teaches me. Often my girlfriend comes to games and, what's interesting, in those games I usually manage to put the puck in the opponent's goal. On those days when we lose I tell our supporters that it just wasn't our day. It's a good thing we have few of those! ■

## Aleksandrs Zaļeskis

Centre forward
Monitoring specialist

**What do you think of the popular expression that the best defence is a strong offence? Does it apply to the game of hockey?**
– I don't think I'll be mistaken in saying that in the most varying life situations, many of us are guided by this expression. And it seems to me that in most cases this approach is justified, and the person reaches his aim. Of course, this is applicable to sports as a whole, and hockey in my particular case. As a rule, those teams that follow the expression that the best defence is a strong offence play in a beautiful attacking style, displaying a striking, open and high-scoring game. This can't fail to please the spectators and the players themselves. For this reason games where such teams meet form the most striking memories.

**There was a time when a female Bank employee played on AB.LV's team. Did you manage to be a gentleman on the ice as well, or did she suffer a black-and-blue mark or two?**
– Hockey is a contact sport and rather brutal. You don't spare yourself, or your opponent. It will probably seem natural to many that a logical reply would be that our colleague got bruises just like all the players. But that wasn't the case. Not only were our hockey players true gentlemen on the ice, but they also treated her with a great deal of respect, as well as her athletic passion. Unfortunately, there was once an incident. In the beginning of the season our team played a series of friendly games, and in one of them an opponent, not realising that there is a lady playing on our team, gave her a nasty check. For this he paid dearly. However, everybody was glad that she escaped injury. Our colleague exhibited strong character and continued playing with a smile on her face. We were indescribably proud of this pleasant young lady on our team, though, to tell the truth, a sense of guilt haunted me for a while. ■

**Aleksandrs Zaļeskis**

# AB.TEAM

## “We will never be a conservative bank!”

**Dace Rūķīte-Kariņa**
Head of AB.LV Human Resources Department

**What are the criteria by which you select people for the AB.LV team?**
– When someone comes to us for an interview, we first try to assess whether he will fit into our team. Whether a potential employee matches our scale of values is established at the first meeting, which is usually open and direct. First we look at a candidate’s personal characteristics, and then we assess his professional level. In order to become an AB.LV team member, the individual himself must want this. It is important to us that people come to us not only with a material goal, for example, a large salary. The person must be actively interested in this very position, this Bank, and must see it as a challenge. We need people with ambitions.

In the past five years we have been moving away from the practice of viewing the employee as a mere consumer. We wish to view every employee as a business partner, one who takes part in all processes and works toward a common result – as an equal partner. We are creating a situation where the Bank’s accommodating approach and readiness to show employees support is felt by all. This manifests itself not only in specific expenditures (such as health insurance and financing of the Bank’s sports teams), but also in the overall emotional atmosphere where every employee feels like a member of a united team.

**Since 1995 the Bank has described itself as a new and energetic team of like-minded individuals, always ready for a new challenge. But time is passing. When will AB.LV become a conservative bank?**
– I don’t think that will ever happen. Age is not a criterion for us. They say that age is the condition of the soul. We feel young and full of strength, and we are oriented towards higher achievements and victories. My view is such: a bank cannot be ambitious and conservative at the same time. We have established ambitious goals that have to be reached in a rather short period of time. People who are conservative simply would not be able to do so.

**AB.LV is a very athletic bank. Does the Bank’s management support employees’ enthusiasm for sports?**
– In 2007 the Bank’s management adopted a decision to support financially the Bank’s sports teams, but with specific conditions. The team establishes a goal, for example, to finish in the top three or top six in the amateur league. Over the course of the year the results are assessed and a decision is taken whether the team merits further support. Currently the Bank supports hockey, football, basketball and volleyball teams. It must be said that our athletes are demonstrating very respectable results.

**Does it remain interesting for you personally to be part of the AB.LV professional team?**
– I’m in my eighth year at the Bank, and every day brings a new challenge. The Bank is constantly changing and developing. In our work we are always setting new goals and striving to attain them.

**So is it safe to say that the Bank’s strategy and values are the core bases?**
– Foremost, it is an issue of values. Furthermore, specifically those values important to the Bank’s owners and that are understandable and acceptable to our employees.

**What do you have to say about stars on the AB.LV team?**
– Of course they are necessary. And they must cast light – charisma, so that the other team members emulate them and follow the best.

**So what kind of people do you in fact seek out – experienced stars or individuals with development potential?**
– Both. There are situations where “star calibre” leaders are needed, and there are other situations where people without pretences are necessary, ones ready to carry out routine work responsibly, but who nevertheless have the goal of becoming a star. By adding stars to the team we have to expect the possibility of “star disease”, of having to be elastic and patient, provided of course that we see value in this employee. Because the team’s reputation is more important than everything to us. We strive to achieve a level where every employee is proud of his Bank, and only wants to work for AB.LV and nowhere else.

**And what is the distance between the “stars” and “mere mortals”?**
– We offer advantages no other bank offers. Our style of communication, for example. At the Bank we have an open door principle. We all address each other informally. We are all welcome to seek out advice or an opinion from any colleague, regardless of the “distance” between levels and positions. It is our corporate principle.

**Your approach toward internal competition?**
– It’s a good-natured process, provided the internal climate of the team is not disturbed. This is of particular importance among employees who service clients and sell our services. I know there are persons in sales with heavenly talent who achieve extraordinary results in attracting new clients and thus do their part in achieving high results for the entire Bank. But the situation in business is constantly changing, so it is not permissible to rest on one’s laurels. In this line of work, of particular importance is the role of manager, because it is his responsibility to assess the situation, instil a spirit of healthy competition, and not permit any symptoms of “star disease” that may cause a great deal of harm to the overall situation.

**Motivating employees has become a popular topic. Is it about the “carrot-and-stick” principle?**
– I acknowledge that motivation is built on this very principle. We study a situation, determine the problem and seek out possible solutions. For example, if internal communication is hindered, then cooperation among colleagues needs to be stimulated. How best to achieve this? With a carrot, of course! We create a bonus mechanism based on good-natured evaluation between cooperating Bank structures. Each bank unit receives that which it has earned. But there is also a disciplinary measure. This portion of the wages serves the function of the “stick”. If an employee performs his responsibilities in an unconvincing manner and his immediate supervisor believes that the employee deserves censure, then the employee will lose a noticeable amount of money. On the other hand there is an initiative bonus, which is separate from salary and is awarded for particular merit and achievement of excellent professional results.

An additional striking example of motivation is our annual AB.LV Sports Games, which has become a dear tradition over a number of years. Every year the Bank’s employees prepare a special performance for the festival. We hire a professional choreographer to arrange the performance and a voice coach to help our “young and brave artists” present themselves at their best. You know, we have many people interested in participating in these performances. But it’s a lot of work, because already a month and a half before the event, every evening when everybody else is heading home, the performers begin their daily rehearsal. Finally, beautifully dressed and stylishly made-up of course, they perform their show to the joy of their colleagues. Seeing them, others, too, wish to exhibit their talents and abilities. This also serves as a good motivation – to join the team, come on stage and earn ovations from the entire Bank. ■

# AB.LV Sports Games 2007

# AB.PEOPLE

# Individual value

In our view, a team's achievements depend on the individual value of each member. For a modern man to be competitive, whether in the professional or sports arena, means confidence in one's own ability and openness to new ideas, as well as the ability to take control of a situation and to do one's job with heart and soul. The achievements of AB.LV employees at work and sports convincingly demonstrate this.

Lora Andronova

Rolands Citajevs

Gaļina Lobareva

## Lora Andronova

Systems Analyst

**Women who practice martial arts are quite a rare case. How did you become interested in aikido?**
– I'm quite caught up in fantasy literature. I read a great deal of books from this genre and write stories myself. Those who have read such books know that fantasy heroes often gladly engage in battles with swords. The heroes of my stories were no exception and were not of a particularly peaceful nature. In order for the battle descriptions not to be bare and schematic, I chose to try out some moves with a weapon in hand. To my amazement, as soon as I had this desire, the opportunity to do so came about. I became acquainted with a fellow writer from Riga, who told me that it's quite easy to find a way to "wave the sword", and that he himself practices twice a week. Then he invited me to come along. That's how I ended up in aikido.

At first I practiced only with the short staff (jo) and wooden sword (bokken), but soon I also became interested in combat techniques without weapons, and then it turned out that I liked this even more! Free, light movements, the feeling of flight – I wish everyone could experience it and feel the joy! And, most importantly, the people I met here – the terrific teacher Aleksandrs Osnačs, the friendly "tatami comrades", and the warm and bright atmosphere that I don't want to leave.

**Martial arts are by nature built upon special principles, a code. Does aikido also have such principles, and do these help you at work too?**
– Aikido as I understand it teaches harmony, peace and the ability to concentrate. This cannot *not* help at work. If you are lackadaisical or, on the contrary, overly tense, you will not be able to demonstrate a move well. You cannot allow your concentration to lapse, thinking "I'd really like to buy those shoes", because a careless, sloppy movement can cause injury to youself or to your partner. For this reason at practice we train composure and concentration. The same qualities are necessary at the bank, for example, when I quickly need to block out disturbing thoughts and find out the cause of an error in the system and how to solve the problem. No less important is the ability to remain calm – if I am in a panic, I can neither perform a proper swing on the tatami, nor find a solution to my work assignment. ■

## Rolands Citajevs

Chief Information Officer,
Member of the Board

**Aikido is a martial art in which the combatant learns to master his energy and that of his opponent. How do your aikido skills help you professionally?**
– I am a very emotional person and, so it seems to me, my every thought registers on my face. Sometimes that's good, sometimes not. Thus, the main thing I try to develop with the help of aikido is to control my emotions and situations where decisions need to be taken in a very short period of time. A wise man once said, "Those experienced in battle will not get angry, and those experienced in victory will not fear. It follows that wisdom prevails before battle, but foolishness battles in order to prevail." I like this concept and I recall it every time I am confronted with a difficult situation at work.

**During practice you were wearing a black kilt. Share with us please the meaning of this garment. How freely can you move with it on?**
Actually those were wide trousers, the Japanese name for which is "hakama". A hakama is an important part of traditional samurai attire. Usually a hakama has seven pleats, five in the front and two in the back. Morihei Ueshiba (o-sensei, founder of aikido) explained them as follows:
Dzin – good will;
Gi – honour;
Rei – manners, etiquette;
Ti – wisdom;
Sin – truth;
Tu – trust;
Ko – decency.
The wearing of a hakama symbolises that tradition passed down from generation to generation. In combat, hakama provides certain advantages, because it conceals foot movements. When I move in this garment in practice it is, of course, less comfortable than simply wearing a kimono, but it is a matter of habit. ■

## Gaļina Lobareva

System Administrator

**A jump with a parachute, this is always risky. But do you have to take risks in your professional work? Or, to the contrary, have you chosen the calmest and most down-to-earth job in the world?**
– Risk assessment is always relative. Generally speaking, sewing a cross-stitch involves a certain degree of risk, because the cross may end up in the wrong place. Risk means preparing for the worst and hoping for the best. Everything depends on how we relate to our chosen hobby. Those for whom it is truly a joy will consider every action, every step with love and enjoy it, regardless of whether it is a stitch, a stroke of colour on cloth, or a jump with a pole at an indicated height. And with parachuting it is just the same. A thoroughly folded parachute, a timely performed technical system review, well-planned movements in freefall, a precise calculation of the landing manoeuvre – all these things together lower the risk to almost nil. As my first instructor said, "We don't want to die – we're just athletes." This is also applicable to my professional work. I am a systems administrator for the flow of bank documents. My most important task is to ensure that improvements to the system work properly, to test changes, to trace possible errors in a timely manner, and to maintain databases in working order. A precisely set mechanism will function like a timepiece. Errors do not occur unexpectedly; it is a chain of incompetent, improper actions that leads to them. Of course, in both sports, as well as at work, force majeure circumstances arise, whether it be a failed parachute or a collapsed server… And in these situations almost everything depends on your ability, reaction, and the proper decision taken in due time.

**Tell us, what does the sky mean to you? What does it mean to fly?**
– TO FLY is to sweep or swim through the air, to streak through space with one's own or external power (translated from V. Dal's Russian language dictionary).

My flight begins neither with freefall, nor with the sky, but rather with:
– folding the parachute,
– a friendly pat on the shoulder while sitting on the plane,
– the first breath in freefall,
– a beautifully executed somersault,
– the altimeter signal that regulates the height at which the parachute opens,
– the rustle of the canopy of my dear yellow parachute opening,
– wind whistling past the lanyards,
– softly touching the grass as I land,
– my husband's hug when we meet.

The sky is my life and, as a result, to fly means to live. ■

Kitija Zaķe

Nikolajs Aleksandrovs

Sergejs Hudorožkovs

## Kitija Zaķe
Credit Analyst

**Although the game of curling was invented back in the XVI century, many consider this sport to be a mysterious innovation. Could you literally in one striking phrase advertise this game, telling us what it's about, as well as why it caught your interest?**
– In Latvia this game may be considered an innovation, but definitely not mysterious. Since 2002 Latvia has had an annual curling championship, and regular tournaments are organised with the participation of players not only from Latvia, but also from abroad. Our teams often take part in international tournaments with notable successes.

Curling is a game of the mind. You could even call it chess on ice. Strategy is involved; making one move, you have already planned your next one. In curling, achievement is determined by a team working in unison and by a sharp mind, as well as courage in adopting quick and convincing decisions. Curling is a game for masterful strategists and risk-taking types. Since my day-to-day job is related to analysis of credit projects, this strategic game suits my nature and this also determined my choice.

**People tend to have the impression that curling is a game of very precise calculations. Perhaps there is something more to it? How do your successful curling skills help you be successful in your profession?**
– There is more to curling than calculations. Teamwork is very important, as is a positive team spirit and, of course, risk. Any challenge, whether in sports or professionally, makes one put forth efforts to achieve the chosen goal. And in order to meet this goal, it is necessary to cultivate certain skills and, possibly, not only professional or athletic ones, but psychological skills as well, for example, willpower, perseverance under stress, and a good frame of mind. ■

## Nikolajs Aleksandrovs
Head of Infrastructure Department

**Marathon and half-marathon runners have great endurance. Please share with us, in what work situations does this endurance help you?**
– A marathon is a test of physical and psychological endurance. It's an endeavour that makes one plan workloads very precisely and the entire time to control the body's physical resources. On the job this marathon experience helps me resolve stressful situations that arise if an information system breaks down. Restoring operation of the bank's vital systems in the shortest possible time requires an exact action plan, and one needs to know what resources are at one's disposal and how to utilise them.

**Are you planning to run a marathon in the near future? What physical and personal qualities are needed as you approach this goal?**
– I plan to take part in the Riga Marathon this spring. It will be my third marathon. Each year I establish as my goal to improve my time. This year my goal is to run the 21097.5 metre distance in an hour and forty minutes. In order to reach this goal, I must set a training plan and then execute it precisely, which isn't so simple, considering the pace of life and work. One gets to know oneself through long-distance running. All facets of one's personality surface in particular in the last quarter of the distance, when the body is running out of strength and demands rest, and the thought surfaces in the mind, "What's the point of all this?" At this moment one understands how harmonic and powerful the union of body and mind is in a person. ■

## Sergejs Hudorožkovs
Deputy Head of IS Development Dpt.

**In fencing the athlete is always situated eye-to-eye against his opponent. Furthermore, with a cold weapon in hand. Is this the only manner of battling opponents, or as a banking professional do you know of other ways of doing battle?**
– With regard to the cold weapon, fencing is a very peaceful sport; stories of unfortunate injuries are just that – stories, nothing more. Victory is also achieved without physical elimination of one's opponent. When engaging in battle, the fencer – just like the banker – sets a plan for achieving the desired result. Of course, previously gathered information about the opponent does not guarantee 100% success, because the opponents aren't snoozing, and strive for victory just like we do. For this reason one must learn to improvise and utilise a given situation to present oneself in a new, unexpected posture. In order to compete successfully in fencing as well as in banking, it is necessary first of all to get to know your competitors very, very closely, and to understand their strengths and weaknesses in order to overtake them in the next battle, or, conversely, so as to avoid an unnecessary battle and win in this way.

**Is fencing a team or individual sport? In your professional career, what does it mean to work in a team?**
– Fencing is simultaneously both a team as well as individual sport. Thus this sport requires both individual as well as collective excellence. Competing is much easier if you feel the support of your comrades, friends and colleagues, and understand that you are battling not only for your individual place in the standings, but are also putting forth your efforts in the team's battle. Just as it does to my colleagues, working in a team means the opportunity to achieve the needed result by the optimal means in situations where you cannot do so alone, to put forth efforts for the good of a common aim and to feel appreciation from your colleagues. ■

Jevgēņijs Sproģe

## Jevgēņijs Sproģe
Assistant Lawyer

**The main tools in orienteering are a map and compass. What do you consider to be a map and a compass in your profession?**
– In law the map is the letter and spirit of the law, and the compass is knowledge and practical experience acquired over time. It bears emphasis that this consists not only of personal experience, but to a great extent that of my colleagues. In orienteering competitions it is not possible to understand the map and the surroundings depicted on it just by looking at the map. You have to be on the spot in order to understand which thickets and swamps can be crossed and which ones better to go around. And then the compass helps one navigate the map and run in the right direction.

The entirety of the field of law is a burden of knowledge that no person can bear. For this reason consultations with specialists from individual fields are very useful. Practical experience permits one to find the right direction and the approach to optimal resolution of legal issues. The letter of the law not always permits one to understand precisely how to act; what's more, there are issues that the law may not address. In such cases practical experience is the greatest help in finding the most appropriate solution.

**Tell us about the most complicated circuit you've ever run. What did you come up against, and how much time and effort did it take to succeed?**
– Of all the most difficult circuits, two remain embedded in my memory. One, though not very long, perhaps 6–7 kilometres, turned out to be very fast and crucial. It was at the European youth championships in Germany. I ran the last leg in a three-leg event and was well aware that it depended on me whether or not the team won a medal. Nearing the finish line I was in third place, and I felt, quite literally, the breathing on my neck of those trying to pass me. I had to put forth all efforts not to break down, so that the team could climb the medallists' podium.

The second most demanding experience was in an unbelievably long 25 kilometre distance through difficult terrain with many obstacles. It was at the championship open in long distance running, which took place in Sweden. The circuit included thickets, clearings, swamps and Scandinavian cliffs. What's more, these 3.5 hours were also technically very complex, because it was easy to make a mistake and lose one's way. And although on this occasion I did not obtain a particularly strong result, the experience gained and elation with completing the circuit were worth it. ■

Vladimirs Maļkovs

## Vladimirs Maļkovs
Deputy Head of Private and Corporate Customers Service Division

**We know that for people in business, sports are a great opportunity to unwind and balance workloads, shifting from mental to physical work. Please tell us what else your passion for tennis brings you.**
– I am certain that sports really allow anyone to balance their physical and mental workloads. Additionally, tennis permits me to unwind emotionally and completely detach myself from the routine of the finished workday. A tennis player requires complete focus of concentration: you have to follow your opponent's actions, as well as your own motions and technique. I would particularly like to emphasise footwork; proper movements of the legs and feet when approaching the ball ensure that the stroke is executed correctly and that in the end, points are won. Thus in this regard I would even risk comparing tennis with ballet. Watching the best tennis players in the world on television in Grand Slam or Masters tournaments and following the athletes' movements, this very analogy comes to mind. Just watch the gracious movements of the Swiss Roger Federer or the sharp movements of "toreador" Rafael Nadal.

I can say with conviction that to play tennis means both taking part as well as watching a great performance. And it is precisely the emotional uplift that I would note as one of the reasons why I play tennis. I would like to note that the very process of playing as communication with likeminded individuals is also part of the answer to your question. That is why I regularly participate in various tournaments, such as in my tennis club, *Jurmala*, as well as in competitions between clubs in Latvia and beyond its borders.

**Do you have any idols in tennis? And in your professional career? And why these particular persons?**
– I don't have any idols as such. I like very much people that put their very soul into their work, work with all of their heart and derive pleasure from the work process. If an individual approaches his work this way, then achievements will follow of their own accord, I am quite certain. The same is true of tennis – if you play for pleasure and focus on the beauty of the game, not on the outcome, you will succeed.

You could say this is my philosophy in tennis and in life. In tennis there are many Russian players that I like: Marat Safin, Dmitry Tursunov, and Mikhail Youzhny; various French players; the Serb Novak Djokovic and many others. ■

Sergejs Groškovs

## Sergejs Groškovs
Marketing Manager

**Your athletic passions are related to mountains – rock climbing and snowboarding. Would you agree with the expression that "the only thing better than mountains is mountains"? How do you feel up there, between the rocks and the sky?**
– It's true that the only thing better than mountains is mountains I haven't been to! To be honest, a couple of years ago I did not understand this phrase. But now every time I return home from another outing, I suddenly feel an unusually strong desire to return to the mountains, to explore new peaks, routes and paths. The feeling of being among these monumental natural formations in the crystal pure air, the maximum physical and mental concentration, the flow of adrenaline, touching the clouds – it cannot be duplicated! And it all takes place in the company of good friends, with pleasant experiences and good spirits. For this reason, whether in winter, getting an adrenaline rush on a snowboard over fresh snow, or in summer, climbing along routes where I can test the limits of my physical ability, a trip to the mountains is the best possibility for spending a vacation.

**You are a bank analyst. Do your professional abilities help you in the mountains? And, conversely, do the emotions that charge you in the mountains help you to achieve success professionally?**
– Most definitely, being in the mountains requires one to keep a cool mind. You cannot take unjustified risks, must think before every step, be careful, and resist stress. If you have the right attitude and have no unjustified illusions (because it won't be easy!), mountains will always provide you with a boost of energy, a positive charge and full lungs of fresh air. The aim of a mountain expedition is to traverse a set route, climb the summit with a one-of-a-kind view, take a difficult path down on a snowboard, and feel satisfied with what you accomplished today. And is work any different? ■

# AB.SUPPORT

## AB.LV Charity Fund

**In 2007 the Bank's corporate charitable foundation, AB.LV Fund, continued its active operation. Foundation plans and implements its activities in accordance with a program, providing financial support to charitable projects of public significance.**

Currently the AB.LV Fund is implementing seven programs:

- the AB.LV contemporary art program,
- the Playgrounds for Little Rigans program,
- the "Modern Art Exhibits, 2007 – 2009" grant program,
- the Projects for Children and Families program,
- the Youth Idea Centres program,
- the Project Financing and Attraction of Donations for Charitable Organisations program,
- the Support for the Formation of Reserve Capital and Reserve Funds for Nongovernmental Organisations cooperation program. ■

## "Latvijas lepnums"

**For the fourth consecutive year our Bank had the priceless privilege of supporting a celebration of humanity, love and selflessness in Latvia – the annual "Latvijas lepnums" ("Pride of Latvia") awards ceremony.**

This ceremony traditionally takes place before the year's brightest holiday, Christmas. Any person that has helped others overcome loneliness, suffering and hopelessness has the opportunity to become the bearer of the title "Pride of Latvia" and holder of this award. President of Latvia Valdis Zatlers was among those who came to honour the noblest people of Latvia in 2007. AB.LV shareholder Oļegs Fiļs served on the jury for selecting among the candidates for the title. ■

## Exhibition in Frankfurt

On June 20th, 2007 the European Central Bank building in Frankfurt unveiled an exhibit of contemporary art from Latvia, the centrepiece of which was the emerging collection of the Contemporary Art Museum of Latvia financed by Aizkraukles Banka. The exhibit was opened by European Central Bank President Jean-Claude Trichet and Bank of Latvia President Ilmārs Rimšēvičs. ■

## The most comprehensive event

**In 2007 AB.LV actively supported the most comprehensive event in Latvia's cultural life: the "Francijas pavasaris"**

("French spring") Festival, initiated and organised by high-ranking officials from France and Latvia. Within the framework of the festival, countless interesting events took place in Riga and other cities in Latvia. Latvian museums, theatres, operas, galleries, movie theatres, and radio and TV stations hospitably and selflessly welcomed French artists. Thanks to the support of our Bank, people in Latvia had the opportunity to acquaint themselves more closely with the rich cultural life of

## Education

**On June 14th, 2007 AB.LV signed a cooperation agreement with the Latvian School of Banking.**

The aim of this cooperation is to unite the intellectual resources, theoretical knowledge and practical experience of both partners in order to create favourable circumstances for the development of academic thought in the bank sector of Latvia. The Bank is not only planning to organise its own lecture cycles for students, but has also undertaken to invite foreign experts to exchange knowledge and experience. Students will have the opportunity to undergo a traineeship at our Bank and potentially to become fully fledged members of AB.LV professional team. ■

## Sports

**In the sports world AB.LV steadfastly continued to support the development of handball in Latvia.** In 2007 we provided the Handball Federation of Latvia with our financial support, as with the best team handball club in Latvia, ASK/AB.LV, the strong performance of which in European cups and championships has already brought us joy on numerous occasions. In addition, we support a series of children's and youth handball sports schools. ■

## Our children

**On June 2nd, in recognition of International Children's Protection Day, a wonderful celebration of childhood took place in Riga – for a time Old Riga became the "Children's capital", with AB.LV financially supporting this event.** We wished to help show children and youth worthwhile, active alternatives for spending their free time: participation in creative workshops, informational campaigns, and sporting events to provide each individual with the opportunity to find an activity of interest and to get genuine enjoyment out of doing so.

**On April 7th the General Consulate of Latvia in St. Petersburg opened a Latvian Sunday school.** The school will be attended by more than 80 children of Latvian descent from 3 to 16 years of age. Our Bank provided financial support to the school. From now on, two times a month Latvian children of St. Petersburg, some of whom do not know a single word of Latvian, will through interesting activities be able to acquaint themselves with the language and culture of their historical homeland. The head of AB.LV representative office in St. Petersburg, Artur Zaika, took part in the school's opening ceremony. He presented all of the schoolchildren with gifts – audio discs with stories of Karlson on the Roof in the Latvian language. Release of this disc was financed by our Bank in the preceding year.

**In continuing our cooperation with the Riga City Council that was initiated in 2006,** in 2007 the Bank approved financing for the Playgrounds for Little Rigans program, in which by 2011 it is planned to construct five additional children's playgrounds in various outlying neighbourhoods in Riga. AB.LV pledged LVL 245,000 to support the program. This is currently the largest amount of support that a private company has granted for the development of playgrounds. ■

## Culture without borders

**Just as in previous years, AB.LV supported Latvian Independence Day celebrations in embassies of Latvia in those countries where the Bank has representative offices.**

The Bank served as general sponsor in the hope that these events will foster the strengthening of international cultural relations, while at the same time also stimulating cooperation in business and financial sectors.

**In Tashkent** with our support a concert was organised where opera star Inese Galante and magnificent pianist Inna Davidova performed.

**In Minsk** we financed an exhibit of Latvian artists entitled "Landscape and still life. Painting in the 20th Century Latvia". The exhibit took place in the National Museum of Art of the Republic of Belarus from November 15th to December 15th.

**In Baku** in honour of Independence Day, we invited musicians from Latvia to a festive ceremony. Performing were singers Zigfrīds Muktupāvels and Guntis Skrastiņš, along with the group "No pusvārda". ■

## Festivals

**On July 27th and 28th the town of Salacgriva hosted an event never before experienced in the music world of Latvia – the POSITIVUS AB music and art festival.**

POZITIVUS AB FESTIVAL

Over the two days of the festival on as many stages, music stars from the Baltic States performed along with world-famous performers and groups such as James, Stereophonics, and Brett Andersonn (ex Suede) from England, as well as the unsurpassable rock stars from Russia, Mumii Troll.

Over the course of 2007 on more than one occasion the Bank pleased music lovers, supporting such striking events as the joint concert between Russian rock group Bi-2 and the National Symphonic Orchestra of Latvia, as well as the unforgettable, one-of-a-kind dance groups Tap Dogs and Stomp in their performances on tour.

**From June 11th to 15th the city of Valmiera hosted a hot air balloon festival, sponsored by our Bank.**

The 2007 AB.LV Cup turned out to be an impressive competition among navigators of the skies, an event supplemented with a comprehensive entertainment program for children and adults. Taking part in the festival were teams from Latvia, Lithuania, Slovakia and Germany. ■

# Sports Kaleidoscope

Golf is the only game that has been "played" on the moon. On February 6th, 1971 Alan Shepard, one of the famous astronauts in the American moon program, hit a golf ball on the surface of the moon.

Every year the world's golfers use up golf balls worth approximately 800 million dollars.

In 1950, while taking part in the World Cup the Indian national team was not permitted to play, because the FIFA Commission prohibited the team's players from stepping onto the pitch and playing in bare feet.

Football is the most popular sport in the world, played by 20 million people in more than 140 countries.

In flight a badminton shuttlecock reaches a speed of 180 km/h. Olympic regulations state that the shuttlecock must have precisely 14 feathers.

The first world championship for speed in solving a Rubik's Cube took place in Budapest on June 5, 1982. The current world speed record is 16.5 seconds. The Rubik's Cube has a total of 43,252,003,274,489,856,000 possible colour combinations.

In Thailand kiting is a professional sport. But in the Asian Buddhist country of Bhutan, the national sport is archery.

The record for most Olympic medals belongs to Soviet gymnast Larisa Latynina. In the time period from 1956 to 1964 she took part in three Olympic Games and won 18 medals.

Ashrita Furman of New York made 130,000 jumps with a jump rope in 24 hours.

A skater from New York, Lucinda Ruh, executed 270 pirouettes in a single minute, an average of five full turns per second.

Ari Petrof is the Swedish national champion in sauna sitting. He spent 5 hours and 10 minutes in a 100° C sauna.

Astonishingly there is an association of players of Rock, Paper, Scissors, and this "sport" also holds world championships regularly. In 2008 this unusual event will take place on October 13th in Toronto, Canada.

During World War II the U.S. Navy hired world chess champion Reuben Fine to calculate the probability and locations of enemy submarines surfacing.

# AB.FINANCE

## consolidated report


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# Report of the Council and the Board

**Dear shareholders, customers and business partners of Aizkraukles Banka,**

2007 was a year rich in events significant for both Aizkraukles Banka and the economy of Latvia. The government of Latvia consistently implemented a range of measures aimed at slowing down the fast growth of the economy. These measures, which had been primarily intended at reducing inflation and the current account deficit of the balance of payments, also indirectly affected one of the key businesses of the bank, mortgage lending.

In spite of the economic growth facing some "cool down" in 2007, Aizkraukles Banka reported noteworthy financial figures. The Bank's assets exceeded one billion lats, and the Bank achieved its best-ever result, having derived profit of LVL 27.2 million. The achievements of Aizkraukles Banka reflect its ability to quickly adapt to the tendencies prevailing on the local and world markets and maintain a strong position as one of the leading commercial banks of Latvia.

Success on the international market is another proof of the creditworthiness and high potential of Aizkraukles Banka. In 2007 the interest displayed by investors considerably exceeded initially requested volumes, and the Bank raised two syndicated loans totalling EUR 210 million. In February, the loan of EUR 85 million was received instead of the requested EUR 50 million, while in July the Bank even received a syndicated loan of EUR 125 million. The first syndicated loan in the history of Aizkraukles Banka, EUR 50 million, was received in 2006.

At the end of the year, Aizkraukles Banka changed its management structure, which is a result of active work on implementation of the Bank's future strategy. Ernests Bernis and Oļegs Fiļs were re-elected as Chairman of the Board and Deputy Chairman of the Board respectively. In addition, Chief Compliance Officer – Aleksandrs Pāže, Chief Information Officer – Rolands Citajevs, Chief Operating Officer – Vadims Reinfelds, and Chief Risk Officer – Edgars Pavlovičs were elected as the new Members of the Board.

In addition to the changes that have been already introduced successfully, thus enabling the Bank to save time and human resources, Aizkraukles Banka will continue to enhance process efficiency also in the upcoming year. The situation on the real estate and mortgage lending market, which has been one of the key businesses of the Bank, has changed. Therefore, a decision about changes in lending conditions and the Bank's structure has to be made. Based on previous successful experience, Aizkraukles Banka will be focusing on services enabling to accumulate, maintain and increase the wealth of its customers.

## Financial results

We are pleased to announce that the financial results set in the beginning of the year have been successfully achieved, owing to the ongoing improvement of services to meet customers' needs and market demand, as well as thorough risk assessment.

In 2007, the Bank's assets grew by 36% year-on-year and reached LVL 1.1 billion as at the year end. Size of the total assets enabled the Bank to be ranked the seventh among commercial banks in Latvia.

As at 31 December 2007, the Bank's gross loan portfolio had increased 1.4 times and reached LVL 690 million.

The Bank's return on equity (ROE) (measured as fiscal year's earnings against average shareholders' equity) had reached 34.9% as at 31 December 2007, whereas the return on assets (ROA) (measured as fiscal year's earnings against average assets per annum) was 2.85%.

## Improvement of services

During the year 2007, the new joint stock companies established by the Bank – investment brokerage company AB.LV Capital Markets and investment management company AB.LV Asset Management – were actively working on introduction and improvement of their services.
The operations of IPAS AB.LV Asset Management (hereinafter – the Company) were particularly successful and efficient. The company continued managing individual asset portfolios. Moreover, the Financial and Capital Market Commission has approved three open-end investment funds established by IPAS AB.LV Asset Management:

- AB.LV Emerging Markets Bond Fund, investing assets in debt securities of governments of various developing countries;
- AB.LV High Yield CIS Bond Fond, making investments mainly in debt securities of CIS corporations and financial institutions;
- AB.LV Global ETF Fund, making investments on the world's stock markets.

In spite of its rather short existence, the above company reported noteworthy results, having closed the year 2007 with profit of LVL 564 thousand.

## International market

In 2007 Aizkraukles Banka continued its business activities in the international markets. Specific seminars were organised in Riga and Kyiv (the capital of Ukraine) for existing and potential customers, still with a focus on attracting the latter. The seminars about banking services and products were a tool to introduce Aizkraukles Banka.

While strengthening the presence in new markets, another representative office of AS AB Konsultācijas (belonging to the Group) was opened in December in Ukraine. At present, AS AB Konsultācijas has its representative offices in Ukraine (Kyiv and a branch in Odessa), Azerbaijan (Baku), Belarus (Minsk), and Russia (Moscow and St. Petersburg).

The tailored, and appropriate services, quality of customer relationship management through an individual approach are the main factors enabling Aizkraukles Banka to be competitive on the international market, which is also reflected in deposit attraction. In spite of the considerable drop of the U.S. dollar, which is the main deposit currency, the amount of deposits has increased by 24.8% year-on-year (in LVL). The total amount of deposits as at the year end was LVL 825 million.

Meanwhile, as at 31 December 2007, the amount of loans issued to non-residents had reached almost LVL 82 million, which represents an 81% increase from the prior year.

## Domestic market

The year 2007 saw adoption of anti-inflation plans by the government of Latvia, which mainly affected mortgage lending. In accordance with the changes in the legislation and following the public efforts to slow down inflation, the Bank introduced a range of changes in mortgage lending conditions and programmes.

Along with the adoption of this anti-inflation plan, the demand for mortgage loans by local residents also dropped. As at 31 December 2007, the Bank's mortgage loan portfolio had reached LVL 448 million.

## Investment business

The second half of 2007 saw a rapid slowdown of the world's fund and capital markets, which was initially caused by the US mortgage crisis. As Aizkraukles Banka had neither direct, nor indirect positions on the US high-risk mortgage market, the Bank's loss on its securities portfolios was less than the market average, and the Bank succeeded to close 2007 with a total portfolio return of +0.63%.

The average balance of the Bank's liquidity portfolio as at 31 December 2007 amounted to LVL 28 million. The liquidity portfolio mainly comprises debt securities issued by credit institutions incorporated in the OECD area. The average balance of investments held for undefined period portfolio was LVL 66 million. The investments held for undefined period portfolio chiefly encompasses debt securities issued by the Latvian government, as well as other (non-OECD) governments, credit institutions, and privately held companies.

In 2007, the average amount of the trading portfolio was LVL 2.7 million. The Bank's trading portfolio comprises debt securities issued by other (non-OECD) credit institutions and privately held companies.

# Report of the Council and the Board

## Aizkraukles Banka to community

Traditionally Aizkraukles Banka actively supports important projects with a social responsibility. Financial support is provided for key cultural events, children and health related as well as sports activities.

One of the most significant cultural events of the year supported by the Bank is the French Spring Festival, which is a result of cooperation between French and Latvian chief executives. Moreover, an exhibition called *Contemporary Art from Latvia* was opened at the European Central Bank in Frankfurt on 20 June 2007. The focus was on the collection of the Latvian Contemporary Art Museum, the nucleus of which was made up of artworks which Aizkraukles Banka financed for the future museum.

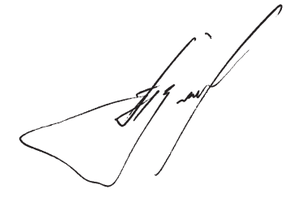
During 2007 the Bank rendered its support for the Latvian Sunday school for children ranging in age from 3 to 16 years, opened in the Consulate-General of the Republic of Latvia in St. Petersburg. In addition, concerts with the participation of Latvian musicians were organised in Latvian embassies in Baku and Tashkent to celebrate the Independence Day.

The Bank's corporate public benefit fund – AB.LV fonds – was very active during the last year. The fund is planning and performing its operations on the basis of programmes, rendering financial assistance to socially significant charity projects. The fund has developed a total of seven programmes – the AB.LV Contemporary Art Programme (AB.LV Laikmetīgās mākslas programma), Playgrounds for Children of Riga („Rotaļlaukumi mazajiem rīdziniekiem"), the grant programme Contemporary Art Exhibitions in 2007.–2009. ("Laikmetīgās mākslas izstādes 2007. – 2009. gadā"), Children and Family–Friendly Projects ("Bērniem un ģimenēm draudzīgi projekti"), Youth Ideas Workshops ("Jauniešu ideju darbnīcas"), Support for Donation Projects of Charity Organisations ("Atbalsts labdarības organizāciju ziedojumu piesaistes projektiem"), as well as the cooperation programme Support for Establishment of Restricted Capital and Reserves by Nongovernmental Organisations („Atbalsts nevalstisko organizāciju neaizskaramo kapitālu un rezerves fondu veidošanai").

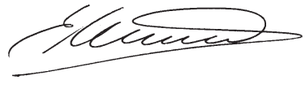
In sports, Aizkraukles Banka has always remained a loyal supporter of Latvian handball. During the reporting year, the Bank made donations for development of both the Latvian Handball Federation and the leading local handball club, ASK/AB.LV, as well as several handball schools for children and juniors.

In conclusion, we would like to express our deep gratitude to the employees of Aizkraukles Banka for their valuable contribution in our growth and to our customers for their trust and loyalty to the Bank!

Chairman of the Council
Aleksandrs Bergmanis



Chairman of the Board
Ernests Bernis



Riga, 26 February 2008



# The Council and the Board

**The Council of the Bank:**

Chairman of the Council:
**Aleksandrs Bergmanis**

Deputy Chairman of the Council:
**Jānis Krīgers**

Member of the Council:
**Vladimirs Kutovojs**

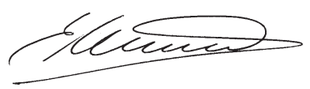
| **The Board of the Bank** | Date of Approval |
|---|---|
| Chairman of the Board: | |
| **Ernests Bernis** | 27/12/2007 |
| Deputy Chairman of the Board: | |
| **Oļegs Fiļs** | 27/12/2007 |
| Members of the Board: | |
| **Aleksandrs Pāže** | 27/12/2007 |
| **Rolands Citajevs** | 27/12/2007 |
| **Vadims Reinfelds** | 27/12/2007 |
| **Edgars Pavlovičs** | 27/12/2007 |

The following Board Members were removed from office during the reporting period:

| Name | Position | Date of removal |
|---|---|---|
| **Ernests Bernis** | Chairman of the Board | 27/12/2007 |
| **Oļegs Fiļs** | Deputy Chairman of the Board | 27/12/2007 |
| **Aleksandrs Pāže** | Member of the Board | 27/12/2007 |
| **Rolands Citajevs** | Member of the Board | 27/12/2007 |
| **Pāvels Šnejersons** | Member of the Board | 27/12/2007 |
| **Oļegs Sirotins** | Member of the Board | 27/12/2007 |

Chairman of the Council
Aleksandrs Bergmanis

Chairman of the Board
Ernests Bernis



Riga, 26 February 2008

# Statement of Responsibility of the Council and the Board

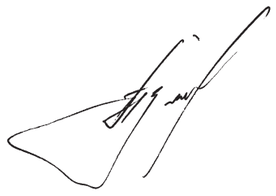
The Council and the Board of the Bank (hereinafter – the Management) are responsible for the preparation of financial statements of the Bank as well as for the preparation of the consolidated financial statements of the Bank and its subsidiaries (hereinafter – the Group). The financial statements are prepared in compliance with the requirements of the Republic of Latvia Law on Credit Institutions, Regulations of the Financial and Capital Market Commission, and other laws of the Republic of Latvia applicable to credit institutions.

The financial statements set out on pages 39 to 88 are prepared in accordance with the source documents and present fairly the financial position of the Bank and the Group as at 31 December 2007 and 2006, and the results of their operations, changes in shareholders' equity and cash flows for the years then ended.

The aforementioned financial statements are prepared on a going concern basis, consistently applying International Financial Reporting Standards as adopted in the European Union and accounting policies in conformity with such Standards. Prudent and reasonable judgements and estimates have been made by the Management in the preparation of the financial statements.

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

Chairman of the Council
Aleksandrs Bergmanis



Chairman of the Board
Ernests Bernis

Riga, 26 February 2008

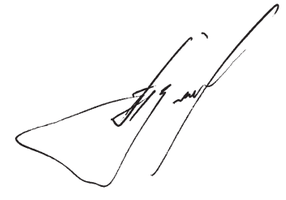


# Consolidated and Separate Income Statement

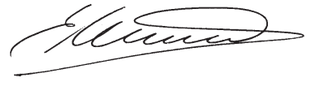
for the years ended 31 December 2007 and 2006

| | Notes | Group 2007 LVL '000 | Group 2006 LVL '000 | Bank 2007 LVL '000 | Bank 2006 LVL '000 |
|---|---|---|---|---|---|
| Interest revenue | 5 | 56 156 | 34 412 | 56 157 | 34 412 |
| Interest expense | 5 | (25 381) | (12 313) | (25 275) | (12 279) |
| **Net interest revenue** | | **30 775** | **22 099** | **30 882** | **22 133** |
| Commission and fee revenue | 6 | 12 007 | 8 689 | 10 782 | 8 655 |
| Commission and fee expense | 6 | (1 702) | (1 240) | (1 629) | (1 231) |
| **Net commission and fee revenue** | | **10 305** | **7 449** | **9 153** | **7 424** |
| Net (loss)/ profit from financial assets and liabilities at fair value through profit or loss | 7 | (2 473) | 424 | (2 473) | 424 |
| Net realised profit from available-for-sale financial assets | 7 | 1 152 | 1 736 | 1 152 | 1 736 |
| Profit from foreign exchange trading and revaluation | 7 | 18 568 | 12 354 | 18 584 | 12 348 |
| Other income | | 1 040 | 858 | 1 014 | 804 |
| Revenue from dividends | | 53 | 37 | 53 | 37 |
| Change in allowances for credit losses | 11 | (2 711) | 259 | (2 711) | 259 |
| Allowances for credit losses | 11 | (3 021) | (285) | (3 021) | (285) |
| Release of previously established allowances | 11 | 310 | 544 | 310 | 544 |
| **Operating income** | | **56 709** | **45 216** | **55 654** | **45 165** |
| Administrative expense | 9 | (21 598) | (16 245) | (20 553) | (15 824) |
| Depreciation | 20, 21 | (1 563) | (1 661) | (1 527) | (1 649) |
| Investment properties | 20 | (17) | (54) | (17) | (54) |
| Property, plant and equipment | 21 | (1 235) | (1 272) | (1 203) | (1 261) |
| Intangible assets | 21 | (311) | (335) | (307) | (334) |
| Other expense | 10 | (1 662) | (1 002) | (2 112) | (1 062) |
| **Total operating expense** | | **(24 823)** | **(18 908)** | **(24 192)** | **(18 535)** |
| (Loss)/ profit from derecognition of property, plant and equipment, investment properties and intangible assets | 8 | (173) | (15) | (173) | 2 220 |
| **Profit before corporate income tax** | | **31 713** | **26 293** | **31 289** | **28 850** |
| Corporate income tax | 12 | (4 206) | (3 434) | (4 103) | (3 768) |
| **Net profit for the period** | | **27 507** | **22 859** | **27 186** | **25 082** |
| **Basic earnings per share** | | **0.28** | **0.23** | **0.27** | **0.25** |
| **Attributable to:** | | | | | |
| Bank's shareholders | | 27 506 | 22 857 | | |
| **Minority interest:** | | **1** | **2** | | |
| SIA Elizabetes 21 | | (5) | – | | |
| AS AB Konsultācijas | | 6 | 2 | | |

Chairman of the Council
Aleksandrs Bergmanis



Chairman of the Board
Ernests Bernis



Riga, 26 February 2008

*The accompanying notes form an integral part of these consolidated financial statements.*

# Consolidated and Separate Balance Sheet and Memorandum Items

as at 31 December 2007 and 2006

| Assets | Notes | Group 31/12/2007 LVL '000 | Group 31/12/2006 LVL '000 | Bank 31/12/2007 LVL '000 | Bank 31/12/2006 LVL '000 |
|---|---|---|---|---|---|
| Cash and demand deposits with central banks | 13 | 63 684 | 56 674 | 63 684 | 56 674 |
| Balances due from credit institutions | 14 | 223 772 | 163 999 | 223 765 | 163 988 |
| Financial assets at fair value through profit or loss | | 4 952 | 3 684 | 4 952 | 3 684 |
| Debt securities and other fixed income securities | 16 | 3 830 | 2 493 | 3 830 | 2 493 |
| Derivatives | 18 | 1 122 | 1 191 | 1 122 | 1 191 |
| Available-for-sale financial assets | | 92 625 | 71 247 | 92 625 | 71 247 |
| Debt securities and other fixed income securities | 16 | 86 711 | 64 841 | 86 711 | 64 841 |
| Shares and other non-fixed income securities | 17 | 5 914 | 6 406 | 5 914 | 6 406 |
| Loans and advances to customers | 15 | 686 677 | 491 212 | 686 674 | 491 210 |
| Prepaid expense and accrued income | | 195 | 104 | 96 | 90 |
| Current corporate income tax receivables | 12 | 590 | 1 | 590 | – |
| Deferred income tax | 12 | 580 | – | 245 | – |
| Tangible fixed assets | 21 | 8 663 | 6 612 | 8 542 | 6 510 |
| Investment properties | 20 | 16 514 | 14 217 | 16 514 | 14 217 |
| Intangible fixed assets | 21 | 2 061 | 1 583 | 1 988 | 1 572 |
| Investments in subsidiaries | 19 | – | – | 2 432 | 2 462 |
| Other assets | | 2 507 | 1 859 | 757 | 247 |
| **Total assets** | | **1 102 820** | **811 192** | **1 102 864** | **811 901** |
| **Liabilities** | | | | | |
| Demand deposits from credit institutions | 22 | 5 598 | 8 780 | 5 598 | 8 780 |
| Financial liabilities at fair value through profit or loss | | 9 429 | 3 512 | 9 429 | 3 512 |
| Derivatives | 18 | 9 429 | 3 512 | 9 429 | 3 512 |
| Financial liabilities at amortised cost | | 997 874 | 728 187 | 996 442 | 726 409 |
| Deposits | 23 | 823 777 | 659 726 | 825 351 | 660 950 |
| Term deposits from credit institutions | 22 | 152 976 | 49 131 | 149 970 | 46 129 |
| Subordinated liabilities | 25 | 21 121 | 19 330 | 21 121 | 19 330 |
| Deferred income and accrued expense | | 4 379 | 3 075 | 4 312 | 3 053 |
| Current corporate income tax liabilities | 12 | 101 | 273 | – | 273 |
| Deferred income tax | 12 | 1 | 300 | – | 635 |
| Other liabilities | | 1 863 | 1 165 | 1 820 | 1 150 |
| **Total liabilities** | | **1 019 245** | **745 292** | **1 017 601** | **743 812** |
| **Shareholders' equity** | | | | | |
| Paid-in share capital | 26 | 15 000 | 15 000 | 15 000 | 15 000 |
| Share premium | | 255 | 255 | 255 | 255 |
| Reserve capital and other reserves | | 1 500 | 1 500 | 1 500 | 1 500 |
| Fair value revaluation reserve of available-for-sale financial assets | | (2 286) | 1 726 | (2 286) | 1 726 |
| Retained earnings brought forward | | 41 385 | 24 528 | 43 608 | 24 526 |
| Retained earnings for the period | | 27 506 | 22 857 | 27 186 | 25 082 |
| Attributable to the Bank's shareholders | | 83 360 | 65 866 | 85 263 | 68 089 |
| Minority interest | | 215 | 34 | – | – |
| **Total shareholders' equity** | | **83 575** | **65 900** | **85 263** | **68 089** |
| **Total liabilities and shareholders' equity** | | **1 102 820** | **811 192** | **1 102 864** | **811 901** |
| **Memorandum items** | | | | | |
| Funds under trust management | 24 | 49 992 | 5 250 | 4 189 | 3 995 |
| Contingent liabilities | 24 | 19 190 | 8 528 | 19 190 | 8 528 |
| Guarantees | | 18 262 | 6 699 | 18 262 | 6 699 |
| Other contingent liabilities | | 928 | 1 829 | 928 | 1 829 |
| Financial commitments | 24 | 69 428 | 58 065 | 69 428 | 58 065 |

Chairman of the Council Aleksandrs Bergmanis

Chairman of the Board Ernests Bernis

Riga, 26 February 2008





*The accompanying notes form an integral part of these consolidated financial statements.*

# Statements of Changes in Shareholders' Equity of the Bank

for the years ended 31 December 2007 and 2006

| | Paid-in share capital LVL '000 | Share premium LVL '000 | Reserve capital LVL '000 | Fair value revaluation reserve LVL '000 | Retained earnings LVL '000 | Total shareholders' equity LVL '000 |
|---|---|---|---|---|---|---|
| **As at 01/01/2006** | **15 000** | **255** | **1 500** | **1 582** | **27 526** | **45 863** |
| Change in fair value revaluation reserve of available-for-sale financial assets | – | – | – | 1 826 | – | 1 826 |
| Charge to income statement as a result of sale of securities | – | – | – | (1 657) | – | (1 657) |
| Change in deferred corporate income tax | – | – | – | (25) | – | (25) |
| *Total income and expense recognised directly in equity* | – | – | – | *144* | – | *144* |
| Net profit for the year 2006 | – | – | – | - | 25 082 | 25 082 |
| *Total income and expense for the year* | – | – | – | *144* | *25 082* | *25 226* |
| Dividends paid | – | – | – | - | (3 000) | (3 000) |
| **As at 31/12/2006** | **15 000** | **255** | **1 500** | **1 726** | **49 608** | **68 089** |
| Change in fair value revaluation reserve of available-for-sale financial assets | – | – | – | (3 909) | – | (3 909) |
| Charge to income statement as a result of sale of securities | – | – | – | (810) | – | (810) |
| Change in deferred corporate income tax | – | – | – | 707 | – | 707 |
| *Total income and expense recognised directly in equity* | – | – | – | *(4 012)* | – | *(4 012)* |
| Net profit for the year 2007 | – | – | – | - | 27 186 | 27 186 |
| *Total income and expense for the year* | – | – | – | *(4 012)* | *27 186* | *23 174* |
| Dividends paid | – | – | – | - | (6 000) | (6 000) |
| **As at 31/12/2007** | **15 000** | **255** | **1 500** | **(2 286)** | **70 794** | **85 263** |



*The accompanying notes form an integral part of these consolidated financial statements.*

# Statements of Changes in Shareholders' Equity of the Group

for the years ended 31 December 2007 and 2006

| | Paid-in share capital | Share premium | Reserve capital | Fair value revaluation reserve | Retained earnings | *Attributable to the Bank's shareholders* | *Minority interest* | Total shareholders' equity |
|---|---|---|---|---|---|---|---|---|
| | LVL '000 | LVL '000 | LVL '000 | LVL '000 | LVL '000 | *LVL '000* | *LVL '000* | LVL '000 |
| **As at 01/01/2006** | **15 000** | **255** | **1 500** | **1 582** | **27 528** | ***45 865*** | ***32*** | **45 897** |
| Change in fair value revaluation reserve of available-for-sale financial assets | – | – | – | 1 826 | – | *1 826* | – | 1 826 |
| Charge to income statement as a result of sale of securities | – | – | – | (1 657) | – | *(1 657)* | – | (1 657) |
| Change in deferred corporate income tax | – | – | – | (25) | – | *(25)* | – | (25) |
| *Total income and expense recognised directly in equity* | – | – | – | *144* | – | *144* | – | *144* |
| Net profit for the year 2006 | – | – | – | – | 22 857 | *22 857* | *2* | 22 859 |
| *Total income and expense for the year* | – | – | – | *144* | *22 857* | *23 001* | *2* | *23 003* |
| Dividends paid | **–** | **–** | **–** | – | (3 000) | *(3 000)* | – | (3 000) |
| **As at 31/12/2006** | **15 000** | **255** | **1 500** | **1 726** | **47 385** | ***65 866*** | ***34*** | **65 900** |
| Change in fair value revaluation reserve of available-for-sale financial assets | – | – | – | (3 909) | – | *(3 909)* | – | (3 909) |
| Charge to income statement as a result of sale of securities | – | – | – | (810) | – | *(810)* | – | (810) |
| Change in deferred corporate income tax | – | – | – | 707 | – | *707* | – | 707 |
| *Total income and expense recognised directly in equity* | – | – | – | *(4 012)* | – | *(4 012)* | – | *(4 012)* |
| *Minority interest** | – | – | – | – | – | - | *180* | 180 |
| Net profit for the year 2007 | – | – | – | – | 27 506 | *27 506* | *1* | 27 507 |
| *Total income and expense for the year* | – | – | – | *(4 012)* | *27 506* | *23 494* | *181* | *23 675* |
| Dividends paid | – | – | – | – | (6 000) | *(6 000)* | – | (6 000) |
| **As at 31/12/2007** | **15 000** | **255** | **1 500** | **(2 286)** | **68 891** | ***83 360*** | ***215*** | **83 575** |

** Disposal of shares in subsidiary SIA Elizabetes 21a.*



*The accompanying notes form an integral part of these consolidated financial statements.*

# Consolidated and Separate Cash Flow Statements

for the years ended 31 December 2007 and 2006

| **Cash inflow/ (outflow) from operating activities** | Group 2007 LVL '000 | Group 2006 LVL '000 | Bank 2007 LVL '000 | Bank 2006 LVL '000 |
|---|---|---|---|---|
| Profit before corporate income tax | 31 713 | 26 293 | 31 289 | 28 850 |
| Amortisation and depreciation of fixed assets | 1 563 | 1 661 | 1 527 | 1 649 |
| Increase/ (decrease) in allowances for credit losses | 2 711 | (453) | 2 711 | (456) |
| Unrealised loss from revaluation of foreign currency positions | 8 602 | 3 179 | 8 586 | 3 185 |
| **Increase in cash and cash equivalents before changes in assets and liabilities, as a result of operating activities** | **44 589** | **30 680** | **44 113** | **33 228** |
| (Increase) in loans and advances to customers | (198 176) | (214 053) | (198 175) | (214 051) |
| (Increase) in financial assets at fair value through profit or loss | (1 268) | (1 537) | (1 268) | (1 537) |
| (Increase)/ decrease in prepaid expense and accrued income | (91) | 157 | (6) | 168 |
| (Increase)/ decrease in other assets | (330) | 16 | (193) | 96 |
| (Increase)/ decrease in balances due from credit institutions | (20 469) | 210 | (20 469) | 210 |
| Increase in deposits from other customers | 164 051 | 179 477 | 164 401 | 180 675 |
| (Decrease)/ increase in balances due to credit institutions | (4 926) | 13 153 | (4 930) | 10 151 |
| Increase in financial liabilities at fair value through profit or loss | 5 917 | 2 770 | 5 917 | 2 770 |
| Increase in deferred income and accrued expense | 1 304 | 1 573 | 1 259 | 1 554 |
| Increase in other liabilities | 151 | 16 | 123 | 7 |
| **(Decrease)/ increase in cash and cash equivalents from operating activities before corporate income tax** | **(9 248)** | **12 462** | **(9 228)** | **13 271** |
| (Corporate income tax paid) | (4 911) | (4 295) | (4 910) | (4 293) |
| **(Decrease)/ increase in cash and cash equivalents from operating activities** | **(14 159)** | **8 167** | **(14 138)** | **8 978** |
| **Cash inflow/ (outflow) from investing activities** | | | | |
| (Increase)/ decrease in available-for-sale financial assets | (26 097) | 31 827 | (26 097) | 31 827 |
| (Purchase) of fixed assets and investment properties | (6 603) | (1 330) | (6 530) | (1 223) |
| Sale of fixed assets | 214 | 179 | 258 | 1 699 |
| (Purchase) of equity shares in other entities | – | – | (150) | (2 443) |
| Sale of equity shares in other entities | – | – | 180 | – |
| **(Decrease)/ increase in cash and cash equivalents from investing activities** | **(32 486)** | **30 676** | **(32 339)** | **29 860** |
| **Cash inflow/ (outflow) from financing activities** | | | | |
| Increase in subordinated liabilities | 1 791 | 11 599 | 1 791 | 11 599 |
| Dividends (paid) | (5 999) | (3 000) | (5 999) | (3 000) |
| Sale of shares in the Group's entity | 180 | – | – | – |
| Syndicated loan received | 148 439 | 35 478 | 148 439 | 35 478 |
| Syndicated loan (repaid) | (39 668) | – | (39 668) | – |
| **Increase in cash and cash equivalents from financing activities** | **104 743** | **44 077** | **104 563** | **44 077** |
| **Increase in cash and cash equivalents** | **58 098** | **82 920** | **58 086** | **82 915** |
| **Cash and cash equivalents at the beginning of the period** | **198 868** | **119 127** | **198 857** | **119 127** |
| (Loss) from revaluation of foreign currency positions | (8 602) | (3 179) | (8 586) | (3 185) |
| **Cash and cash equivalents at the end of the period*** | **248 364** | **198 868** | **248 357** | **198 857** |

** See the components of cash and cash equivalents in Note 29.*

| **Operational cash flows from interest** | Group 2007 LVL '000 | Group 2006 LVL '000 | Bank 2007 LVL '000 | Bank 2006 LVL '000 |
|---|---|---|---|---|
| Interest received | 48 571 | 29 576 | 48 571 | 29 576 |
| Interest paid | (20 507) | (10 110) | (20 370) | (10 069) |



*The accompanying notes form an integral part of these consolidated financial statements.*

# Notes to the Financial Statements

## 1. General Information

AS Aizkraukles Banka (hereinafter – the Bank) was registered in Aizkraukle, Republic of Latvia, on 17 September 1993 as a joint stock company under unified registration number 50003149401. At present, the legal address of the Bank is Elizabetes Street 23, Riga.

The Bank's main scope of activity is lending, fund transfers, foreign currency exchange and asset management.

The Bank operates in accordance with the legislation of the Republic of Latvia and the licence issued by the Bank of Latvia that allows the Bank to render all the financial services specified in the Law on Credit Institutions.

The Group and the Bank operate two lending centres, one lending office, and six customer service centres in Riga, Aizkraukle and Jūrmala; and four representation offices of the Bank in St. Petersburg, Minsk, Kyiv, and Almaty; as well as five representation offices of AS AB Konsultācijas in Moscow, St. Petersburg, Minsk, Baku, and Kyiv, as well as a branch in Odessa.

Information given herein in brackets represents comparative figures for the year ended 31 December 2006, unless otherwise stated.

The following abbreviations are used in these financial statements: International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), International Financial Reporting Interpretations Committee (IFRIC), Financial and Capital Market Commission (FCMC), European Monetary Union (EMU), European Union (EU), Organisation for Economic Cooperation and Development (OECD).

These consolidated and separate financial statements contain financial information about the Bank and its subsidiaries (jointly – the Group), as well as separately about the Bank. The Bank's separate financial statements are included in these financial statements to comply with legal requirements.

The Group comprises the following subsidiaries:

| Company | Country of incorporation | Registration number | Business profile | Bank's share (% of total share capital) |
|---|---|---|---|---|
| IPAS AB.LV Asset Management | LV | 40003814724 | Financial services | 100 |
| IBAS AB.LV Capital Markets | LV | 40003814705 | Financial services | 100 |
| SIA Elizabetes 21a | LV | 50003831571 | Real estate transactions | 85 |
| AS AB Konsultācijas | LV | 40003540368 | Consulting services | 30 |

## 2. Information on Principal Accounting Policies

A summary of the principal accounting policies, all of which have been applied consistently throughout the years ended 31 December 2007 and 2006, is set out below.

During 2007, the Bank has consistently applied accounting policies in the line with those disclosed in the prior-year financial statements.

### *Adoption of New or Revised Standards and Interpretations*

During the reporting year, the Group and the Bank introduced IFRS 7 *Financial Instruments*: *Disclosures* (effective for annual periods beginning on or after 1 January 2007). IFRS 7 introduces new disclosures to improve information about financial instruments. It requires the disclosure by the Group and the Bank of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk, including analysis of sensitivity to market risk. IFRS 7 supersedes the disclosure requirements of IAS 32 and those of IAS 30, providing all the disclosures related to financial instruments.

The following IFRS appendices and IFRIC as adopted in the EU are amended and enter into force starting from 1 January 2007:

– Amendments to IAS 1 – *Capital Disclosures*. This amendment requires the company to make new disclosures to enable users of the financial statements to evaluate the company's objectives, policies and processes of managing capital.

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

The Group and the Bank have applied the above-mentioned pronouncements in the reporting year.

The Standards and Interpretations which have a direct impact on the Group's and Bank's reporting periods beginning on or after 1 January 2008 and which have not been applied by the Group retrospectively:

IFRS 8 *Operating Segments* (effective once adopted by the EU, but not earlier than for annual periods beginning on or after 1 January 2009). The standard sets out requirements for disclosure of information about an entity's operating segments in break-down by components that management uses to make decisions about operating matters.

IAS 1 *Presentation of Financial Statements* (revised) – *Capital Disclosures* (effective once adopted by the EU, but not earlier than for annual periods beginning on or after 1 January 2009). This amendment requires the company to make disclosures of the objectives, policies and processes of managing capital.



IAS 23 *Borrowing Costs* (revised) (effective once adopted by the EU, but not earlier than for annual periods beginning on or after 1 January 2009). This Standard shall be applied in accounting for borrowing costs. This Standard prescribes requirements regarding accounting for borrowing costs.

IFRIC 12 *Service Concession Agreements* (effective once adopted by the EU, but not earlier than for annual periods beginning on or after 1 January 2008). The interpretation addresses how service concession operators should apply existing IFRS to account for the obligations they undertake and rights they receive in service concession arrangements.

IFRIC 13 *Customer Loyalty Programmes* (effective once adopted by the EU, but not earlier than for annual periods beginning on or after 1 July 2008). The Interpretation deals with the accounting for loyalty credits.

IFRIC 14 IAS 19 – *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* (effective once adopted by the EU, but not earlier than for annual periods beginning on or after 1 January 2008).

The Group and the Bank expect that the initial application of the pronouncements listed above will have no significant impact on the financial statements.

### *a) Basis of Accounting*

These financial statements are based on the accounting records prepared in accordance with the legislative requirements. These records are maintained under the historical cost convention, modified for revaluation as disclosed below, made in accordance with the IFRS requirements as adopted in the EU.

The financial statements are reported in thousands of lats (LVL'000), unless otherwise stated.

### *b) Basis of Preparation*

These financial statements are prepared in accordance with IFRS as adopted in the EU and the FCMC Regulations on the Preparation of Annual Reports and Consolidated Annual Reports of Banks, Investment Brokerage Companies, and Investment Management Companies.

### *c) Basis of Consolidation*

Subsidiaries are enterprises that are controlled by another enterprise (known as the parent). A parent company is an enterprise that has one or more subsidiaries. Control exists when the parent company has the power to govern, directly or indirectly, the financial and operating policies of an enterprise so as to obtain benefits from its activities.

Subsidiaries are consolidated from the date on which control is transferred to the Group until the date of disposal.

The Bank's subsidiaries comply with the Bank's policies and risk management methods.

The Bank and its subsidiaries' financial statements are consolidated in the Group's financial statements using the full consolida-tion method, by adding together like items of assets and liabilities at the period end, as well as income and expenses. For the purposes of consolidation, intragroup balances and intragroup transactions, including interest revenue and expense, and unrealised profit and loss resulting from intragroup transactions are eliminated, unless there exists any indication that these may have been impaired.

### *d) Recognition of Financial Assets and Liabilities*

The Group recognises financial assets and liabilities on its balance sheet when, and only when, the Group or the Bank becomes a party to the contractual provisions of the instrument.

### *e) Income and Expense Recognition*

All major income and expense items are recognised on an accrual basis.
Interest revenue/ expense is recognised in the income statement for financial assets/ liabilities measured at amortised cost using the effective interest method.

Commission and fee revenue and expense are included in the income statement over the period or at a specific time, except for commission and fee revenue and expense directly attributable to financial assets/ liabilities measured at amortised cost – for these assets/ liabilities the respective commission and fee revenue and expense form an integral part of the effective interest rate.

Commission and fee revenue received once in a year for the whole reporting period is recognised in the income statement systematically on a straight-line basis during the period.

### *f) Accrual for Employee Vacation Pay*

The accrual for employee vacation pay is estimated for the Bank's personnel based on the total number of vacations earned but not taken, multiplied by the average daily remuneration expense pursuant to the Latvian Labour Law, and adding the related statutory social insurance contributions payable by the employer.

### *g) Foreign Currency Translation*

Transactions denominated in foreign currencies are recorded in lats at the exchange rates 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 exchange rates set by

the Bank of Latvia at the end of the year. Any gain or loss resulting from a change in exchange rates subsequent to the transaction date is included in the income statement as profit or loss from revaluation of foreign currency positions.

The principal rates of exchange (LVL for one foreign currency unit) fixed by the Bank of Latvia and used in the preparation of the Bank's and the Group's balance sheet were as follows:

| Reporting date | USD | EUR | RUB |
|---|---|---|---|
| 31 December 2007 | 0.484 | 0.7028 | 0.0197 |
| 31 December 2006 | 0.536 | 0.7028 | 0.0203 |

## h) Corporate Income Tax

Corporate income tax is calculated in accordance with Latvian tax regulations at the rate of 15% (15%) and is based on the taxable income reported for the taxation period.

Deferred taxation arising from temporary differences in the timing of the recognition of items in the tax returns and these financial statements is calculated using the liability method. Deferred taxation relates to the future tax consequences of all events that have been recognised in the Bank's financial statements or tax returns. The deferred taxation liability is determined based on the tax rates that are expected to apply when the temporary differences reverse. The principal temporary differences arise from differing rates and methods of accounting and tax depreciation on fixed assets, collective (portfolio) allowance for credit losses, accrual for employee vacation pay, and revaluation of balance sheet items, including securities revaluation and fair value revaluation reserve.

## i) Loans and Advances to Customers

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method less the allowance for credit losses (impairment) as presented in Note 11. Gain or loss is recognised in the income statement upon derecognition or impairment of these assets, as well as through amortisation.

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

Loans and advances to customers are included in the balance sheet as they are transferred to the customer's current account.

## j) Leases – Where the Bank is Lessor

Finance lease receivables are recognised as assets in an amount equal to the net investment in the lease. The finance income is allocated to periods during the lease term to produce a constant periodic return on the net investments outstanding in respect of the finance leases.

For operating leases, rental income is charged to the income statement on a straight-line basis over the lease term.

## k) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, allowances are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

### Allowances for financial assets

Non-performing loans and advances to customers including banking institutions are defined as loans and other credit balances in which contractually due principal is 30 days or more overdue, contractually due interest is 90 days or more overdue, or the Management otherwise believe that the contractual interest or principal due will not be collected.

The Bank issues mortgage, commercial, and consumer loans to customers throughout its market area. The Management of the Bank have considered both specific and collective (portfolio) risks in determining the allowance for credit losses (impairment). The specific allowance is determined after individually reviewing all credits for potentially uncollectable amounts and is based on the customer's financial position, value of collateral, fulfilment of loan agreement, and compliance with the credit exposure limits determined by the FCMC. The collective (portfolio) allowance relates to existing credit losses, as well as to losses 'incurred, but not yet known to the Bank'. This method permits to attribute each group of loans to historical loss experience for groups of assets with similar credit characteristics and observable market data reflecting current circumstances.

When a loan or advance has been classified as non-performing, an allowance for credit losses is established for that specific loan or advance for the amount of the outstanding balance, which is deemed impaired. The level of the allowance is based on the present value of expected future cash flows considering relevant factors including, but not limited to, the Group and Bank's past loan loss experience, known and inherent risks in the portfolio of loans and advances, adverse situations that may affect the borrowers' ability to repay, the collateral value and current economic conditions as well as other relevant factors affecting loan and advance collectability and collateral values. Ultimate losses may vary from current estimates.

The value of the collateral held in connection with loans and advances is based on the estimated realisable value of the asset and is taken into account when determining expected cash flows and accordingly the allowance.



The above estimates are reviewed periodically, and, as adjustments become necessary, they are reported in the income statement in the reporting period in which they become known. The Management of the Bank have made their best estimates of losses and believe the estimates presented in the financial statements to be reasonable in light of the available information.

When loans and advances cannot be recovered, they are written off and charged against allowances for credit losses. They are not written off until all the necessary legal procedures have been completed and the ultimate amount of the loss is determined.

## l) Debt Securities and Other Fixed Income Securities

Fixed income securities are divided into two principal portfolios:
– financial assets at fair value through profit or loss (trading portfolio);
– available-for-sale portfolio:
- liquidity portfolio,
- investments held for undefined period portfolio.

Appropriate division of fixed income securities into portfolios is determined by the Group and the Bank at the moment of their acquisition. All sales and purchases of fixed income securities are charged to the balance sheet on the date of settlement.

### Trading Portfolio

Fixed income securities of the trading portfolio are held by the Group and the Bank for the purpose of selling and/or acquired for generating profit in the near term from the expected spread between purchasing and selling prices. The financial assets and liabilities to be included in the trading portfolio are defined by the Bank's trading portfolio policy.

Securities held for trading purposes are initially stated at fair value and further marked-to-market on the basis of quoted market prices. Any gain or loss resulting from marking-to-market the trading portfolio, as well as any gain or loss resulting from disposal of the above securities is included in the income statement under "Net profit from financial assets at fair value through profit or loss".

### Available-for-Sale Portfolio

The Group and the Bank acquire fixed income securities for the available-for-sale portfolio to hold them for an undefined period and generate interest income and/or profit from the increase in prices of securities.

After initial recognition at fair value, available-for-sale securities are restated also at fair value. The revaluation result is charged to the shareholders' equity as fair value revaluation reserve. For available-for-sale securities acquired at a discount (premium), the respective discount (premium) amount is amortised on a systematic basis, using the effective interest method. Amortised amounts are charged to the income statement as interest revenue from debt securities.

When securities are sold, the respective accrued fair value revaluation reserve is charged to the income statement as net realised profit/ (loss) from available-for-sale financial assets.

### Liquidity Portfolio

The liquidity portfolio is aimed at forming the Bank's liquidity reserve with a minimum interest rate risk and credit risk. The liquidity portfolio is comprised of high rating debt securities with high liquidity in the market, and a variable interest rate or an interest rate fixed for no more than one year.

### Investments Held for Undefined Period Portfolio

The objective of the portfolio is to gain maximum profit from long-term investments in financial assets. The portfolio is comprised of debt securities with high credit risk profile and/ or fixed interest rate that is fixed for a period exceeding one year, in compliance with the restrictions and limitations set by the Bank and exercising proper management of investment-related risks.

## m) Shares and Other Non-Fixed Income Securities

The Bank acquires shares and other non-fixed income securities, including investments in funds, for the available-for-sale portfolio to hold them for an undefined period and generate profit from an increase in prices. After initial recognition at fair value, available-for-sale securities are also restated at fair value. Financial assets having no quoted price available and no fair value that can be defined with reasonable certainty using other models are stated at cost.

Any gain or loss resulting from restating quoted shares at fair value, as well as any gain or loss resulting from disposal of the above shares is included in the income statement under "Net realised profit/ (loss) from available-for-sale financial assets".

## n) Investments in Subsidiaries

As at 31 December 2007, the Bank had investments in subsidiaries (see Note 19).

A subsidiary is an enterprise controlled by the Bank, usually where the Bank holds, directly or indirectly, more than 50% of the total voting share capital.

Investments in subsidiaries are presented in the Bank's separate financial statements in accordance with the cost method.

In the consolidated financial statements, the acquisition price of a subsidiary is attributed to the fair value of the subsidiary's assets, liabilities, and contingent liabilities upon acquisition. An acquisition price which exceeds the fair value of the subsidiary's assets and liabilities is recorded as goodwill.

## o) Intangible Fixed Assets

Intangible fixed assets comprise the purchased software that does not constitute an integral part of hardware and licences. Amortisation is provided using the straight-line method over the period of acquired rights or over the estimated useful life of the asset. The Group and the Bank have applied the rate of 20% to amortise their intangible assets.

## p) Tangible Fixed Assets

Tangible fixed assets are recorded at cost less accumulated depreciation. Depreciation is provided using the straight-line method over the estimated useful life of the asset. Fixed assets, including leasehold improvements under construction and preparation, are not depreciated. Land is not subject to depreciation.

The Group and the Bank have applied the following depreciation rates:

| Category | Annual rate |
|---|---|
| Buildings and property improvements | 5.5% |
| Transport vehicles | 20% |
| EDP equipment and software | 16–33% |
| Office equipment | 10–33% |

Costs of maintenance and repair are charged to the income statement as incurred.

Leasehold improvements are capitalised and amortised over the remaining period of lease contracts on a straight-line basis.

## q) Investment Properties

Investment properties comprise land and buildings that are not used by the Group and the Bank, and that are held with the main purpose of earning rentals, as well as gaining on value appreciation. Such investments are classified as investment property and are accounted for using the cost model of accounting for investment properties. Investment properties are carried in the balance sheet at their cost value less accumulated depreciation. The annual depreciation rate applied to investment properties is 5%.

## r) Impairment

The Bank assesses at each reporting date or more frequently, if events or changes in circumstances indicate that there is an indication that a non-financial asset may be impaired. If any such indication exists, the Bank makes an estimate of the asset's recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount, the asset is written down to its recoverable amount. This written down amount constitutes an impairment loss.

For non-financial assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If any such indication exists, the recoverable amount is estimated.

A previously recognised impairment loss is reversed only if there has been a change in the estimate used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. This increased amount constitutes reversal of impairment losses.

## s) Derivatives and Other Off-balance Sheet Instruments

### Derivatives

In the ordinary course of business, the Group and the Bank are parties to currency swaps, futures, and forward foreign exchange rate contracts.

Derivative financial instruments are carried at their mark-to-market value and presented in a separate balance sheet caption "Derivatives" under assets and liabilities, respectively. The mark-to-market value is defined based on the quoted market prices and discounted cash flow models. Any gain or loss resulting from revaluation of derivatives is recognised in the income statement as "Net profit from financial assets at fair value through profit or loss".

### Off–balance–sheet Instruments

In the ordinary course of business, the Group and the Bank are involved in off–balance sheet financial instruments comprising loan commitments, financial guarantees and commercial letters of credit. Such financial instruments do not involve outflow of the Bank's economic benefits, thus they are not recorded as the Bank liabilities. These financial instruments are presented in the off–balance sheet financial statements upon the conclusion of the respective agreements. The methodology for provisioning against off–balance sheet instruments is consistent with that adopted for establishing allowances on loans and advances to customers as described in Paragraph k) above.

## t) Funds under Trust Management

Funds under trust management are funds managed by the Group and the Bank on behalf of their customers. These funds are not regarded as assets of the Group and the Bank and, therefore, they are not included in the balance sheet.

## u) Fair Value of Financial Assets and Liabilities

The fair value represents the amount at which an asset could be exchanged or a liability settled between a knowledgeable, willing buyer and a knowledgeable, willing seller on an arm's length basis. The comparison of carrying amounts and fair values of the Group and Bank's financial assets and liabilities is presented in Note 31.

## v) Cash and Cash Equivalents

Cash and cash equivalents comprise cash on hand, demand deposits, and balances due from central banks and other credit institutions with an original maturity of three months or less. The cash balance is reduced by the amount of demand deposits from the above institutions. Cash and cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to an insignificant risk of change in value (see Note 29).

## w) Use of Estimates

The preparation of financial statements in accordance with IFRS as adopted in the EU requires the management to make estimates and assumptions that affect the reported amounts of assets, liabilities, income and expense, and disclosure of contingencies. Future events will occur which cause the assumptions used in arriving at the estimates to change. Such assumptions are based on the most reliable information available to the management with respect to specific events and actions. The effect of any changes in estimates will be recorded in the financial statements when determinable. The significant areas of estimation relate to depreciation rates of tangible fixed assets, intangible fixed assets, and investment properties, determining the allowance for credit losses, the fair value of financial assets and liabilities, as well as the value of investment properties.

# 3. Risk Management

Risk management is one of the Group and Bank's strategic values. During the course of their operations, the Group and the Bank are exposed to various financial risks, the most significant of them being credit risk, liquidity risk, and market risks arising from changes in interest rates, foreign exchange rates and other factors. The risk management policies are approved by the Board of the Bank and implemented by the structural units operating in the respective areas. The Risk Management Division and the Loan Administration Division monitor the implementation of the Group and Bank's risk management policies.

Risk management involves identification, assessment and control of the potential risks. The Risk Management Division is an independent entity, and its functions are strictly segregated from the functions of business structural units.

The risk management system has been constantly improved following the Group and Bank's operational and financial market development; the improvement process is controlled by the Internal Audit Department on a regular basis.

## a) Credit Risk

Credit risk is exposure to potential losses in case the Group or Bank's counterparty or debtor will be unable to pay the contractual obligations to the Group or the Bank.

Before entering into any cooperation with the customers, the Group and the Bank perform a comprehensive review of the customer's solvency and collateral. To assess solvency of private individuals, the Bank has developed an internal rating system, whereby customers are divided in categories on the basis of their income level and quality of their credit history.

The Group and the Bank assess creditworthiness of corporate customers by conducting financial due diligence for each new customer; subsequently, the borrower's financial position is reviewed on an annual basis. Corporate customers are granted risk/ monitoring factors, and any instances of non-compliance with these factors indicate that the credit risk might have increased before the financial position of such customer is reviewed. Currently, the Bank is also working on introduction of an internal rating system for corporate customers.

Collateral is appraised by an independent appraiser accepted by the Group and the Bank. The Bank may adjust (reduce) the value defined by the independent appraiser if, in the Bank's opinion, the appraiser has not considered certain risk factors. Collateral with a reduced value can also be accepted. As collateral the Bank may accept real estate, new and used vehicles, commercial vehicles, goods held at customs or customer's warehouse, securities, technological equipment and machinery, receivables as an aggregation of property, factoring receivables, etc. As collateral the Bank type and liquidity, the Group and the Bank apply the maximum acceptable proportion of the loan to be issued.

In the event that the Group and the Bank consider that the risk related to the loan issued to a corporate customer might have increased (payments are past due and/or the Group and the Bank obtain other information about the customer's creditworthiness), the Group and the Bank review the customer's financial position and assess the risk of potential loss. The Bank analyses the quality of the respective loan portfolio. The age of past due loans is used as one of the quality criteria.

The table below provides the aging analysis of past due loans and advances to customers of the Group as at 31 December 2007:

| | Loans total | including past due payments | | | | |
|---|---|---|---|---|---|---|
| | | less than 30 days | 31–59 days | 60–89 days | more than 90 days | Total past due loans |
| **Impaired loans** | LVL '000 | LVL '000 | LVL '000 | LVL '000 | LVL '000 | LVL '000 |
| Commercial loans | 225 932 | 20 | 1 339 | 16 | 123 | 1 498 |
| Mortgage loans | 17 067 | – | 99 | 46 | 2 402 | 2 547 |
| Consumer loans | 304 | – | 2 | 11 | 69 | 82 |
| **Impaired loans, total** | **243 303** | **20** | **1 440** | **73** | **2 594** | **4 127** |
| Less allowance for credit losses | (3 572) | | | | | |
| **Impaired loans, net** | **239 731** | | | | | |
| | | | | | | |
| **Non-impaired loans** | | | | | | |
| Mortgage loans | 431 247 | 219 | 53 | – | – | 272 |
| Consumer loans | 1 708 | 3 | – | 1 | 1 | 5 |
| Commercial loans | 13 375 | – | – | – | – | – |
| Other loans | 616 | – | – | – | – | – |
| **Non-impaired loans, total** | **446 946** | **222** | **53** | **1** | **1** | **277** |
| **Net loans, total** | **686 677** | | | | | |

The table below provides the aging analysis of past due loans and advances to customers of the Group as at 31 December 2006:

| | Loans total | including past due payments | | | | |
|---|---|---|---|---|---|---|
| | | less than 30 days | 31–59 days | 60–89 days | more than 90 days | Total past due loans |
| **Impaired loans** | LVL '000 | LVL '000 | LVL '000 | LVL '000 | LVL '000 | LVL '000 |
| Commercial loans | 201 554 | 56 | 70 | – | 290 | 416 |
| Mortgage loans | 4 003 | 2 | 3 | 31 | 265 | 301 |
| Consumer loans | 135 | – | – | – | 27 | 27 |
| **Impaired loans, total** | **205 692** | **58** | **73** | **31** | **582** | **744** |
| Less allowance for credit losses | (849) | | | | | |
| **Impaired loans, net** | **204 843** | | | | | |
| | | | | | | |
| **Non-impaired loans** | | | | | | |
| Mortgage loans | 284 316 | 14 | 2 | – | – | 16 |
| Consumer loans | 1 896 | 1 | – | 3 | 1 | 5 |
| Other loans | 157 | – | – | – | – | – |
| **Non-impaired loans, total** | **286 369** | **15** | **2** | **3** | **1** | **21** |
| **Net loans, total** | **491 212** | | | | | |

The table below provides the aging analysis of past due loans and advances to customers of the Bank as at 31 December 2007:

| | Loans total | including past due payments | | | | |
|---|---|---|---|---|---|---|
| | | less than 30 days | 31–59 days | 60–89 days | more than 90 days | Total past due loans |
| **Impaired loans** | LVL '000 | LVL '000 | LVL '000 | LVL '000 | LVL '000 | LVL '000 |
| Commercial loans | 225 932 | 20 | 1 339 | 16 | 123 | 1 498 |
| Mortgage loans | 17 067 | – | 99 | 46 | 2 402 | 2 547 |
| Consumer loans | 304 | – | 2 | 11 | 69 | 82 |
| **Impaired loans, total** | **243 303** | **20** | **1 440** | **73** | **2 594** | **4 127** |
| Less allowance for credit losses | (3 572) | | | | | |
| **Impaired loans, net** | **239 731** | | | | | |
| | | | | | | |
| **Non-impaired loans** | | | | | | |
| Mortgage loans | 431 247 | 219 | 53 | – | – | 272 |
| Consumer loans | 1 708 | 3 | – | 1 | 1 | 5 |
| Commercial loans | 13 375 | – | – | – | – | – |
| Other loans | 613 | – | – | – | – | – |
| **Non-impaired loans, total** | **446 943** | **222** | **53** | **1** | **1** | **277** |
| **Net loans, total** | **686 674** | | | | | |



*The accompanying notes form an integral part of these consolidated financial statements.*

The table below provides the aging analysis of past due loans and advances to customers of the Bank as at 31 December 2006:

| | Loans total | including past due payments | | | | |
|---|---|---|---|---|---|---|
| | | less than 30 days | 31–59 days | 60–89 days | more than 90 days | Total past due loans |
| **Impaired loans** | LVL '000 | LVL '000 | LVL '000 | LVL '000 | LVL '000 | LVL '000 |
| Commercial loans | 201 554 | 56 | 70 | – | 290 | 416 |
| Mortgage loans | 4 003 | 2 | 3 | 31 | 265 | 301 |
| Consumer loans | 135 | – | – | – | 27 | 27 |
| **Impaired loans, total** | **205 692** | **58** | **73** | **31** | **582** | **744** |
| Less allowance for credit losses | (849) | | | | | |
| **Impaired loans, net** | **204 843** | | | | | |
| | | | | | | |
| **Non-impaired loans** | | | | | | |
| Mortgage loans | 284 316 | 14 | 2 | – | – | 16 |
| Consumer loans | 1 896 | 1 | – | 3 | 1 | 5 |
| Other loans | 155 | – | – | – | – | – |
| **Non-impaired loans, total** | **286 367** | **15** | **2** | **3** | **1** | **21** |
| **Net loans, total** | **491 210** | | | | | |

As at 31 December 2007, the gross amount of loans having the maturity date for principal or interest changed was LVL 51,275 (50,340) thousand. These changes were made on the basis of agreements between the Group or the Bank and customers amending respective loan conditions, as otherwise the loans might be past due.

For effective credit risk management, the Assets Evaluation Committee performs a regular analysis of assets and memorandum items, i.e., their recoverability. Depending on the results of such analysis, the amount of collective (portfolio) and specific allowance is determined.

The tables below demonstrate the Group and Bank's financial assets in breakdown by risk ratings. Higher-rating financial assets are standard assets, while lower-rating financial assets are those assets which have doubtful credit quality and require close monitoring by the Group and the Bank.

Financial assets of the Group by risk rating:

| | 31/12/2007 | | | | | 31/12/2006 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Higher rating | Lower rating | Gross financial assets | Allowance for credit losses | Net financial assets | Higher rating | Lower rating | Gross financial assets | Allowance for credit losses | Net financial assets |
| **Financial assets** | LVL '000 | LVL '000 | LVL '000 | LVL '000 | LVL '000 | LVL '000 | LVL '000 | LVL '000 | LVL '000 | LVL '000 |
| Cash and demand deposits with central banks | 63 684 | – | **63 684** | – | **63 684** | 56 674 | – | **56 674** | – | **56 674** |
| Balances due from credit institutions | 223 772 | – | **223 772** | – | **223 772** | 163 999 | – | **163 999** | – | **163 999** |
| Financial assets at fair value through profit or loss | 4 952 | – | **4 952** | – | **4 952** | 3 684 | – | **3 684** | – | **3 684** |
| Available-for-sale financial assets | 92 625 | – | **92 625** | – | **92 625** | 71 247 | – | **71 247** | – | **71 247** |
| Loans and advances to customers | 681 798 | 8 451 | **690 249** | (3 572) | **686 677** | 490 737 | 1 324 | **492 061** | (849) | **491 212** |
| *Mortgage loans* | *446 075* | *2 239* | ***448 314*** | *(1 226)* | ***447 088*** | *287 900* | *419* | ***288 319*** | *(244)* | ***288 075*** |
| *Commercial loans* | *233 336* | *5 971* | ***239 307*** | *(2 277)* | ***237 030*** | *200 680* | *874* | ***201 554*** | *(575)* | ***200 979*** |
| *Consumer loans* | *1 771* | *241* | ***2 012*** | *(69)* | ***1 943*** | *2 000* | *31* | ***2 031*** | *(30)* | ***2 001*** |
| *Other loans* | *616* | – | ***616*** | – | ***616*** | *157* | – | ***157*** | – | ***157*** |
| **Total financial assets** | **1 066 831** | **8 451** | **1 075 282** | **(3 572)** | **1 071 710** | **786 341** | **1 324** | **787 665** | **(849)** | **786 816** |



*The accompanying notes form an integral part of these consolidated financial statements.*

Financial assets of the Bank by risk rating:

| | 31/12/2007 | | | | | 31/12/2006 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Higher rating | Lower rating | **Gross financial assets** | Allowance for credit losses | **Net financial assets** | Higher rating | Lower rating | **Gross financial assets** | Allowance for credit losses | **Net financial assets** |
| **Financial assets** | LVL '000 | LVL '000 | LVL '000 | LVL '000 | LVL '000 | LVL '000 | LVL '000 | LVL '000 | LVL '000 | LVL '000 |
| Cash and demand deposits with central banks | 63 684 | – | **63 684** | – | **63 684** | 56 674 | – | **56 674** | – | **56 674** |
| Balances due from credit institutions | 223 765 | – | **223 765** | – | **223 765** | 163 988 | – | **163 988** | – | **163 988** |
| Financial assets at fair value through profit or loss | 4 952 | – | **4 952** | – | **4 952** | 3 684 | – | **3 684** | – | **3 684** |
| Available-for-sale financial assets | 92 625 | – | **92 625** | – | **92 625** | 71 247 | – | **71 247** | – | **71 247** |
| Loans and advances to customers | 681 795 | 8 451 | **690 246** | (3 572) | **686 674** | 490 735 | 1 324 | **492 059** | (849) | **491 210** |
| *Mortgage loans* | *446 075* | *2 239* | ***448 314*** | *(1 226)* | ***447 088*** | *287 900* | *419* | ***288 319*** | *(244)* | ***288 075*** |
| *Commercial loans* | *233 336* | *5 971* | ***239 307*** | *(2 277)* | ***237 030*** | *200 680* | *874* | ***201 554*** | *(575)* | ***200 979*** |
| *Consumer loans* | *1 771* | *241* | ***2 012*** | *(69)* | ***1 943*** | *2 000* | *31* | ***2 031*** | *(30)* | ***2 001*** |
| *Other loans* | *613* | – | ***613*** | – | ***613*** | *155* | – | ***155*** | – | ***155*** |
| **Total financial assets** | **1 066 821** | **8 451** | **1 075 272** | **(3 572)** | **1 071 700** | **786 328** | **1 324** | **787 652** | **(849)** | **786 803** |

As at 31 December 2007 and 2006, the Group and Bank's financial assets, except for loans and advances to customers, were not past due. The amount of past due payments is disclosed in the tables showing past due loans and advances to customers.
The Group and the Bank believe that their exposure to credit risk arises mainly from loans and advances to customers, investments in fixed income securities, and balances due from credit institutions.

The maximum exposure to credit risk is assessed without taking into account collateral and other credit enhancements.
The maximum exposure of the Group and Bank's assets and memorandum items is shown in the credit risk concentration analysis.
The minimum exposure to credit risk is assessed considering collateral and other risk mitigation techniques.

For the purpose of evaluation and calculation of the internal capital, the Management of the Group and the Bank have resolved to apply an increased risk ratio of 150% to the loans which the Group and the Bank believe to have a higher potential exposure. The Group and the Bank have selected to apply such an increased risk disclosure approach, because although the said loans have not shown any non-performance characteristics, there are still concerns regarding their potentially high exposure.

## *Credit Risk Concentration*

The Group and the Bank place limits on the amount of risk for individual borrowers, and for geographical and industry concentrations. The exposure to any single borrower, including banks and brokers, is further restricted by sub-limits. The credit risk concentration is analysed also by estimating the credit exposure ratio to equity. According to the Law on Credit Institutions, the Group and the Bank treat as high a credit exposure exceeding 10% of equity. Pursuant to statutory requirements, the total credit exposure cannot be more than eight times as large as equity. As at 31 December 2007 and 2006, the total credit exposure did not exceed the Group and the Bank's equity. Ten major exposures as at 31 December 2007 amounted to 9.9% (11.6%) of the total Group and Bank's gross loan portfolio. The credit risk concentration and maximum exposure by industry sectors are presented in Note 15.

In the event that any loan category is affected by economic factors deteriorating the condition of all loans belonging to this category, it is decided to place certain limits on lending in the specific industry, and potential credit losses are identified. The most significant part of the Bank's loan portfolio affected by economic processes in the country is the real estate development project portfolio. The Group and the Bank have reviewed this part of the loan portfolio.


*The accompanying notes form an integral part of these consolidated financial statements.*

The following table provides the analysis of maximum geographical concentration of the Group's assets and memorandum items as at 31 December 2007:

| **Assets** | Latvia LVL '000 | EMU countries LVL '000 | Other EU Member States LVL '000 | Other OECD countries LVL '000 | Other countries LVL '000 | Total LVL '000 |
|---|---|---|---|---|---|---|
| Cash and demand deposits with central banks | 62 222 | 870 | 127 | 465 | – | 63 684 |
| Balances due from credit institutions | 9 961 | 49 528 | 27 729 | 104 349 | 32 205 | 223 772 |
| Financial assets at fair value through profit or loss | 179 | 458 | 76 | 399 | 3 840 | 4 952 |
| Available-for-sale financial assets | 6 473 | 4 869 | 5 375 | 6 840 | 69 068 | 92 625 |
| Loans and advances to customers | 606 434 | 1 674 | 10 113 | 9 288 | 59 168 | 686 677 |
| **Total financial assets** | **685 269** | **57 399** | **43 420** | **121 341** | **164 281** | **1 071 710** |
| Non-financial assets | 31 090 | – | – | 8 | 12 | 31 110 |
| **Total assets** | **716 359** | **57 399** | **43 420** | **121 349** | **164 293** | **1 102 820** |
| Memorandum items | 72 134 | 21 | 1 118 | 342 | 15 003 | 88 618 |
| **Total geographical concentration of assets and memorandum items** | **788 493** | **57 420** | **44 538** | **121 691** | **179 296** | **1 191 438** |

The following table provides the analysis of maximum geographical concentration of the Group's assets and memorandum items as at 31 December 2006:

| **Assets** | Latvia LVL '000 | EMU countries LVL '000 | Other EU Member States LVL '000 | Other OECD countries LVL '000 | Other countries LVL '000 | Total LVL '000 |
|---|---|---|---|---|---|---|
| Cash and demand deposits with central banks | 55 285 | 808 | 121 | 460 | – | 56 674 |
| Balances due from credit institutions | 5 733 | 80 733 | 42 204 | 15 202 | 20 127 | 163 999 |
| Financial assets at fair value through profit or loss | 1 649 | 76 | – | 188 | 1 771 | 3 684 |
| Available-for-sale financial assets | 11 049 | 2 197 | 1 537 | 1 351 | 55 113 | 71 247 |
| Loans and advances to customers | 451 452 | 4 | 473 | 652 | 38 631 | 491 212 |
| **Total financial assets** | **525 168** | **83 818** | **44 335** | **17 853** | **115 642** | **786 816** |
| Non-financial assets | 24 373 | – | – | – | 3 | 24 376 |
| **Total assets** | **549 541** | **83 818** | **44 335** | **17 853** | **115 645** | **811 192** |
| Memorandum items | 54 077 | 18 | 490 | 881 | 11 127 | 66 593 |
| **Total geographical concentration of assets and memorandum items** | **603 618** | **83 836** | **44 825** | **18 734** | **126 772** | **877 785** |

The following table provides the analysis of maximum geographical concentration of the Bank's assets and memorandum items as at 31 December 2007:

| **Assets** | Latvia LVL '000 | EMU countries LVL '000 | Other EU Member States LVL '000 | Other OECD countries LVL '000 | Other countries LVL '000 | Total LVL '000 |
|---|---|---|---|---|---|---|
| Cash and demand deposits with central banks | 62 222 | 870 | 127 | 465 | – | 63 684 |
| Balances due from credit institutions | 9 954 | 49 528 | 27 729 | 104 349 | 32 205 | 223 765 |
| Financial assets at fair value through profit or loss | 179 | 458 | 76 | 399 | 3 840 | 4 952 |
| Available-for-sale financial assets | 6 473 | 4 869 | 5 375 | 6 840 | 69 068 | 92 625 |
| Loans and advances to customers | 606 431 | 1 674 | 10 113 | 9 288 | 59 168 | 686 674 |
| **Total financial assets** | **685 259** | **57 399** | **43 420** | **121 341** | **164 281** | **1 071 700** |
| Non-financial assets | 31 144 | – | – | 8 | 12 | 31 164 |
| **Total assets** | **716 403** | **57 399** | **43 420** | **121 349** | **164 293** | **1 102 864** |
| Memorandum items | 72 134 | 21 | 1 118 | 342 | 15 003 | 88 618 |
| **Total geographical concentration of assets and memorandum items** | **788 537** | **57 420** | **44 538** | **121 691** | **179 296** | **1 191 482** |


*The accompanying notes form an integral part of these consolidated financial statements.*

The following table provides the analysis of maximum geographical concentration of the Bank's assets and memorandum items as at 31 December 2006:

| Assets | Latvia LVL '000 | EMU countries LVL '000 | Other EU Member States LVL '000 | Other OECD countries LVL '000 | Other countries LVL '000 | Total LVL '000 |
|---|---|---|---|---|---|---|
| Cash and demand deposits with central banks | 55 285 | 808 | 121 | 460 | – | 56 674 |
| Balances due from credit institutions | 5 722 | 80 733 | 42 204 | 15 202 | 20 127 | 163 988 |
| Financial assets at fair value through profit or loss | 1 649 | 76 | – | 188 | 1 771 | 3 684 |
| Available-for-sale financial assets | 11 049 | 2 197 | 1 537 | 1 351 | 55 113 | 71 247 |
| Loans and advances to customers | 451 450 | 4 | 473 | 652 | 38 631 | 491 210 |
| **Total financial assets** | **525 155** | **83 818** | **44 335** | **17 853** | **115 642** | **786 803** |
| Non-financial assets | 25 095 | – | – | – | 3 | 25 098 |
| **Total assets** | **550 250** | **83 818** | **44 335** | **17 853** | **115 645** | **811 901** |
| Memorandum items | 54 077 | 18 | 490 | 881 | 11 127 | 66 593 |
| **Total geographical concentration of assets and memorandum items** | **604 327** | **83 836** | **44 825** | **18 734** | **126 772** | **878 494** |

The issuers incorporated in a country only for the purpose of attraction of funds are disclosed as attributable to the country or region where the guarantors of the issue are located.

The credit risk inherent in the Group and Bank's securities portfolios is reflected by the credit rating granted to the respective securities and issuers.

The table below shows the Group and Bank's securities portfolios by credit rating class as at 31 December 2007 and 2006:

| | Group/ Bank 31/12/2007 | | | Group/ Bank 31/12/2006 | | |
|---|---|---|---|---|---|---|
| Credit ratings | Trading portfolio LVL '000 | Liquidity portfolio LVL '000 | Investments' held for undefined period portfolio LVL '000 | Trading portfolio LVL '000 | Liquidity portfolio LVL '000 | Investments' held for undefined period portfolio LVL '000 |
| AAA to AA– | – | 10 643 | – | – | – | 1 928 |
| A+ to A– | – | 6 680 | – | – | 7 346 | 5 967 |
| BBB+ to BBB– | – | 1 385 | 6 383 | 199 | – | 1 393 |
| BB+ to BB– | 772 | – | 20 447 | 832 | – | 15 895 |
| B+ to B– | 2 843 | – | 36 438 | 1 034 | – | 24 957 |
| Below B– | – | – | 277 | – | – | 792 |
| No rating | 215 | – | 4 458 | 428 | – | 6 563 |
| Shares and investments in funds | – | – | 5 914 | – | – | 6 406 |
| **Total** | **3 830** | **18 708** | **73 917** | **2 493** | **7 346** | **63 901** |

## *b) Liquidity Risk*

Liquidity is the Group and Bank's ability to maintain or ensure sufficient cash and cash equivalents to meet the expected (everyday) or sudden (critical) legally justified claims of its creditors. This means the Group and Bank's ability to turn their assets into cash with minimal loss or ensure reasonably priced credit facilities. Based on the assets and liabilities structure, the Board of the Bank has approved a liquidity management policy incorporating a requirement on maintaining a high level of liquidity.
The Risk Management Division ensures liquidity risk assessment and monitoring. The Financial Markets Division is responsible for ensuring liquidity and compliance with the set limits.

For ordinary liquidity risk management purposes, the Bank applies the following indicators:
– net liquidity positions by all currencies in total and by each separate currency;
– liquidity ratios for different maturity bands;
– major deposits on demand ratio to liquid assets on demand;
– sum of term deposits of one customer (group of related customers).
Certain restrictions are defined with regard to the above indicators. For the purposes of assessment of extraordinary circumstances, stress tests are applied.

To ensure liquidity, the Bank has established a securities liquidity portfolio which includes the securities that comply with the following requirements: high market liquidity, high credit ratings, floating (variable) interest rate or fixed interest rates for a period not exceeding one year. Liquidity of other securities portfolios is estimated at least on a quarterly basis.


*The accompanying notes form an integral part of these consolidated financial statements.*

The table below analyses assets, liabilities, and memorandum items of the Group into relevant maturity bands based on the remaining period, as at 31 December 2007, to the contractual maturity date:

| Assets | Overdue LVL '000 | On demand LVL '000 | Up to 1 month LVL '000 | 1–12 months LVL '000 | *Up to 1 year, total LVL '000* | 1–5 years LVL '000 | More than 5 years LVL '000 | Undated LVL '000 | *More than 1 year, total LVL '000* | Total LVL '000 |
|---|---|---|---|---|---|---|---|---|---|---|
| Cash and demand deposits with central banks | – | 63 684 | – | – | *63 684* | – | – | – | – | 63 684 |
| Balances due from credit institutions | – | 164 736 | 28 498 | 24 822 | *218 056* | 5 716 | – | – | *5 716* | 223 772 |
| Financial assets at fair value through profit or loss | – | 83 | 4 034 | 835 | *4 952* | – | – | – | – | 4 952 |
| Available-for-sale financial assets | – | – | 84 119 | 6 030 | *90 149* | 2 476 | – | – | *2 476* | 92 625 |
| Loans and advances to customers | 2 292 | 23 451 | 12 526 | 148 394 | *186 663* | 312 717 | 187 297 | – | *500 014* | 686 677 |
| Other assets | – | – | – | – | – | – | – | 31 110 | *31 110* | 31 110 |
| **Total assets** | **2 292** | **251 954** | **129 177** | **180 081** | ***563 504*** | **320 909** | **187 297** | **31 110** | ***539 316*** | **1 102 820** |
| **Liabilities** | | | | | | | | | | |
| Demand deposits from credit institutions | – | 5 598 | – | – | *5 598* | – | – | – | – | 5 598 |
| Financial liabilities at fair value through profit or loss | – | – | 2 514 | 6 915 | *9 429* | – | – | – | – | 9 429 |
| Financial liabilities at amortised cost | – | 447 961 | 140 360 | 371 160 | *959 481* | 28 649 | 9 744 | – | *38 393* | 997 874 |
| Other liabilities | – | 6 344 | – | – | *6 344* | – | – | – | – | 6 344 |
| **Total liabilities** | **–** | **459 903** | **142 874** | **378 075** | ***980 852*** | **28 649** | **9 744** | **–** | ***38 393*** | **1 019 245** |
| Shareholders' equity | – | – | – | – | – | – | – | 83 575 | *83 575* | 83 575 |
| **Total liabilities and shareholders' equity** | **–** | **459 903** | **142 874** | **378 075** | ***980 852*** | **28 649** | **9 744** | **83 575** | ***121 968*** | **1 102 820** |
| **Total memorandum items** | **–** | **69 958** | **568** | **3 071** | ***73 597*** | **13 616** | **–** | **–** | ***13 616*** | **87 213** |
| **Net liquidity position** | **x** | **(277 907)** | **(14 265)** | **(201 065)** | ***(490 945)*** | **278 644** | **177 553** | **(52 465)** | ***403 732*** | **x** |
| **Total liquidity position** | **x** | **(277 907)** | **(292 172)** | **(493 237)** | ***x*** | **(214 593)** | **(37 040)** | **(89 505)** | ***x*** | **x** |


*The accompanying notes form an integral part of these consolidated financial statements.*

The table below analyses assets, liabilities, and memorandum items of the Group into relevant maturity bands based on the remaining period, as at 31 December 2006, to the contractual maturity date:

| Assets | Overdue LVL '000 | On demand LVL '000 | Up to 1 month LVL '000 | 1–12 months LVL '000 | *Up to 1 year, total LVL '000* | 1–5 years LVL '000 | More than 5 years LVL '000 | Undated LVL '000 | *More than 1 year, total LVL '000* | Total LVL '000 |
|---|---|---|---|---|---|---|---|---|---|---|
| Cash and demand deposits with central banks | – | 56 674 | – | – | *56 674* | – | – | – | – | 56 674 |
| Balances due from credit institutions | – | 145 204 | 6 762 | 11 752 | *163 718* | 281 | – | – | *281* | 163 999 |
| Financial assets at fair value through profit or loss | – | – | 2 454 | 1 230 | *3 684* | – | – | – | – | 3 684 |
| Available-for-sale financial assets | – | – | 63 549 | 7 666 | *71 215* | 1 | – | 31 | *32* | 71 247 |
| Loans and advances to customers | 499 | 9 951 | 7 226 | 128 250 | *145 926* | 111 683 | 233 603 | – | *345 286* | 491 212 |
| Other assets | – | 128 | – | – | *128* | – | – | 24 248 | *24 248* | 24 376 |
| **Total assets** | **499** | **211 957** | **79 991** | **148 898** | ***441 345*** | **111 965** | **233 603** | **24 279** | ***369 847*** | **811 192** |
| **Liabilities** | | | | | | | | | | |
| Demand deposits from credit institutions | – | 8 780 | – | – | *8 780* | – | – | – | – | 8 780 |
| Financial liabilities at fair value through profit or loss | – | – | 1 880 | 1 632 | *3 512* | – | – | – | – | 3 512 |
| Financial liabilities at amortised cost | – | 373 803 | 118 991 | 201 727 | *694 521* | 29 558 | 4 108 | – | *33 666* | 728 187 |
| Other liabilities | – | 4 813 | – | – | *4 813* | – | – | – | – | 4 813 |
| **Total liabilities** | **–** | **387 396** | **118 991** | **201 727** | ***711 626*** | **29 558** | **4 108** | **–** | ***33 666*** | **745 292** |
| Shareholders' equity | – | – | – | – | – | – | – | 65 900 | *65 900* | 65 900 |
| **Total liabilities and shareholders' equity** | **–** | **387 396** | **118 991** | **201 727** | ***711 626*** | **29 558** | **4 108** | **65 900** | ***99 566*** | **811 192** |
| **Total memorandum items** | **–** | **58 375** | **235** | **5 039** | ***63 649*** | **1 358** | **–** | **–** | ***1 358*** | **65 007** |
| **Net liquidity position** | **x** | **(233 814)** | **(39 235)** | **(57 868)** | ***(333 930)*** | **81 049** | **229 495** | **(41 621)** | ***268 923*** | **x** |
| **Total liquidity position** | **x** | **(233 814)** | **(273 049)** | **(330 917)** | ***x*** | **(249 868)** | **(20 373)** | **(61 994)** | ***x*** | **x** |



*The accompanying notes form an integral part of these consolidated financial statements.*

The table below analyses assets, liabilities, and memorandum items of the Bank into relevant maturity bands based on the remaining period, as at 31 December 2007, to the contractual maturity date:

| Assets | Overdue LVL '000 | On demand LVL '000 | Up to 1 month LVL '000 | 1–12 months LVL '000 | *Up to 1 year, total LVL '000* | 1–5 years LVL '000 | More than 5 years LVL '000 | Undated LVL '000 | *More than 1 year, total LVL '000* | Total LVL '000 |
|---|---|---|---|---|---|---|---|---|---|---|
| Cash and demand deposits with central banks | – | 63 684 | – | – | *63 684* | – | – | – | – | 63 684 |
| Balances due from credit institutions | – | 164 729 | 28 498 | 24 822 | *218 049* | 5 716 | – | – | *5 716* | 223 765 |
| Financial assets at fair value through profit or loss | – | 83 | 4 034 | 835 | *4 952* | – | – | – | – | 4 952 |
| Available-for-sale financial assets | – | – | 84 119 | 6 030 | *90 149* | 2 476 | – | – | *2 476* | 92 625 |
| Loans and advances to customers | 2 292 | 23 448 | 12 526 | 148 394 | *186 660* | 312 717 | 187 297 | – | *500 014* | 686 674 |
| Other assets | – | – | – | – | – | – | – | 31 164 | *31 164* | 31 164 |
| **Total assets** | **2 292** | **251 944** | **129 177** | **180 081** | ***563 494*** | **320 909** | **187 297** | **31 164** | ***539 370*** | **1 102 864** |
| **Liabilities** | | | | | | | | | | |
| Demand deposits from credit institutions | – | 5 598 | – | – | *5 598* | – | – | – | – | 5 598 |
| Financial liabilities at fair value through profit or loss | – | – | 2 514 | 6 915 | *9 429* | – | – | – | – | 9 429 |
| Financial liabilities at amortised cost | – | 448 075 | 141 805 | 371 160 | *961 040* | 25 658 | 9 744 | – | *35 402* | 996 442 |
| Other liabilities | – | 6 132 | – | – | *6 132* | – | – | – | – | 6 132 |
| **Total liabilities** | **–** | **459 805** | **144 319** | **378 075** | ***982 199*** | **25 658** | **9 744** | **–** | ***35 402*** | **1 017 601** |
| Shareholders' equity | – | – | – | – | – | – | – | 85 263 | *85 263* | 85 263 |
| **Total liabilities and shareholders' equity** | **–** | **459 805** | **144 319** | **378 075** | ***982 199*** | **25 658** | **9 744** | **85 263** | ***120 665*** | **1 102 864** |
| **Total memorandum items** | **–** | **69 958** | **568** | **3 071** | ***73 597*** | **13 616** | **–** | **–** | ***13 616*** | **87 213** |
| **Net liquidity position** | **x** | **(277 819)** | **(15 142)** | **(201 065)** | ***(492 302)*** | **281 635** | **177 553** | **(54 099)** | ***405 089*** | **x** |
| **Total liquidity position** | **x** | **(277 819)** | **(292 961)** | **(494 026)** | ***x*** | **(212 391)** | **(34 838)** | **(88 937)** | ***x*** | **x** |



*The accompanying notes form an integral part of these consolidated financial statements.*

The table below analyses assets, liabilities, and memorandum items of the Bank into relevant maturity bands based on the remaining period, as at 31 December 2006, to the contractual maturity date:

| Assets | Overdue LVL '000 | On demand LVL '000 | Up to 1 month LVL '000 | 1–12 months LVL '000 | *Up to 1 year, total LVL '000* | 1–5 years LVL '000 | More than 5 years LVL '000 | Undated LVL '000 | *More than 1 year, total LVL '000* | Total LVL '000 |
|---|---|---|---|---|---|---|---|---|---|---|
| Cash and demand deposits with central banks | – | 56 674 | – | – | *56 674* | – | – | – | – | 56 674 |
| Balances due from credit institutions | – | 145 193 | 6 762 | 11 752 | *163 707* | 281 | – | – | *281* | 163 988 |
| Financial assets at fair value through profit or loss | – | – | 2 454 | 1 230 | *3 684* | – | – | – | – | 3 684 |
| Available-for-sale financial assets | – | – | 63 549 | 7 666 | *71 215* | 1 | – | 31 | *32* | 71 247 |
| Loans and advances to customers | 499 | 9 951 | 7 226 | 128 248 | *145 924* | 111 683 | 233 603 | – | *345 286* | 491 210 |
| Other assets | – | 90 | – | – | *90* | – | – | 25 008 | *25 008* | 25 098 |
| **Total assets** | **499** | **211 908** | **79 991** | **148 896** | ***441 294*** | **111 966** | **233 603** | **25 070** | ***370 607*** | **811 901** |
| **Liabilities** | | | | | | | | | | |
| Demand deposits from credit institutions | – | 8 780 | – | – | *8 780* | – | – | – | – | 8 780 |
| Financial liabilities at fair value through profit or loss | – | – | 1 880 | 1 632 | *3 512* | – | – | – | – | 3 512 |
| Financial liabilities at amortised cost | – | 374 177 | 118 991 | 202 577 | *695 745* | 26 556 | 4 108 | – | *30 664* | 726 409 |
| Other liabilities | – | 5 111 | – | – | *5 111* | – | – | – | – | 5 111 |
| **Total liabilities** | **–** | **388 068** | **118 991** | **202 577** | ***713 148*** | **26 556** | **4 108** | **–** | ***30 664*** | **743 812** |
| Shareholders' equity | – | – | – | – | – | – | – | 68 089 | *68 089* | 68 089 |
| **Total liabilities and shareholders' equity** | **–** | **388 068** | **118 991** | **202 577** | ***713 148*** | **26 556** | **4 108** | **68 089** | ***98 753*** | **811 901** |
| **Total memorandum items** | **–** | **58 375** | **235** | **5 039** | ***63 649*** | **1 358** | **–** | **–** | ***1 358*** | **65 007** |
| **Net liquidity position** | **x** | **(234 535)** | **(39 235)** | **(58 720)** | ***(335 503)*** | **84 052** | **229 495** | **(43 019)** | ***271 854*** | **x** |
| **Total liquidity position** | **x** | **(234 535)** | **(273 770)** | **(332 490)** | ***x*** | **(248 438)** | **(18 943)** | **(61 962)** | ***x*** | **x** |

The Group and the Bank have prepared these consolidated financial statements on a going concern basis, notwithstanding the fact that they have a significant negative liquidity gap in the "on demand" maturity range of assets and liabilities. The Group and Bank's management closely monitor and manage the Group and Bank's liquidity position on a daily basis in accordance with the Group and Bank's liquidity risk management framework. The negative liquidity gap in "on demand" assets and liabilities as at 31 December 2007 and 2006 is substantially due to significant "on demand" amounts due to customers. According to the past history of the Group and the Bank, customers' deposits are normally held with the Group and the Bank for periods significantly exceeding their stated maturity. The Group and the Bank have considered the risk of being adversely affected by liquidity issues and have taken actions to minimise the negative impact on the Group and the Bank. The Group and the Bank's ability to avoid adverse changes in their liquidity position depends on management's effectiveness in the continuing execution of the actions taken.

Long-term loans and overdraft facilities are generally not available in Latvia, except for programs set up by international financial institutions. However, in the Latvian marketplace, many short-term credits are granted with the expectation of renewing the loans at maturity. As such, the ultimate maturity of assets may be different from the analysis presented above. In addition, the maturity gap analysis does not reflect the historical stability of current accounts. These balances are included in amounts due "on demand" in the tables above. The Group and the Bank have reviewed the historical stability of their current accounts and concluded that half of the balances have an ultimate maturity of more than one year.

The maturity profile of assets, liabilities and memorandum items is determined on the basis of the following criteria:

- Assets are stated according to their remaining period to repayment.
- Assets invested with an option to be received on demand are classified under the category "On demand".
- Assets more than 14 days overdue are stated as "Overdue".
- Assets as well as all debit balances on settlement cards and current account overdrafts less than 14 days overdue are presented as "On demand".
- Assets for which, according to the substance of the transactions, maturity is not defined, or assets whose maturity cannot be precisely determined, are considered to be undated.
- All debt securities within the liquidity portfolio are deemed highly liquid securities and presented under the caption "Up to 1 month".
- To assess the period during which debt securities at fair value through profit or loss portfolio and included in the investments held for undefined period portfolio may be disposed of without material loss, the spreads between purchasing and selling prices, as well as the prices of respective securities and historical fluctuations thereof are considered. The distribution into maturity bands is based on such assessment.
- Liabilities and memorandum items are stated according to the remaining period to their contractual settlement.
- Liabilities without any defined maturity or with commitments to exercise them on demand are presented under the caption "On demand".
- Issued guarantees or commitments arising from other types of guarantees secured by deposit placement with the Bank are excluded.

The assets that have been impaired are stated net of provisions.

In estimating the amount of expected financial liabilities, the Group and the Bank have included in the analysis by maturity profile also interest payable on financial liabilities and memorandum items effective as at 31 December 2007 and 2006 which is expected in the future, but has not been assessed at the balance sheet date.

The table below analyses financial liabilities and memorandum items of the Group and interest which is payable in the future, but has not been assessed as at 31 December 2007 into relevant maturity bands based on the remaining period, as at the balance sheet date, to the contractual maturity date:

| Financial liabilities | On demand LVL '000 | Up to 1 month LVL '000 | 1–12 months LVL '000 | *Up to 1 year, total LVL '000* | 1–5 years LVL '000 | More than 5 years LVL '000 | *More than 1 year, total LVL '000* | Total LVL '000 |
|---|---|---|---|---|---|---|---|---|
| Demand deposits from credit institutions | 5 598 | – | – | *5 598* | – | – | – | 5 598 |
| Financial liabilities at fair value through profit or loss | – | 2 514 | 6 915 | *9 429* | – | – | – | 9 429 |
| Financial liabilities at amortised cost | 447 961 | 142 254 | 380 019 | *970 234* | 36 209 | 13 277 | *49 486* | 1 019 720 |
| **Total financial liabilities** | **453 559** | **144 768** | **386 934** | ***985 261*** | **36 209** | **13 277** | ***49 486*** | **1 034 747** |
| Memorandum items | 69 958 | 568 | 3 071 | *73 597* | 13 616 | – | *13 616* | 87 213 |
| **Total financial liabilities and memorandum items** | **523 517** | **145 336** | **390 005** | ***1 058 858*** | **49 825** | **13 277** | ***63 102*** | **1 121 960** |

The table below analyses financial liabilities and memorandum items of the Group and interest which is payable in the future, but has not been assessed as at 31 December 2006 into relevant maturity bands based on the remaining period, as at the balance sheet date, to the contractual maturity date:

| Financial liabilities | On demand LVL '000 | Up to 1 month LVL '000 | 1–12 months LVL '000 | *Up to 1 year, total LVL '000* | 1–5 years LVL '000 | More than 5 years LVL '000 | *More than 1 year, total LVL '000* | Total LVL '000 |
|---|---|---|---|---|---|---|---|---|
| Demand deposits from credit institutions | 8 780 | – | – | *8 780* | – | – | – | 8 780 |
| Financial liabilities at fair value through profit or loss | – | 1 880 | 1 632 | *3 512* | – | – | – | 3 512 |
| Financial liabilities at amortised cost | 373 803 | 120 099 | 206 553 | *700 455* | 34 279 | 4 631 | *38 910* | 739 365 |
| **Total financial liabilities** | **382 583** | **121 979** | **208 185** | ***712 747*** | **34 279** | **4 631** | ***38 910*** | **751 657** |
| Memorandum items | 58 375 | 235 | 5 039 | *63 649* | 1 358 | – | *1 358* | 65 007 |
| **Total financial liabilities and memorandum items** | **440 958** | **122 214** | **213 224** | ***776 396*** | **35 637** | **4 631** | ***40 268*** | **816 664** |

The table below analyses financial liabilities and memorandum items of the Bank and interest which is payable in the future, but has not been assessed as at 31 December 2007 into relevant maturity bands based on the remaining period, as at the balance sheet date, to the contractual maturity date:

| Financial liabilities | On demand LVL '000 | Up to 1 month LVL '000 | 1–12 months LVL '000 | *Up to 1 year, total LVL '000* | 1–5 years LVL '000 | More than 5 years LVL '000 | *More than 1 year, total LVL '000* | Total LVL '000 |
|---|---|---|---|---|---|---|---|---|
| Demand deposits from credit institutions | 5 598 | – | – | *5 598* | – | – | – | 5 598 |
| Financial liabilities at fair value through profit or loss | – | 2 514 | 6 915 | *9 429* | – | – | – | 9 429 |
| Financial liabilities at amortised cost | 448 075 | 143 687 | 379 890 | *971 652* | 33 134 | 13 097 | *46 231* | 1 017 883 |
| **Total financial liabilities** | **453 673** | **146 201** | **386 805** | ***986 679*** | **33 134** | **13 097** | ***46 231*** | **1 032 910** |
| Memorandum items | 69 958 | 568 | 3 071 | *73 597* | 13 616 | – | *13 616* | 87 213 |
| **Total financial liabilities and memorandum items** | **523 631** | **146 769** | **389 876** | ***1 060 276*** | **46 750** | **13 097** | ***59 847*** | **1 120 123** |

The table below analyses financial liabilities and memorandum items of the Bank and interest which is payable in the future, but has not been assessed as at 31 December 2006 into relevant maturity bands based on the remaining period, as at the balance sheet date, to the contractual maturity date:

| Financial liabilities | On demand LVL '000 | Up to 1 month LVL '000 | 1–12 months LVL '000 | *Up to 1 year, total LVL '000* | 1–5 years LVL '000 | More than 5 years LVL '000 | *More than 1 year, total LVL '000* | Total LVL '000 |
|---|---|---|---|---|---|---|---|---|
| Demand deposits from credit institutions | 8 780 | – | – | *8 780* | – | – | – | 8 780 |
| Financial liabilities at fair value through profit or loss | – | 1 880 | 1 632 | *3 512* | – | – | – | 3 512 |
| Financial liabilities at amortised cost | 374 177 | 120 086 | 207 264 | *701 527* | 31 037 | 4 631 | *35 668* | 737 195 |
| **Total financial liabilities** | **382 957** | **121 966** | **208 896** | ***713 819*** | **31 037** | **4 631** | ***35 668*** | **749 487** |
| Memorandum items | 58 375 | 235 | 5 039 | *63 649* | 1 358 | – | *1 358* | 65 007 |
| **Total financial liabilities and memorandum items** | **441 332** | **122 201** | **213 935** | ***777 468*** | **32 395** | **4 631** | ***37 026*** | **814 494** |

The FCMC stipulates that the Bank should maintain the sufficient amount of liquid assets to meet its contractual liabilities, but no less than 30% of the Bank's total current liabilities. As at 31 December 2007, the Bank's liquidity ratio calculated in accordance with the FCMC requirements was 50.98% (48.4%).

The table below presents the highest, lowest, and average internal liquidity ratios of the Group and the Bank in 2007 and 2006:

| | Group/ Bank 2007 | | | Group/ Bank 2006 | | |
|---|---|---|---|---|---|---|
| **Liquidity ratio** | Highest % | Lowest % | Average % | Highest % | Lowest % | Average % |
| On demand | 36.9 | 21.0 | 30.1 | 35.6 | 18.5 | 25.2 |
| Less than 30 days | 54.9 | 35.6 | 46.7 | 49.3 | 36.6 | 42.7 |
| Less than 90 days | 59.0 | 38.6 | 50.7 | 56.0 | 40.7 | 47.8 |



*The accompanying notes form an integral part of these consolidated financial statements.*

## *c) Currency Risk*

The Group and the Bank are exposed to negative effects of fluctuations in the foreign currency exchange rates on their financial position and cash flows. The exposure to currency risk is calculated for each separate currency and includes assets and liabilities denominated in foreign currencies, as well as cash flows arising from derivatives.

The Bank's limits policy defines major principles for limits application and control, limits for foreign currency open positions stipulate restrictions for each separate currency open position and total currencies open position that are controlled on a daily basis.

The currency position of the Group's assets, liabilities, shareholders' equity, and derivatives as at 31 December 2007:

| Assets | LVL LVL '000 | USD LVL '000 | EUR LVL '000 | RUB LVL '000 | Other currencies LVL '000 | Total LVL '000 |
|---|---|---|---|---|---|---|
| Cash and demand deposits with central banks | 60 454 | 454 | 2 638 | – | 138 | 63 684 |
| Balances due from credit institutions | 331 | 152 477 | 37 438 | 29 202 | 4 324 | 223 772 |
| Financial assets at fair value through profit or loss | 1 065 | 3 832 | 55 | – | – | 4 952 |
| Available-for-sale financial assets | 5 949 | 78 537 | 3 946 | 3 915 | 278 | 92 625 |
| Loans and advances to customers | 15 584 | 54 116 | 615 641 | 1 333 | 3 | 686 677 |
| Other assets | 28 298 | 1 521 | 1 157 | – | 134 | 31 110 |
| **Total assets** | **111 681** | **290 937** | **660 875** | **34 450** | **4 877** | **1 102 820** |
| **Liabilities** | | | | | | |
| Demand deposits from credit institutions | – | 3 591 | 2 007 | – | – | 5 598 |
| Financial liabilities at fair value through profit or loss | 9 122 | 307 | – | – | – | 9 429 |
| Financial liabilities at amortised cost | 45 004 | 519 493 | 401 678 | 27 586 | 4 113 | 997 874 |
| Other liabilities | 4 832 | 882 | 491 | 103 | 36 | 6 344 |
| **Total liabilities** | **58 958** | **524 273** | **404 176** | **27 689** | **4 149** | **1 019 245** |
| Shareholders' equity | 83 575 | – | – | – | – | 83 575 |
| **Total liabilities** | **142 533** | **524 273** | **404 176** | **27 689** | **4 149** | **1 102 820** |
| **Net (short)/ long balance sheet position** | **(30 852)** | **(233 336)** | **256 699** | **6 761** | **728** | **x** |
| Off-balance sheet foreign exchange contracts, assets/ (liabilities) | 20 965 | 231 717 | (255 324) | (5 979) | 582 | x |
| **Net open (short)/ long currency position** | **(9 887)** | **(1 619)** | **1 375** | **782** | **1 310** | **x** |
| **Percentage of shareholders' equity, (%)** | **(10.5%)** | **(1.7%)** | **1.5%** | **0.8%** | **1.4%** | **x** |



*The accompanying notes form an integral part of these consolidated financial statements.*

The currency position of the Group's assets, liabilities, shareholders' equity, and derivatives as at 31 December 2006:

| Assets | LVL LVL '000 | USD LVL '000 | EUR LVL '000 | RUB LVL '000 | Other currencies LVL '000 | Total LVL '000 |
|---|---|---|---|---|---|---|
| Cash and demand deposits with central banks | 55 285 | 447 | 809 | – | 133 | 56 674 |
| Balances due from credit institutions | 203 | 134 044 | 10 445 | 13 829 | 5 478 | 163 999 |
| Financial assets at fair value through profit or loss | 927 | 1 959 | 798 | – | – | 3 684 |
| Available-for-sale financial assets | 10 145 | 50 437 | 4 101 | 6 098 | 466 | 71 247 |
| Loans and advances to customers | 38 837 | 41 689 | 410 669 | – | 17 | 491 212 |
| Other assets | 23 793 | 21 | 546 | 14 | 2 | 24 376 |
| **Total assets** | **129 190** | **228 597** | **427 368** | **19 941** | **6 096** | **811 192** |
| **Liabilities** | | | | | | |
| Demand deposits from credit institutions | 7 013 | 1 464 | 291 | – | 12 | 8 780 |
| Financial liabilities at fair value through profit or loss | 3 512 | – | – | – | – | 3 512 |
| Financial liabilities at amortised cost | 56 829 | 474 307 | 178 047 | 13 848 | 5 156 | 728 187 |
| Other liabilities | 3 593 | 728 | 256 | 227 | 9 | 4 813 |
| **Total liabilities** | **70 947** | **476 499** | **178 594** | **14 075** | **5 177** | **745 292** |
| Shareholders' equity | 65 900 | – | – | – | – | **65 900** |
| **Total liabilities** | **136 847** | **476 499** | **178 594** | **14 075** | **5 177** | **811 192** |
| **Net (short)/ long balance sheet position** | **(7 657)** | **(247 902)** | **248 774** | **5 866** | **919** | **x** |
| Off-balance sheet foreign exchange contracts, assets/ (liabilities) | (2 451) | 249 642 | (241 970) | (6 752) | 92 | x |
| **Net open (short)/ long currency position** | **(10 108)** | **1 740** | **6 804** | **(886)** | **1 011** | **x** |
| **Percentage of shareholders' equity, (%)** | **(14.2%)** | **2.5%** | **9.6%** | **(1.2%)** | **1.4%** | **x** |

The currency position of the Bank's assets, liabilities, shareholders' equity, and derivatives as at 31 December 2007:

| Assets | LVL LVL '000 | USD LVL '000 | EUR LVL '000 | RUB LVL '000 | Other currencies LVL '000 | Total LVL '000 |
|---|---|---|---|---|---|---|
| Cash and demand deposits with central banks | 60 454 | 454 | 2 638 | – | 138 | 63 684 |
| Balances due from credit institutions | 331 | 152 477 | 37 438 | 29 200 | 4 319 | 223 765 |
| Financial assets at fair value through profit or loss | 1 065 | 3 832 | 55 | – | – | 4 952 |
| Available-for-sale financial assets | 5 949 | 78 537 | 3 946 | 3 915 | 278 | 92 625 |
| Loans and advances to customers | 15 581 | 54 116 | 615 641 | 1 333 | 3 | 686 674 |
| Other assets | 28 415 | 1 492 | 1 123 | – | 134 | 31 164 |
| **Total assets** | **111 795** | **290 908** | **660 841** | **34 448** | **4 872** | **1 102 864** |
| **Liabilities** | | | | | | |
| Demand deposits from credit institutions | – | 3 591 | 2 007 | – | – | 5 598 |
| Financial liabilities at fair value through profit or loss | 9 122 | 307 | – | – | – | 9 429 |
| Financial liabilities at amortised cost | 46 568 | 519 493 | 398 682 | 27 586 | 4 113 | 996 442 |
| Other liabilities | 4 631 | 876 | 486 | 103 | 36 | 6 132 |
| **Total liabilities** | **60 321** | **524 267** | **401 175** | **27 689** | **4 149** | **1 017 601** |
| Shareholders' equity | 85 263 | – | – | – | – | 85 263 |
| **Total liabilities** | **145 584** | **524 267** | **401 175** | **27 689** | **4 149** | **1 102 864** |
| **Net (short)/ long balance sheet position** | **(33 789)** | **(233 359)** | **259 666** | **6 759** | **723** | **x** |
| Off-balance sheet foreign exchange contracts, assets/ (liabilities) | 20 965 | 231 717 | (255 324) | (5 979) | 582 | x |
| **Net open (short)/ long currency position** | **(12 824)** | **(1 642)** | **4 342** | **780** | **1 305** | **x** |
| **Percentage of shareholders' equity, (%)** | **(13.3%)** | **(1.7%)** | **4.5%** | **0.8%** | **1.4%** | **x** |



*The accompanying notes form an integral part of these consolidated financial statements.*

The currency position of the Bank's assets, liabilities, shareholders' equity, and derivatives as at 31 December 2006:

| Assets | LVL LVL '000 | USD LVL '000 | EUR LVL '000 | RUB LVL '000 | Other currencies LVL '000 | Total LVL '000 |
|---|---|---|---|---|---|---|
| Cash and demand deposits with central banks | 55 285 | 447 | 809 | – | 133 | 56 674 |
| Balances due from credit institutions | 203 | 134 044 | 10 434 | 13 829 | 5 478 | 163 988 |
| Financial assets at fair value through profit or loss | 927 | 1 959 | 798 | – | – | 3 684 |
| Available-for-sale financial assets | 10 145 | 50 437 | 4 101 | 6 098 | 466 | 71 247 |
| Loans and advances to customers | 38 835 | 41 689 | 410 669 | – | 17 | 491 210 |
| Other assets | 24 519 | 18 | 545 | 14 | 2 | 25 098 |
| **Total assets** | **129 914** | **228 594** | **427 356** | **19 941** | **6 096** | **811 901** |
| **Liabilities** | | | | | | |
| Demand deposits from credit institutions | 7 013 | 1 464 | 291 | – | 12 | 8 780 |
| Financial liabilities at fair value through profit or loss | 3 512 | – | – | – | – | 3 512 |
| Financial liabilities at amortised cost | 58 053 | 474 307 | 175 045 | 13 848 | 5 156 | 726 409 |
| Other liabilities | 3 894 | 728 | 253 | 227 | 9 | 5 111 |
| **Total liabilities** | **72 472** | **476 499** | **175 589** | **14 075** | **5 177** | **743 812** |
| Shareholders' equity | 68 089 | – | – | – | – | 68 089 |
| **Total liabilities** | **140 561** | **476 499** | **175 589** | **14 075** | **5 177** | **811 901** |
| **Net (short)/ long balance sheet position** | **(10 647)** | **(247 905)** | **251 767** | **5 866** | **919** | **x** |
| Off-balance sheet foreign exchange contracts, assets/ (liabilities) | (2 451) | 249 642 | (241 970) | (6 752) | 92 | x |
| **Net open (short)/ long currency position** | **(13 098)** | **1 737** | **9 797** | **(886)** | **1 011** | **x** |
| **Percentage of shareholders' equity, (%)** | **(17.9%)** | **2.4%** | **13.4%** | **(1.2%)** | **1.4%** | **x** |

The Law on Credit Institutions requires that open positions in each foreign currency may not exceed 10% of equity and that the total foreign currency open position may not exceed 20% of equity.

As at 31 December 2007, the Group and the Bank were in compliance with the above requirements of the Law on Credit Institutions.

## *d) Interest Rate Risk*

Interest rate risk represents the adverse effect of the market interest rate fluctuations on the Bank's financial performance. The Risk Management Division ensures interest rate risk assessment and management. The Financial Markets Division is responsible for maintaining interest rate risk within specified limits.

Assessment of interest rate risk is conducted with a concered effort to cover all risk elements – repricing risk, yield curve risk, basis risk, and option risk.

Interest rate risk is assessed both in terms of income and economic value. The term economic value means the shareholders equity's economic value that is the difference between the economic value of assets and that of liabilities. For the purposes of assessment of extraordinary circumstances, stress tests are applied.

For the purposes of hedging interest rate risk, the limits of acceptable reduction in economic value and modified duration of the investments held for undefined period portfolio are fixed. Derivative financial instruments are utilised to hedge interest rate risk.
The assets, liabilities and memorandum items distribution into maturity bands follows such principles:

– financial instruments with a fixed interest rate are presented by the earlier of repayment/settlement/maturity date;
– financial instruments with a variable interest rate are presented according to next contractual repricing date or interest rate repricing date.

Distribution of current account balances into maturity bands is based on the Bank's historical experience about current account balance sensitivity to changes in interest rates. Derivatives are represented in two entries: the first entry describes the notional value of the underlying assets, whereas the other is a compensatory entry showing the opposite value.



*The accompanying notes form an integral part of these consolidated financial statements.*

The following table presents the Group and Bank's sensitivity to changes in interest rates and the effect of such changes on equity and profit in 2007 and 2006:

| | | Group/ Bank 31/12/2007 | | Groups/ Bank 31/12/2006 | |
|---|---|---|---|---|---|
| | | +100bps LVL '000 | -100bps LVL '000 | +100bps LVL '000 | -100bps LVL '000 |
| **Total for all currencies** | Effect of changes on equity | (1 945) | 1 945 | (1 999) | 1 999 |
| | Effect of changes on profit | (978) | 978 | 669 | (669) |
| USD | Effect of changes on equity | (1 652) | 1 652 | (1 500) | 1 500 |
| | Effect of changes on profit | (707) | 707 | 143 | (143) |
| EUR | Effect of changes on equity | (151) | 151 | (205) | 205 |
| | Effect of changes on profit | (513) | 513 | 1 224 | (1 224) |
| LVL | Effect of changes on equity | (141) | 141 | (294) | 294 |
| | Effect of changes on profit | 281 | (281) | 247 | (247) |

The table below summarises the distribution of the Group's assets, liabilities and memorandum items into maturity bands as at 31 December 2007:

| **Assets** | Up to 1 month LVL '000 | 1–3 months LVL '000 | 3–6 months LVL '000 | 6–12 months LVL '000 | 1–5 years LVL '000 | More than 5 years LVL '000 | Non-interest bearing LVL '000 | Total LVL '000 |
|---|---|---|---|---|---|---|---|---|
| Cash and demand deposits with central banks | 60 987 | – | – | – | – | – | 2 697 | 63 684 |
| Balances due from credit institutions | 191 333 | 3 519 | 5 786 | 15 488 | 5 716 | – | 1 930 | 223 772 |
| Financial assets at fair value through profit or loss | – | 120 | 237 | 114 | 2 235 | 1 037 | 1 209 | 4 952 |
| Available-for-sale financial assets | 8 391 | 12 192 | 2 741 | 2 481 | 36 466 | 21 486 | 8 868 | 92 625 |
| Loans and advances to customers | 38 099 | 47 340 | 87 537 | 316 927 | 191 975 | 65 | 4 734 | 686 677 |
| Other assets | – | – | – | – | – | – | 31 110 | 31 110 |
| **Total assets** | **298 810** | **63 051** | **96 064** | **334 896** | **236 392** | **22 588** | **50 548** | **1 102 820** |
| **Liabilities** | | | | | | | | |
| Demand deposits from credit institutions | 5 588 | – | – | – | – | – | 10 | 5 598 |
| Financial liabilities at fair value through profit or loss | – | – | – | – | – | – | 9 429 | 9 429 |
| Financial liabilities at amortised cost | 583 571 | 189 762 | 40 947 | 136 056 | 21 876 | 13 423 | 12 239 | 997 874 |
| Other liabilities | – | – | – | – | – | – | 6 344 | 6 344 |
| **Total liabilities** | **589 159** | **189 762** | **40 947** | **136 056** | **21 876** | **13 423** | **28 022** | **1 019 245** |
| Shareholders' equity | – | – | – | – | – | – | 83 575 | 83 575 |
| **Total liabilities and shareholders equity** | **589 159** | **189 762** | **40 947** | **136 056** | **21 876** | **13 423** | **111 597** | **1 102 820** |
| Futures, sold | – | 44 476 | – | – | (29 278) | (15 450) | – | (252) |
| **Interest rate repricing maturity gaps** | **(290 349)** | **(82 235)** | **55 117** | **198 840** | **185 238** | **(6 285)** | **(61 049)** | **x** |



*The accompanying notes form an integral part of these consolidated financial statements.*

The table below summarises the distribution of the Group's assets, liabilities and memorandum items into maturity bands as at 31 December 2006:

| **Assets** | Up to 1 month LVL '000 | 1–3 months LVL '000 | 3–6 months LVL '000 | 6–12 months LVL '000 | 1–5 years LVL '000 | More than 5 years LVL '000 | Non-interest bearing LVL '000 | Total LVL '000 |
|---|---|---|---|---|---|---|---|---|
| Cash and demand deposits with central banks | 54 475 | – | – | – | – | – | 2 199 | 56 674 |
| Balances due from credit institutions | 151 746 | 6 803 | 1 391 | 2 989 | 281 | – | 789 | 163 999 |
| Financial assets at fair value through profit or loss | – | – | – | – | 1 817 | 609 | 1 258 | 3 684 |
| Available-for-sale financial assets | 1 336 | 2 452 | 4 647 | 1 016 | 30 392 | 23 380 | 8 024 | 71 247 |
| Loans and advances to customers | 9 981 | 13 571 | 368 758 | 34 866 | 62 830 | 163 | 1 043 | 491 212 |
| Other assets | – | – | – | – | – | – | 24 376 | 24 376 |
| **Total assets** | **217 538** | **22 826** | **374 796** | **38 871** | **95 320** | **24 152** | **37 689** | **811 192** |
| **Liabilities** | | | | | | | | |
| Demand deposits from credit institutions | 8 768 | – | – | – | – | – | 12 | 8 780 |
| Financial liabilities at fair value through profit or loss | – | – | – | – | – | – | 3 512 | 3 512 |
| Financial liabilities at amortised cost | 483 222 | 92 359 | 27 504 | 87 558 | 29 552 | 4 107 | 3 885 | 728 187 |
| Other liabilities | – | – | – | – | – | – | 4 813 | 4 813 |
| **Total liabilities** | **491 990** | **92 359** | **27 504** | **87 558** | **29 552** | **4 107** | **12 222** | **745 292** |
| Shareholders' equity | – | – | – | – | – | – | 65 900 | 65 900 |
| **Total liabilities and shareholders equity** | **491 990** | **92 359** | **27 504** | **87 558** | **29 552** | **4 107** | **78 122** | **811 192** |
| Futures sold | – | 36 512 | – | – | (23 748) | (12 500) | – | 264 |
| **Interest rate repricing maturity gaps** | **(274 452)** | **(33 021)** | **347 292** | **(48 687)** | **42 020** | **7 545** | **(40 433)** | **x** |

The table below summarises the distribution of the Bank's assets, liabilities and memorandum items into maturity bands as at 31 December 2007:

| **Assets** | Up to 1 month LVL '000 | 1–3 months LVL '000 | 3–6 months LVL '000 | 6–12 months LVL '000 | 1–5 years LVL '000 | More than 5 years LVL '000 | Non-interest bearing LVL '000 | Total LVL '000 |
|---|---|---|---|---|---|---|---|---|
| Cash and demand deposits with central banks | 60 987 | – | – | – | – | – | 2 697 | 63 684 |
| Balances due from credit institutions | 191 326 | 3 519 | 5 786 | 15 488 | 5 716 | – | 1 930 | 223 765 |
| Financial assets at fair value through profit or loss | – | 120 | 237 | 114 | 2 235 | 1 037 | 1 209 | 4 952 |
| Available-for-sale financial assets | 8 391 | 12 192 | 2 741 | 2 481 | 36 466 | 21 486 | 8 868 | 92 625 |
| Loans and advances to customers | 38 099 | 47 340 | 87 537 | 316 927 | 191 975 | 65 | 4 731 | 686 674 |
| Other assets | – | – | – | – | – | – | 31 164 | 31 164 |
| **Total assets** | **298 803** | **63 171** | **96 301** | **335 010** | **236 392** | **22 588** | **50 599** | **1 102 864** |
| **Liabilities** | | | | | | | | |
| Demand deposits from credit institutions | 5 588 | – | – | – | – | – | 10 | 5 598 |
| Financial liabilities at fair value through profit or loss | – | – | – | – | – | – | 9 429 | 9 429 |
| Financial liabilities at amortised cost | 580 682 | 190 763 | 40 947 | 136 515 | 21 876 | 13 423 | 12 236 | 996 442 |
| Other liabilities | – | – | – | – | – | – | 6 132 | 6 132 |
| **Total liabilities** | **586 270** | **190 763** | **40 947** | **136 515** | **21 876** | **13 423** | **27 807** | **1 017 601** |
| Shareholders' equity | – | – | – | – | – | – | 85 263 | 85 263 |
| **Total liabilities and shareholders equity** | **586 270** | **190 763** | **40 947** | **136 515** | **21 876** | **13 423** | **113 070** | **1 102 864** |
| Futures sold | – | 44 476 | – | – | (29 278) | (15 450) | – | (252) |
| **Interest rate repricing maturity gaps** | **(287 467)** | **(83 116)** | **55 354** | **198 495** | **185 238** | **(6 285)** | **(62 471)** | **x** |



*The accompanying notes form an integral part of these consolidated financial statements.*

The table below summarises the distribution of the Bank's assets, liabilities and memorandum items into maturity bands as at 31 December 2006:

| Assets | Up to 1 month LVL '000 | 1–3 months LVL '000 | 3–6 months LVL '000 | 6–12 months LVL '000 | 1–5 years LVL '000 | More than 5 years LVL '000 | Non-interest bearing LVL '000 | Total LVL '000 |
|---|---|---|---|---|---|---|---|---|
| Cash and demand deposits with central banks | 54 475 | – | – | – | – | – | 2 199 | 56 674 |
| Balances due from credit institutions | 151 735 | 6 803 | 1 391 | 2 989 | 281 | – | 789 | 163 988 |
| Financial assets at fair value through profit or loss | – | – | – | – | 1 817 | 609 | 1 258 | 3 684 |
| Available-for-sale financial assets | 1 336 | 2 452 | 4 647 | 1 016 | 30 392 | 23 380 | 8 024 | 71 247 |
| Loans and advances to customers | 9 979 | 13 571 | 368 758 | 34 866 | 62 830 | 163 | 1 043 | 491 210 |
| Other assets | – | – | – | – | – | – | 25 098 | 25 098 |
| **Total assets** | **217 525** | **22 826** | **374 796** | **38 871** | **95 320** | **24 152** | **38 411** | **811 901** |
| **Liabilities** | | | | | | | | |
| Demand deposits from credit institutions | 8 768 | – | – | – | – | – | 12 | 8 780 |
| Financial liabilities at fair value through profit or loss | – | – | – | – | – | – | 3 512 | 3 512 |
| Financial liabilities at amortised cost | 483 592 | 92 659 | 28 054 | 87 558 | 26 550 | 4 107 | 3 889 | 726 409 |
| Other liabilities | – | – | – | – | – | – | 5 111 | 5 111 |
| **Total liabilities** | **492 360** | **92 659** | **28 054** | **87 558** | **26 550** | **4 107** | **12 524** | **743 812** |
| Shareholders' equity | – | – | – | – | – | – | 68 089 | 68 089 |
| **Total liabilities and shareholders equity** | **492 360** | **92 659** | **28 054** | **87 558** | **26 550** | **4 107** | **80 613** | **811 901** |
| Futures sold | – | 36 512 | – | – | (23 748) | (12 500) | – | 264 |
| **Interest rate repricing maturity gaps** | **(274 835)** | **(33 321)** | **346 742** | **(48 687)** | **45 022** | **7 545** | **(42 202)** | **x** |

## *e) Operational Risks*

During the course of their operations, the Group and the Bank encounter non-financial risks with exposure to sudden loss. The cause of such risks may be, for instance, clerical errors or fraud, break-downs in information systems, insufficient internal control and procedures, etc. The Bank makes every effort to maintain the lowest possible risk level, meanwhile striving at not exceeding a reasonable level of expense. Internal control within the Bank's structural units and the control exercised by the Risk Management Division are one of the measures taken to prevent potential loss.

An important part of operational risk management is upgrading of the automated transaction control system. When developing the accounting and control procedures, the Bank specifies measures for mitigation of operational risks.



*The accompanying notes form an integral part of these consolidated financial statements.*

# 4. Classification of Financial and Non-financial Instruments

The table below presents the Group's balance sheet by categories of financial assets and liabilities as at 31 December 2007:

| Assets | Financial assets/ liabilities at fair value through profit or loss LVL '000 | Loans and advances to customers LVL '000 | Available-for-sale financial assets LVL '000 | Financial assets and liabilities at amortised cost LVL '000 | **Total financial assets/ liabilities LVL '000** | Non-financial assets/ liabilities LVL '000 | **Total LVL '000** |
|---|---|---|---|---|---|---|---|
| Cash and demand deposits with central banks | – | – | – | 63 684 | **63 684** | – | **63 684** |
| Balances due from credit institutions | – | 223 772 | – | – | **223 772** | – | **223 772** |
| Fixed income securities | 3 830 | – | 86 711 | – | **90 541** | – | **90 541** |
| Shares and other non-fixed income securities | – | – | 5 914 | – | **5 914** | – | **5 914** |
| Derivatives | 1 122 | – | – | – | **1 122** | – | **1 122** |
| Loans and advances to customers | – | 686 677 | – | – | **686 677** | – | **686 677** |
| Prepaid expense and accrued income | – | – | – | – | **–** | 195 | **195** |
| Tangible fixed assets | – | – | – | – | **–** | 8 663 | **8 663** |
| Investment properties | – | – | – | – | **–** | 16 514 | **16 514** |
| Intangible fixed assets | – | – | – | – | **–** | 2 061 | **2 061** |
| Other assets | – | – | – | – | **–** | 3 677 | **3 677** |
| **Total assets** | **4 952** | **910 449** | **92 625** | **63 684** | **1 071 710** | **31 110** | **1 102 820** |
| **Liabilities** | | | | | | | |
| Deposits from credit institutions | – | – | – | 158 574 | **158 574** | – | **158 574** |
| Derivatives | 9 429 | – | – | – | **9 429** | – | **9 429** |
| Deposits | – | – | – | 823 777 | **823 777** | – | **823 777** |
| Subordinated liabilities | – | – | – | 21 121 | **21 121** | – | **21 121** |
| Deferred income and accrued expense | – | – | – | – | **–** | 4 379 | **4 379** |
| Other liabilities | – | – | – | – | **–** | 1 965 | **1 965** |
| **Total liabilities** | **9 429** | **–** | **–** | **1 003 472** | **1 012 901** | **6 344** | **1 019 245** |
| Shareholders' equity | – | – | – | – | **–** | 83 575 | 83 575 |
| **Total liabilities and shareholders' equity** | **9 429** | **–** | **–** | **1 003 472** | **1 012 901** | **89 919** | **1 102 820** |



*The accompanying notes form an integral part of these consolidated financial statements.*

The table below presents the Group's balance sheet by categories of financial assets and liabilities as at 31 December 2006:

| Assets | Financial assets/ liabilities at fair value through profit or loss LVL '000 | Loans and advances to customers LVL '000 | Available-for-sale financial assets LVL '000 | Financial assets and liabilities at amortised cost LVL '000 | **Total financial assets/ liabilities LVL '000** | Non-financial assets/ liabilities LVL '000 | **Total LVL '000** |
|---|---|---|---|---|---|---|---|
| Cash and demand deposits with central banks | – | – | – | 56 674 | **56 674** | – | **56 674** |
| Balances due from credit institutions | – | 163 999 | – | – | **163 999** | – | **163 999** |
| Fixed income securities | 2 493 | – | 64 841 | – | **67 334** | – | **67 334** |
| Shares and other non-fixed income securities | – | – | 6 406 | – | **6 406** | – | **6 406** |
| Derivatives | 1 191 | – | – | – | **1 191** | – | **1 191** |
| Loans and advances to customers | – | 491 212 | – | – | **491 212** | – | **491 212** |
| Prepaid expense and accrued income | – | – | – | – | **–** | 104 | **104** |
| Tangible fixed assets | – | – | – | – | **–** | 6 612 | **6 612** |
| Investment properties | – | – | – | – | **–** | 14 217 | **14 217** |
| Intangible fixed assets | – | – | – | – | **–** | 1 583 | **1 583** |
| Other assets | – | – | – | – | **–** | 1 860 | **1 860** |
| **Total assets** | **3 684** | **655 211** | **71 247** | **56 674** | **786 816** | **24 376** | **811 192** |
| **Liabilities** | | | | | | | |
| Deposits from credit institutions | – | – | – | 57 911 | **57 911** | – | **57 911** |
| Derivatives | 3 512 | – | – | – | **3 512** | – | **3 512** |
| Deposits | – | – | – | 659 726 | **659 726** | – | **659 726** |
| Subordinated liabilities | – | – | – | 19 330 | **19 330** | – | **19 330** |
| Deferred income and accrued expense | – | – | – | – | **–** | 3 075 | **3 075** |
| Other liabilities | – | – | – | – | **–** | 1 738 | **1 738** |
| **Total liabilities** | **3 512** | **–** | **–** | **736 967** | **740 479** | **4 813** | **745 292** |
| Shareholders' equity | – | – | – | – | **–** | 65 900 | 65 900 |
| **Total liabilities and shareholders' equity** | **3 512** | **–** | **–** | **736 967** | **740 479** | **70 713** | **811 192** |

The table below presents the Bank's balance sheet by categories of financial assets and liabilities as at 31 December 2007:

| Assets | Financial assets/ liabilities at fair value through profit or loss LVL '000 | Loans and advances to customers LVL '000 | Available-for-sale financial assets LVL '000 | Financial assets and liabilities at amortised cost LVL '000 | **Total financial assets/ liabilities LVL '000** | Non-financial assets/ liabilities LVL '000 | **Total LVL '000** |
|---|---|---|---|---|---|---|---|
| Cash and demand deposits with central banks | – | – | – | 63 684 | **63 684** | – | **63 684** |
| Balances due from credit institutions | – | 223 765 | – | – | **223 765** | – | **223 765** |
| Fixed income securities | 3 830 | – | 86 711 | – | **90 541** | – | **90 541** |
| Shares and other non-fixed income securities | – | – | 5 914 | – | **5 914** | – | **5 914** |
| Derivatives | 1 122 | – | – | – | **1 122** | – | **1 122** |
| Loans and advances to customers | – | 686 674 | – | – | **686 674** | – | **686 674** |
| Prepaid expense and accrued income | – | – | – | – | **–** | 96 | **96** |
| Tangible fixed assets | – | – | – | – | **–** | 8 542 | **8 542** |
| Investment properties | – | – | – | – | **–** | 16 514 | **16 514** |
| Intangible fixed assets | – | – | – | – | **–** | 1 988 | **1 988** |
| Investments in subsidiaries | – | – | – | – | **–** | 2 432 | **2 432** |
| Other assets | – | – | – | – | **–** | 1 592 | **1 592** |
| **Total assets** | **4 952** | **910 439** | **92 625** | **63 684** | **1 071 700** | **31 164** | **1 102 864** |
| **Liabilities** | | | | | | | |
| Deposits from credit institutions | – | – | – | 155 568 | **155 568** | – | **155 568** |
| Derivatives | 9 429 | – | – | – | **9 429** | – | **9 429** |
| Deposits | – | – | – | 825 351 | **825 351** | – | **825 351** |
| Subordinated liabilities | – | – | – | 21 121 | **21 121** | – | **21 121** |
| Deferred income and accrued expense | – | – | – | – | **–** | 4 312 | **4 312** |
| Other liabilities | – | – | – | – | **–** | 1 820 | **1 820** |
| **Total liabilities** | **9 429** | **–** | **–** | **1 002 040** | **1 011 469** | **6 132** | **1 017 601** |
| Shareholders' equity | – | – | – | – | **–** | 85 263 | 85 263 |
| **Total liabilities and shareholders' equity** | **9 429** | **–** | **–** | **1 002 040** | **1 011 469** | **91 395** | **1 102 864** |



*The accompanying notes form an integral part of these consolidated financial statements.*



*The accompanying notes form an integral part of these consolidated financial statements.*

The table below presents the Bank's balance sheet by categories of financial assets and liabilities as at 31 December 2006:

| Assets | Financial assets/ liabilities at fair value through profit or loss LVL '000 | Loans and advances to customers LVL '000 | Available-for-sale financial assets LVL '000 | Financial assets and liabilities at amortised cost LVL '000 | **Total financial assets/ liabilities LVL '000** | Non-financial assets/ liabilities LVL '000 | **Total LVL '000** |
|---|---|---|---|---|---|---|---|
| Cash and demand deposits with central banks | – | – | – | 56 674 | **56 674** | – | **56 674** |
| Balances due from credit institutions | – | 163 988 | – | – | **163 988** | – | **163 988** |
| Fixed income securities | 2 493 | – | 64 841 | – | **67 334** | – | **67 334** |
| Shares and other non-fixed income securities | – | – | 6 406 | – | **6 406** | – | **6 406** |
| Derivatives | 1 191 | – | – | – | **1 191** | – | **1 191** |
| Loans and advances to customers | – | 491 210 | – | – | **491 210** | – | **491 210** |
| Prepaid expense and accrued income | – | – | – | – | **–** | 90 | **90** |
| Tangible fixed assets | – | – | – | – | **–** | 6 510 | **6 510** |
| Investment properties | – | – | – | – | **–** | 14 217 | **14 217** |
| Intangible fixed assets | – | – | – | – | **–** | 1 572 | **1 572** |
| Investments in subsidiaries | – | – | – | – | **–** | 2 462 | **2 462** |
| Other assets | – | – | – | – | **–** | 247 | **247** |
| **Total assets** | **3 684** | **655 198** | **71 247** | **56 674** | **786 803** | **25 098** | **811 901** |
| **Liabilities** | | | | | | | |
| Deposits from credit institutions | – | – | – | 54 909 | **54 909** | – | **54 909** |
| Derivatives | 3 512 | – | – | – | **3 512** | – | **3 512** |
| Deposits | – | – | – | 660 950 | **660 950** | – | **660 950** |
| Subordinated liabilities | – | – | – | 19 330 | **19 330** | – | **19 330** |
| Deferred income and accrued expense | – | – | – | – | **–** | 3 053 | **3 053** |
| Other liabilities | – | – | – | – | **–** | 2 058 | **2 058** |
| **Total liabilities** | **3 512** | **–** | **–** | **735 189** | **738 701** | **5 111** | **743 812** |
| Shareholders' equity | – | – | – | – | **–** | 68 089 | 68 089 |
| **Total liabilities and shareholders' equity** | **3 512** | **–** | **–** | **735 189** | **738 701** | **73 200** | **811 901** |

## 5. Interest Revenue and Expense

| Interest revenue | Group 2007 LVL '000 | Group 2006 LVL '000 | Bank 2007 LVL '000 | Bank 2006 LV '000 |
|---|---|---|---|---|
| on loans and advances to customers | 42 179 | 24 050 | 42 180 | 24 050 |
| non-impaired | 41 668 | 23 930 | 41 669 | 23 930 |
| impaired | 511 | 120 | 511 | 120 |
| on debt securities and other fixed income securities | 6 947 | 6 209 | 6 947 | 6 209 |
| financial assets at fair value through profit or loss | 255 | 181 | 255 | 181 |
| available-for-sale financial assets | 6 692 | 6 028 | 6 692 | 6 028 |
| on balances due from credit institutions | 5 677 | 3 343 | 5 677 | 3 343 |
| on balances due from the Bank of Latvia | 1 234 | 810 | 1 234 | 810 |
| other interest revenue | 119 | – | 119 | – |
| **Total interest revenue** | **56 156** | **34 412** | **56 157** | **34 412** |
| **Interest expense** | | | | |
| on deposits from customers | 15 349 | 9 270 | 15 349 | 9 281 |
| on balances due to credit institutions and central banks | 6 857 | 1 258 | 6 751 | 1 213 |
| other interest expense | 1 361 | 1 010 | 1 361 | 1 010 |
| on subordinated liabilities | 1 814 | 775 | 1 814 | 775 |
| **Total interest expense** | **25 381** | **12 313** | **25 275** | **12 279** |

## 6. Commission and Fee Revenue and Expense

| Commission and fee revenue | Group 2007 LVL '000 | Group 2006 LVL '000 | Bank 2007 LVL '000 | Bank 2006 LVL '000 |
|---|---|---|---|---|
| commission on payment transfers on behalf of customers | 7 028 | 5 725 | 7 028 | 5 725 |
| service fees | 1 273 | 1 039 | 1 273 | 1 039 |
| commission on transactions with settlement cards | 1 231 | 872 | 1 231 | 872 |
| commission on trust transactions | 1 036 | 70 | 68 | 64 |
| loan-related revenue | 483 | 322 | 483 | 322 |
| commission on documentary transactions | 285 | 187 | 285 | 187 |
| commission on cash operations | 282 | 283 | 282 | 283 |
| commission on brokerage operations | 252 | 135 | 34 | 107 |
| other commission and fee revenue | 137 | 56 | 98 | 56 |
| **Total commission and fee revenue** | **12 007** | **8 689** | **10 782** | **8 655** |
| **Commission and fee expense** | | | | |
| correspondent bank service charges | 1 052 | 714 | 1 052 | 714 |
| commission on transactions with settlement cards | 539 | 448 | 539 | 448 |
| other commission and fee expense | 111 | 78 | 38 | 69 |
| **Total commission and fee expense** | **1 702** | **1 240** | **1 629** | **1 231** |

## 7. Net Profit/ Loss on Financial Assets

| | Group 2007 LVL '000 | Group 2006 LVL '000 | Bank 2007 LVL '000 | Bank 2006 LVL '000 |
|---|---|---|---|---|
| (Loss)/ profit from revaluation of financial assets and liabilities at fair value through profit or loss | (576) | 386 | (576) | 386 |
| (Loss)/ profit from trading with financial assets and liabilities at fair value through profit or loss | (1 897) | 38 | (1 897) | 38 |
| **Net (loss)/ profit from financial assets and liabilities at fair value through profit or loss** | **(2 473)** | **424** | **(2 473)** | **424** |
| Profit from sale of available-for-sale securities | 1 152 | 1 736 | 1 152 | 1 736 |
| **Net realised profit from available-for-sale financial assets** | **1 152** | **1 736** | **1 152** | **1 736** |
| Profit from foreign currency exchange | 27 170 | 15 533 | 27 170 | 15 533 |
| (Loss) from revaluation of foreign currency positions | (8 602) | (3 179) | (8 586) | (3 185) |
| **Profit from foreign exchange trading and revaluation** | **18 568** | **12 354** | **18 584** | **12 348** |

The result of foreign exchange transactions mainly represents currency exchange loss or gain.

## 8. Profit/ (Loss) from Derecognition of Property, Plant and Equipment, Investment Properties and Intangible Assets

According to the requirements of IAS 27, profit of LVL 2,235 thousand resulting from the sale of the Bank's real estate to subsidiary SIA Elizabetes 21a was not recorded in the Group's income statement for the year ended 31 December 2006. Any gain or loss will be recognised in the consolidated income statement after the subsidiary sells this estate to a non-Group entity.

## 9. Administrative Expense

| | Group 2007 LVL '000 | Group 2006 LVL '000 | Bank 2007 LVL '000 | Bank 2006 LVL '000 |
|---|---|---|---|---|
| Remuneration to personnel | 10 884 | 7 348 | 10 391 | 7 236 |
| Statutory social insurance contributions | 2 079 | 1 625 | 2 002 | 1 577 |
| Rent of premises, repairs and maintenance costs | 1 250 | 1 022 | 1 161 | 993 |
| Remuneration to the Council and the Board | 1 224 | 793 | 1 034 | 690 |
| Donations | 1 105 | 1 077 | 1 105 | 1 077 |
| Advertising and marketing expense | 990 | 969 | 983 | 969 |
| Equipment maintenance expense and stationery | 864 | 735 | 860 | 735 |
| Inter-bank and other communication expense | 477 | 412 | 417 | 383 |
| Training expense | 203 | 187 | 197 | 182 |
| Investment property maintenance costs | 189 | 261 | 166 | 261 |
| Other administrative expense | 2 333 | 1 816 | 2 237 | 1 721 |
| **Total administrative expense** | **21 598** | **16 245** | **20 553** | **15 824** |

In 2007, the Group and the Bank employed an average of 550 (491) and 528 (484) persons.

The following table specifies employees of the Group and the Bank as at 31 December 2007 and 2006:

| | Group 31/12/2007 number | Group 31/12/2006 number | Bank 31/12/2007 number | Bank 31/12/2006 number |
|---|---|---|---|---|
| Management | 15 | 16 | 9 | 9 |
| Heads of divisions and departments | 109 | 85 | 99 | 81 |
| Other personnel | 463 | 412 | 455 | 404 |
| **Total** | **587** | **513** | **563** | **494** |

## 10. Other Expense

| | Group 2007 LVL '000 | Group 2006 LVL '000 | Bank 2007 LVL '000 | Bank 2006 LVL '000 |
|---|---|---|---|---|
| Intermediary services | 1 337 | 845 | 1 787 | 907 |
| Other operating expense | 325 | 157 | 325 | 155 |
| **Total other operating expense** | **1 662** | **1 002** | **2 112** | **1 062** |



*The accompanying notes form an integral part of these consolidated financial statements.*

## 11. Change in Allowances for Credit Losses

The total allowances for credit losses of the Group and the Bank by loan type:

| | Mortgage loans LVL '000 | Consumer loans LVL '000 | Commercial loans LVL '000 | Total as at 31/12/2007 LVL '000 | Total as at 31/12/2006 LVL '000 |
|---|---|---|---|---|---|
| Specific allowances at the beginning of the period | 243 | 19 | 229 | 491 | 876 |
| Collective allowance at the beginning of the period | – | – | 358 | 358 | 429 |
| **Total allowances at the beginning of the period** | **243** | **19** | **587** | **849** | **1 305** |
| Specific allowances charged to income statement | 1 174 | 53 | 932 | 2 159 | 277 |
| Collective allowance charged to income statement | – | – | 849 | 849 | – |
| Asset write-off expenses | – | – | 13 | 13 | 8 |
| **Total allowances charged to income statement** | **1 174** | **53** | **1 794** | **3 021** | **285** |
| Release of previously established specific allowances | (188) | (3) | (89) | (280) | (467) |
| Release of previously established collective allowance | – | – | – | – | (71) |
| Recovery of written-off assets | – | – | (30) | (30) | (6) |
| **Total release of previously established allowances** | **(188)** | **(3)** | **(119)** | **(310)** | **(544)** |
| **Total allowance expense, net** | **986** | **50** | **1 675** | **2 711** | **(259)** |
| Recovery of write-offs/ asset write-off (expenses) | – | – | 17 | 17 | (2) |
| (Decrease) in allowance due to currency fluctuations | (3) | – | (2) | (5) | (12) |
| (Reversal) of specific allowances due to write-offs | – | – | – | – | (183) |
| **Total change in allowances for the period** | **983** | **50** | **1 690** | **2 723** | **(456)** |
| Specific allowances at the end of the period | 1 226 | 69 | 1 070 | 2 365 | 491 |
| Collective allowance at the end of the period | – | – | 1 207 | 1 207 | 358 |
| **Total allowances at the end of the period** | **1 226** | **69** | **2 277** | **3 572** | **849** |

## 12. Taxation

| | Group 2007 LVL '000 | Group 2006 LVL '000 | Bank 2007 LVL '000 | Bank 2006 LVL '000 |
|---|---|---|---|---|
| Profit before corporate income tax | 31 713 | 26 293 | 31 289 | 28 850 |
| Group's profit adjustments for corporate income tax | – | 2 560 | – | – |
| **Theoretical corporate income tax** | **4 757** | **4 328** | **4 693** | **4 328** |
| Permanent differences | 246 | 177 | 207 | 176 |
| Temporary differences | – | (335) | – | – |
| Tax rebates | (922) | (899) | (922) | (899) |
| **Actual corporate income tax expense for the reporting period** | **4 081** | **3 271** | **3 978** | **3 605** |
| Adjustments to prior year corporate income tax | 125 | 163 | 125 | 163 |
| **Total corporate income tax expense for the reporting period** | **4 206** | **3 434** | **4 103** | **3 768** |



*The accompanying notes form an integral part of these consolidated financial statements.*

Deferred corporate income tax calculation:

| | Group 31/12/2007 Amounts subject to temporary differences LVL '000 | Group 31/12/2006 Amounts subject to temporary differences LVL '000 | Bank 31/12/2007 Amounts subject to temporary differences LVL '000 | Bank 31/12/2006 Amounts subject to temporary differences LVL '000 |
|---|---|---|---|---|
| Accumulated excess of tax deprecation over accounting deprecation | 3 079 | 2 733 | 3 056 | 2 733 |
| Fair value revaluation reserve | (2 689) | 2 031 | (2 689) | 2 031 |
| Collective (portfolio) allowance and other accrued liabilities | (1 737) | (779) | (1 723) | (779) |
| Revaluation of assets, net | (277) | 251 | (277) | 251 |
| Deferred tax asset on intra-group transactions | (2 235) | (2 235) | – | – |
| **Basis for calculation of deferred income tax** | **(3 859)** | **2 001** | **(1 633)** | **4 236** |
| Tax rate | 15% | 15% | 15% | 15% |
| **Deferred income tax (asset)/ liability** | **(580) 1** | **– 300** | **(245) –** | **– 635** |

| | Group 2007 LVL '000 | Group 2006 LVL '000 | Bank 2007 LVL '000 | Bank 2006 LVL '000 |
|---|---|---|---|---|
| Deferred corporate income tax at the beginning of the period | 300 | 601 | 635 | 601 |
| (Decrease)/ increase charged to income statement during the period | (172) | (326) | (173) | 9 |
| (Decrease)/ increase attributable to fair value revaluation reserve under equity | (707) | 25 | (707) | 25 |
| **Deferred corporate income tax (asset)/ liability at the end of the period** | **(580) 1** | **– 300** | **(245) –** | **– 635** |

The movements in the Bank's tax accounts can be specified as follows:

| | Corporate income tax LVL '000 | Personal income tax LVL '000 | Statutory social insurance contributions LVL '000 | Value added tax LVL '000 | Real estate tax LVL '000 |
|---|---|---|---|---|---|
| **Receivable/ (payable) as at 01/01/2006** | **(1 038)** | **–** | **(103)** | **14** | **–** |
| Calculated | (3 596) | (1 542) | (1 917) | (134) | (108) |
| Prior year adjustments | 68 | – | – | 50 | (3) |
| Paid | 4 293 | 1 542 | 1 907 | 65 | 111 |
| **(Payable) as at 31/12/2006** | **(273)** | **–** | **(113)** | **(5)** | **–** |
| Calculated | (4 150) | (2 334) | (2 559) | (13) | (85) |
| Prior year adjustments | 103 | – | – | 27 | – |
| Paid | 4 910 | 2 333 | 2 542 | 259 | 85 |
| **Receivable/ (payable) as at 31/12/2007** | **590** | **(1)** | **(130)** | **268** | **–** |

The movements in the Group's tax accounts can be specified as follows:

| | Corporate income tax LVL '000 | Personal income tax LVL '000 | Statutory social insurance contributions LVL '000 | Value added tax LVL '000 | Real estate tax LVL '000 |
|---|---|---|---|---|---|
| **Receivable/ (payable) as at 01/01/2006** | **(1 038)** | **–** | **(103)** | **14** | **–** |
| Calculated | (3 598) | (1 586) | (1 981) | (130) | (108) |
| Prior year adjustments | 68 | – | 8 | 50 | (3) |
| Paid | 4 296 | 1 586 | 1 963 | 67 | 111 |
| **Receivable/ (payable) as at 31/12/2006** | **1 (273)** | **–** | **– (113)** | **1 –** | **–** |
| Calculated | (4 253) | (2 430) | (2 680) | (58) | (91) |
| Prior year adjustments | 103 | – | 8 | 27 | – |
| Paid | 4 911 | 2 429 | 2 661 | 328 | 91 |
| **Receivable/ (payable) as at 31/12/2007** | **590 (101)** | **– (1)** | **– (124)** | **– 298** | **–** |





*The accompanying notes form an integral part of these consolidated financial statements.*

## 13. Cash and Demand Deposits with Central Banks

| | Group/ Bank 31/12/2007 LVL '000 | Group/ Bank 31/12/2006 LVL '000 |
|---|---|---|
| Cash | 2 697 | 2 199 |
| Deposits with the Bank of Latvia | 60 987 | 54 475 |
| **Total cash and demand deposits with central banks** | **63 684** | **56 674** |

Deposits with the Bank of Latvia comprise the correspondent account balance as at 31 December 2007.

The average correspondent account balance with the Bank of Latvia calculated based on the instructions of the Bank of Latvia should exceed the compulsory reserve requirement set at 8% (8%) of attracted deposits. As at 31 December 2007, the Bank was in compliance with this requirement.

## 14. Balances Due from Credit Institutions

| | Group 31/12/2007 LVL '000 | Group 31/12/2006 LVL '000 | Bank 31/12/2007 LVL '000 | Bank 31/12/2006 LVL '000 |
|---|---|---|---|---|
| Due from credit institutions registered in other OECD countries | 104 349 | 15 202 | 104 349 | 15 202 |
| Due from credit institutions registered in EMU countries | 49 528 | 80 733 | 49 528 | 80 733 |
| Due from credit institutions registered in other countries | 32 212 | 22 653 | 32 205 | 22 653 |
| Due from credit institutions registered in other EU Member States | 27 729 | 39 678 | 27 729 | 39 678 |
| Due from credit institutions registered in Latvia | 9 954 | 5 733 | 9 954 | 5 722 |
| **Total balances due from credit institutions** | **223 772** | **163 999** | **223 765** | **163 988** |

As at 31 December 2007, the Bank had established correspondent relationships with 25 (27) credit institutions registered in the OECD area, 6 (5) credit institutions registered in Latvia, and 25 (25) credit institutions incorporated in other countries.

Balances due from credit institutions to the Group by geographical area and structure:

| Demand deposits with credit institutions | Latvia LVL '000 | EMU countries LVL '000 | Other EU Member States LVL '000 | Other OECD countries LVL '000 | Other countries LVL '000 | Total as at 31/12/2007 LVL '000 | Total as at 31/12/2006 LVL '000 |
|---|---|---|---|---|---|---|---|
| Correspondent account balances | 2 149 | 36 252 | 4 985 | 97 089 | 23 517 | 163 992 | 35 782 |
| Overnight deposits | 5 327 | 4 842 | – | 7 260 | – | 17 429 | 109 422 |
| **Total demand deposits with credit institutions** | **7 476** | **41 094** | **4 985** | **104 349** | **23 517** | **181 421** | **145 204** |
| **Other balances due from credit institutions** | | | | | | | |
| Security deposits | 807 | 8 434 | 22 744 | – | – | 31 985 | 12 168 |
| Term deposits | 1 671 | – | – | – | 8 695 | 10 366 | 6 627 |
| **Total other balances due from credit institutions** | **2 478** | **8 434** | **22 744** | **–** | **8 695** | **42 351** | **18 795** |
| **Total balances due from credit institutions** | **9 954** | **49 528** | **27 729** | **104 349** | **32 212** | **223 772** | **163 999** |



*The accompanying notes form an integral part of these consolidated financial statements.*

Balances due from credit institutions to the Bank by geographical area and structure:

| Demand deposits with credit institutions | Latvia LVL '000 | EMU countries LVL '000 | Other EU Member States LVL '000 | Other OECD countries LVL '000 | Other countries LVL '000 | Total as at 31/12/2007 LVL '000 | Total as at 31/12/2006 LVL '000 |
|---|---|---|---|---|---|---|---|
| Correspondent account balances | 2 149 | 36 252 | 4 985 | 97 089 | 23 510 | 163 985 | 35 771 |
| Overnight deposits | 5 327 | 4 842 | – | 7 260 | – | 17 429 | 109 422 |
| **Total demand deposits with credit institutions** | **7 476** | **41 094** | **4 985** | **104 349** | **23 510** | **181 414** | **145 193** |
| **Other balances due from credit institutions** | | | | | | | |
| Security deposits | 807 | 8 434 | 22 744 | – | – | 31 985 | 12 168 |
| Term deposits | 1 671 | – | – | – | 8 695 | 10 366 | 6 627 |
| **Total other balances due from credit institutions** | **2 478** | **8 434** | **22 744** | **–** | **8 695** | **42 351** | **18 795** |
| **Total balances due from credit institutions** | **9 954** | **49 528** | **27 729** | **104 349** | **32 205** | **223 765** | **163 988** |

As at 31 December 2007, term deposits included the syndicated loan of EUR 1 million.

Concentration of balances due from credit institutions by geographical area:

| Balances over LVL 15 000 000 | Group 31/12/2007 number | Group 31/12/2006 number | Bank 31/12/2007 number | Bank 31/12/2006 number |
|---|---|---|---|---|
| due from credit institutions registered in OECD area | 4 | 4 | 4 | 4 |
| **Balances from LVL 5 000 000 to LVL 15 000 000** | | | | |
| due from credit institutions registered in OECD area | 2 | 1 | 2 | 1 |
| due from credit institutions registered in other countries | 3 | 1 | 3 | 1 |
| **Balances up to LVL 5 000 000** | | | | |
| due from credit institutions registered in OECD area | 32 | 29 | 32 | 29 |
| due from credit institutions registered in other countries | 13 | 22 | 13 | 22 |
| due from credit institutions registered in Latvia | 10 | 9 | 9 | 8 |
| **Total** | | | | |
| due from credit institutions registered in OECD area | 38 | 34 | 38 | 34 |
| due from credit institutions registered in other countries | 16 | 23 | 16 | 23 |
| due from credit institutions registered in Latvia | 10 | 9 | 9 | 8 |

## 15. Loans and Advances to Customers

Breakdown of loans and advances by customer profile:

| Customer profile | Group 31/12/2007 LVL '000 | Group 31/12/2006 LVL '000 | Bank 31/12/2007 LV '000 | Bank 31/12/2006 LV '000 |
|---|---|---|---|---|
| Other private individuals | 488 733 | 326 196 | 488 733 | 326 196 |
| Corporate companies | 193 785 | 160 236 | 193 782 | 160 234 |
| Bank's employees | 7 252 | 5 629 | 7 252 | 5 629 |
| Financial institutions | 479 | – | 479 | – |
| **Total loans and advances to customers** | **690 249** | **492 061** | **690 246** | **492 059** |
| Less allowance for credit losses | (3 572) | (849) | (3 572) | (849) |
| **Total loans and advances to customers, net** | **686 677** | **491 212** | **686 674** | **491 210** |

The latvian banking legislation requires that any credit exposure to a non-related entity or a group of non-related entities may not exceed 25% of the credit institution's equity. The total credit exposure to all related parties may not exceed 15% of equity.

As at 31 December 2007, the Bank was in compliance with the above requirements for non-zero risk credit exposures to related parties and non-related entities.



*The accompanying notes form an integral part of these consolidated financial statements.*

The industry analysis of loans and advances granted to corporate customers and the maximum exposure are provided below:

| Industry profile* | Group 31/12/2007 LVL '000 | Group 31/12/2006 LVL '000 | Bank 31/12/2007 LVL '000 | Bank 31/12/2006 LVL '000 |
|---|---|---|---|---|
| Trade | 81 391 | 51 206 | 81 391 | 51 206 |
| Real estate management | 43 368 | 30 467 | 43 368 | 30 467 |
| Construction | 31 415 | 38 905 | 31 415 | 38 905 |
| Manufacturing | 18 574 | 6 946 | 18 574 | 6 946 |
| Transport and communication | 14 002 | 7 004 | 14 002 | 7 004 |
| Other service industries | 4 114 | 4 289 | 4 114 | 4 289 |
| Other industries | 605 | 8 285 | 602 | 8 283 |
| Agriculture and forestry | 316 | 617 | 316 | 617 |
| Financial intermediaries | - | 12 517 | - | 12 517 |
| **Gross loans and advances to corporate customers** | **193 785** | **160 236** | **193 782** | **160 234** |

* The industry profile of loans with the initial maturity of up to one year is determined by the Bank based on the industry where the borrower operates, while for loans with the initial maturity exceeding one year, it is based on the purpose of the loan granted (by the industry for the development of which the loan has been issued).

## 16. Debt Securities and Other Fixed Income Securities

The Group and Bank's investments in debt securities are classified by investment type as follows:

| | Group/Bank 31/12/2007 | | Group/Bank 31/12/2006 | |
|---|---|---|---|---|
| | At fair value LVL '000 | Available-for-sale LVL '000 | At fair value LVL '000 | Available-for-sale LVL '000 |
| Latvian government debt securities | – | 4 931 | – | 10 016 |
| Latvian credit institution debt securities | – | 1 440 | 722 | 904 |
| **Debt securities issued in OECD area** | | | | |
| Government debt securities | – | | – | – |
| Issued by credit institutions | – | 16 408 | – | 4 678 |
| Issued by corporate companies | – | 388 | – | – |
| **Debt securities issued in other countries** | | | | |
| Issued by credit institutions | 3 507 | 34 370 | 1 089 | 24 117 |
| Issued by corporate companies | 323 | 18 425 | 483 | 13 238 |
| Government and central bank debt securities | – | 5 507 | 199 | 6 476 |
| Issued by state-owned companies | – | 2 125 | – | 2 211 |
| Issued by municipalities | – | 2 051 | – | 1 970 |
| Issued by financial institutions | – | 1 066 | – | 1 231 |
| **Total debt securities and other fixed income securities** | **3 830** | **86 711** | **2 493** | **64 841** |



*The accompanying notes form an integral part of these consolidated financial statements.*

Available-for-sale securities are classified as follows:

| | Group/ Bank 31/12/2007 | | Group/ Bank 31/12/2006 | |
|---|---|---|---|---|
| **Debt securities issued in Latvia** | Liquidity portfolio LVL '000 | Investments held for undefined period portfolio LVL '000 | Liquidity portfolio LVL '000 | Investments held for undefined period portfolio LVL '000 |
| Latvian government debt securities | 1 385 | 3 546 | 4 049 | 5 967 |
| Latvian credit institution debt securities | 915 | 525 | 548 | 356 |
| **Debt securities issued in OECD area** | | | | |
| Issued by credit institutions | 16 408 | – | 2 749 | 1 929 |
| Issued by corporate companies | – | 388 | – | – |
| **Debt securities issued in other countries** | | | | |
| Issued by credit institutions | – | 34 370 | – | 24 117 |
| Issued by corporate companies | – | 18 425 | – | 13 238 |
| Government and central bank debt securities | – | 5 507 | – | 6 476 |
| Issued by state-owned companies | – | 2 125 | – | 2 211 |
| Issued by municipalities | – | 2 051 | – | 1 970 |
| Issued by financial institutions | – | 1 066 | – | 1 231 |
| **Total available-for-sale securities** | **18 708** | **68 003** | **7 346** | **57 495** |

As at 31 December 2007, the following securities were not listed on stock exchanges: debt securities issued by companies of other countries of LVL 1,453 (1,633) thousand and debt securities issued by credit institutions of other countries of LVL 1,002 (823) thousand belonging to the Bank's available-for-sale portfolio, and fixed income securities issued by companies of other countries of LVL 73 (109) thousand and fixed income securities issued by credit institutions of other countries of LVL 251 thousand belonging to the Bank's trading portfolio.

In 2007, the average interest rate of fixed income securities was 7.45% (7.02%).

## 17. Shares and Other Non-fixed Income Securities

As at 31 December 2007 and 2006, all Group and Bank's investments in shares and investment funds are classified as available-for-sale financial assets.

| | Group/ Bank 31/12/2007 | | Group/ Bank 31/12/2006 | |
|---|---|---|---|---|
| | Listed LVL '000 | Non-listed LVL '000 | Listed LVL '000 | Non-listed LVL '000 |
| Equity shares in foreign corporate entities | 3 062 | 38 | 3 566 | 31 |
| Investments in funds | – | 2 420 | – | 2 680 |
| Equity shares in foreign financial institutions | 181 | 111 | – | – |
| Equity shares in Latvian corporate entities | 102 | – | 129 | – |
| **Total shares and other non-fixed income securities** | **3 345** | **2 569** | **3 695** | **2 711** |



*The accompanying notes form an integral part of these consolidated financial statements.*

## 18. Derivatives

The table below presents the notional amounts of foreign currency exchange contracts and other derivative financial instruments and their fair values. The notional value of foreign currency exchange contracts is the amount receivable. The notional value of other derivative financial instruments is the value of the underlying assets of these instruments.

| | Group/ Bank | | Group/ Bank | | Group/ Bank | |
|---|---|---|---|---|---|---|
| | 31/12/2007 | 31/12/2006 | 31/12/2007 | 31/12/2006 | 31/12/2007 | 31/12/2006 |
| | Notional value | | Fair value | | | |
| **Foreign currency exchange contracts** | LVL '000 | LVL '000 | Assets LVL '000 | Liabilities LVL '000 | Assets LVL '000 | Liabilities LVL '000 |
| Forwards | 11 502 | 10 438 | 133 | 10 | 20 | 68 |
| Swaps | 256 191 | 246 757 | 932 | 9 112 | 907 | 3 444 |
| **Total foreign currency exchange contracts** | **267 693** | **257 195** | **1 065** | **9 122** | **927** | **3 512** |
| **Interest rate derivatives** | | | | | | |
| Futures, sold | 44 476 | 36 512 | 55 | 307 | 264 | – |
| **Total interest rate derivatives** | **44 476** | **36 512** | **55** | **307** | **264** | **–** |
| **Options** | | | | | | |
| Options, sold | 183 | – | 2 | – | – | – |
| **Total options** | **183** | **–** | **2** | **–** | **–** | **–** |

## 19. Investments in Subsidiaries

As at 31 December 2007, the Bank held shares in the following subsidiaries:

| | Country of incorporation | Business profile | Share capital | Equity | Bank's share (% of total share capital) | Share capital | Equity | Bank's share (% of total share capital) |
|---|---|---|---|---|---|---|---|---|
| | | | 31/12/2007 | | | 31/12/2006 | | |
| **Company** | | | LVL '000 | LVL '000 | % | LVL '000 | LVL '000 | % |
| IPAS AB.LV Asset Management | LV | Financial services | 700 | 1 142 | 100 | 700 | 578 | 100 |
| IBAS AB.LV Capital Markets | LV | Financial services | 700 | 440 | 100 | 700 | 562 | 100 |
| SIA Elizabetes 21a | LV | Real estate transactions | 1 200 | 1 005 | 85 | 1 050 | 985 | 100 |
| AS AB Konsultācijas | LV | Consulting services | 40 | 58 | 30 | 40 | 48 | 30 |
| | | **Total** | **2 640** | **2 645** | | **2 490** | **2 173** | |

Although the Bank's share in the capital of AS AB Konsultācijas is 30%, the Bank exercises control over this company, which is the reason for consolidating it.

As at 31 December 2007, the funds of customers of AB.LV Asset Management managed by the said company based on customers' authorisation amounted to LVL 45,803 (1,255) thousand. The value of financial instruments of AB.LV Capital Market customers as at 31 December 2007 was LVL 71,801 (25,080) thousand.



*The accompanying notes form an integral part of these consolidated financial statements.*

## 20. Investment Properties

| | Group 31/12/2007 LVL '000 | Group 31/12/2006 LVL '000 | Bank 31/12/2007 LVL '000 | Bank 31/12/2006 LVL '000 |
|---|---|---|---|---|
| Investment properties | 14 277 | 14 217 | 14 277 | 14 217 |
| Prepayments for investment properties | 2 237 | – | 2 237 | – |
| **Total investment properties** | **16 514** | **14 217** | **16 514** | **14 217** |

The movements in the Group and Bank's investment properties in 2007 are as follows:

| | Group | | | Bank | | |
|---|---|---|---|---|---|---|
| | Land LVL '000 | Buildings LVL '000 | Total, less prepayments LVL '000 | Land LVL '000 | Buildings LVL '000 | Total, less prepayments LVL '000 |
| **Acquisition value as at 01/01/2007** | **13 923** | **327** | **14 250** | **13 923** | **327** | **14 250** |
| Additions | – | 77 | 77 | – | 77 | 77 |
| Disposals | – | – | – | – | – | – |
| **Acquisition value as at 31/12/2007** | **13 923** | **404** | **14 327** | **13 923** | **404** | **14 327** |
| **Accumulated depreciation as at 01/01/2007** | **–** | **33** | **33** | **–** | **33** | **33** |
| Depreciation charge | – | 17 | 17 | – | 17 | 17 |
| Disposals | – | – | – | – | – | – |
| **Accumulated depreciation as at 31/12/2007** | **–** | **50** | **50** | **–** | **50** | **50** |
| **Net carrying amount as at 01/01/2007** | **13 923** | **294** | **14 217** | **13 923** | **294** | **14 217** |
| **Net carrying amount as at 31/12/2007** | **13 923** | **354** | **14 277** | **13 923** | **354** | **14 277** |

The movements in the Group and Bank's investment properties in 2006 are as follows:

| | Group | | | Bank | | |
|---|---|---|---|---|---|---|
| | Land LVL '000 | Buildings LVL '000 | Total LVL '000 | Land LVL '000 | Buildings LVL '000 | Total LVL '000 |
| **Acquisition value as at 01/01/2006** | **14 054** | **1 915** | **15 969** | **13 375** | **1 894** | **15 269** |
| Additions | 55 | 38 | 93 | 55 | 38 | 93 |
| Disposals | (53) | – | (53) | (186) | (1 626) | (1 812) |
| Reclassified during liquidation of the subsidiary | – | – | – | 679 | 21 | 700 |
| Reclassified to other assets | (133) | (1 626) | (1 759) | – | – | – |
| **Acquisition value as at 31/12/2006** | **13 923** | **327** | **14 250** | **13 923** | **327** | **14 250** |
| **Accumulated depreciation as at 01/01/2006** | **–** | **233** | **233** | **–** | **233** | **233** |
| Depreciation charge | – | 54 | 54 | – | 54 | 54 |
| Disposals | – | – | – | – | (254) | (254) |
| Reclassified to other assets | – | (254) | (254) | – | – | – |
| **Accumulated depreciation as at 31/12/2006** | **–** | **33** | **33** | **–** | **33** | **33** |
| **Net carrying amount as at 01/01/2006** | **14 054** | **1 682** | **15 736** | **13 375** | **1 661** | **15 036** |
| **Net carrying amount as at 31/12/2006** | **13 923** | **294** | **14 217** | **13 923** | **294** | **14 217** |

The market value of the Group and Bank's investment properties as at 31 December 2007 was LVL 71 (76) million.

The Management of the Bank believe that the most credible market value of investment properties was identified based on the evaluations presented by independent valuers. The selling value of the investment properties may differ from the market value as defined, as the market of such kind of properties is not developed enough.

Rentals from investment properties in 2007 amounted to LVL 110 (243) thousand, whereas the related property maintenance expense was LVL 166 (261) thousand, including direct operating expenses arising from investment properties that did not generate rental income, amounting to LVL 5 (30) thousand.



*The accompanying notes form an integral part of these consolidated financial statements.*

## 21. Intangible and Tangible Fixed Assets

| | Group 31/12/2007 LVL '000 | Group 31/12/2006 LVL '000 | Bank 31/12/2007 LVL '000 | Bank 31/12/2006 LVL '000 |
|---|---|---|---|---|
| Intangible fixed assets | 975 | 1 009 | 955 | 998 |
| Prepayment for intangible fixed assets | 1 086 | 574 | 1 033 | 574 |
| **Total intangible fixed assets** | **2 061** | **1 583** | **1 988** | **1 572** |
| Land | 129 | 129 | 129 | 129 |
| Buildings and property improvements | 3 894 | 4 110 | 3 894 | 4 110 |
| Leasehold improvements | 430 | 451 | 430 | 451 |
| Transport vehicles | 282 | 410 | 187 | 330 |
| Office equipment | | | | |
| EDP equipment | 1 025 | 441 | 1 016 | 435 |
| Other tangible fixed assets | 969 | 1 027 | 952 | 1 011 |
| Prepayments for tangible fixed assets | 1 934 | 44 | 1 934 | 44 |
| **Total tangible fixed assets** | **8 663** | **6 612** | **8 542** | **6 510** |
| **Total net carrying amount of fixed assets** | **10 724** | **8 195** | **10 530** | **8 082** |

The movements in the Group's intangible and tangible fixed assets in 2007 are as follows:

| | Intangible fixed assets LVL '000 | Land LVL '000 | Buildings and property improvements LVL '000 | Leasehold improvements LVL '000 | Transport vehicles LVL '000 | Office equipment LVL '000 | Total, less prepayments LVL '000 |
|---|---|---|---|---|---|---|---|
| **Acquisition value as at 01/01/2007** | **2 018** | **129** | **4 867** | **721** | **699** | **5 120** | **13 554** |
| Additions | 466 | – | 7 | 72 | – | 1 338 | 1 883 |
| Disposals | (238) | – | – | – | (74) | (318) | (630) |
| **Acquisition value as at 31/12/2007** | **2 246** | **129** | **4 874** | **793** | **625** | **6 140** | **14 807** |
| **Accumulated depreciation as at 01/01/2007** | **1 009** | **–** | **757** | **270** | **289** | **3 652** | **5 977** |
| Depreciation charge | 310 | – | 223 | 93 | 116 | 802 | 1 544 |
| Disposals | (48) | – | – | – | (62) | (308) | (418) |
| **Accumulated depreciation as at 31/12/2007** | **1 271** | **–** | **980** | **363** | **343** | **4 146** | **7 103** |
| **Net carrying amount as at 01/01/2007** | **1 009** | **129** | **4 110** | **451** | **410** | **1 468** | **7 577** |
| **Net carrying amount as at 31/12/2007** | **975** | **129** | **3 894** | **430** | **282** | **1 994** | **7 704** |

The movements in the Group's intangible and tangible fixed assets in 2006 are as follows:

| | Intangible fixed assets LVL '000 | Land LVL '000 | Buildings and property improvements LVL '000 | Leasehold improvements LVL '000 | Transport vehicles LVL '000 | Office equipment LVL '000 | Total, less prepayments LVL '000 |
|---|---|---|---|---|---|---|---|
| **Acquisition value as at 01/01/2006** | **1 668** | **129** | **4 861** | **756** | **620** | **5 182** | **13 216** |
| Additions | 352 | – | 6 | 12 | 212 | 292 | 874 |
| Disposals | (2) | – | – | (47) | (133) | (354) | (536) |
| **Acquisition value as at 31/12/2006** | **2 018** | **129** | **4 867** | **721** | **699** | **5 120** | **13 554** |
| **Accumulated depreciation as at 01/01/2006** | **675** | **–** | **537** | **212** | **252** | **3 104** | **4 780** |
| Depreciation charge | 335 | – | 224 | 69 | 130 | 849 | 1 607 |
| Disposals | (1) | – | (4) | (11) | (93) | (301) | (410) |
| **Accumulated depreciation as at 31/12/2006** | **1 009** | **–** | **757** | **270** | **289** | **3 652** | **5 977** |
| **Net carrying amount as at 01/01/2006** | **993** | **129** | **4 324** | **544** | **368** | **2 078** | **8 436** |
| **Net carrying amount as at 31/12/2006** | **1 009** | **129** | **4 110** | **451** | **410** | **1 468** | **7 577** |

As at 31 December 2007, the Group and the Bank owned intangible and tangible fixed assets having the net carrying amount of 0 and the cost value of LVL 2,678 (1,745) thousand.



*The accompanying notes form an integral part of these consolidated financial statements.*

The movements in the Bank's intangible and tangible fixed assets in 2007 are as follows:

| | Intangible fixed assets LVL '000 | Land LVL '000 | Buildings and property improvements LVL '000 | Leasehold improvements LVL '000 | Transport vehicles LVL '000 | Office equipment LVL '000 | Total, less prepayments LVL '000 |
|---|---|---|---|---|---|---|---|
| **Acquisition value as at 01/01/2007** | **2 006** | **129** | **4 867** | **721** | **611** | **5 087** | **13 421** |
| Additions | 454 | – | 7 | 72 | – | 1 334 | 1 867 |
| Disposals | (238) | – | – | – | (113) | (323) | (674) |
| **Acquisition value as at 31/12/2007** | **2 222** | **129** | **4 874** | **793** | **498** | **6 098** | **14 614** |
| | | | | | | | |
| **Accumulated depreciation as at 01/01/2007** | **1 008** | **–** | **757** | **270** | **281** | **3 641** | **5 957** |
| Depreciation charge | 307 | – | 223 | 93 | 92 | 795 | 1 510 |
| Disposals | (48) | – | – | – | (62) | (306) | (416) |
| **Accumulated depreciation as at 31/12/2007** | **1 267** | **–** | **980** | **363** | **311** | **4 130** | **7 051** |
| | | | | | | | |
| **Net carrying amount as at 01/01/2007** | **998** | **129** | **4 110** | **451** | **330** | **1 446** | **7 464** |
| **Net carrying amount as at 31/12/2007** | **955** | **129** | **3 894** | **430** | **187** | **1 968** | **7 563** |

The movements in the Bank's intangible and tangible fixed assets in 2006 are as follows:

| | Intangible fixed assets LVL '000 | Land LVL '000 | Buildings and property improvements LVL '000 | Leasehold improvements LVL '000 | Transport vehicles LVL '000 | Office equipment LVL '000 | Total, less prepayments LVL '000 |
|---|---|---|---|---|---|---|---|
| **Acquisition value as at 01/01/2006** | **1 668** | **129** | **4 861** | **756** | **620** | **5 166** | **13 200** |
| Additions | 340 | – | 6 | 12 | 124 | 285 | 767 |
| Disposals | (2) | – | – | (47) | (133) | (364) | (546) |
| **Acquisition value as at 31/12/2006** | **2 006** | **129** | **4 867** | **721** | **611** | **5 087** | **13 421** |
| | | | | | | | |
| **Accumulated depreciation as at 01/01/2006** | **675** | **–** | **537** | **212** | **252** | **3 091** | **4 767** |
| Depreciation charge | 334 | – | 224 | 69 | 122 | 846 | 1 595 |
| Disposals | (1) | – | (4) | (11) | (93) | (296) | (405) |
| **Accumulated depreciation as at 31/12/2006** | **1 008** | **–** | **757** | **270** | **281** | **3 641** | **5 957** |
| | | | | | | | |
| **Net carrying amount as at 01/01/2006** | **993** | **129** | **4 324** | **544** | **368** | **2 075** | **8 433** |
| **Net carrying amount as at 31/12/2006** | **998** | **129** | **4 110** | **451** | **330** | **1 446** | **7 464** |

Information about contracts on acquisition of intangible and tangible fixed assets is disclosed in Note 24.

## 22. Balances Due to Credit Institutions

The following table provides the analysis of balances due to credit institutions and central banks by their place of incorporation:

| | Group 31/12/2007 LVL '000 | Group 31/12/2006 LVL '000 | Bank 31/12/2007 LVL '000 | Bank 31/12/2006 LVL '000 |
|---|---|---|---|---|
| Balances due to credit institutions incorporated in EMU countries | 94 688 | 23 271 | 94 688 | 23 271 |
| Balances due to credit institutions incorporated in other EU Member States | 45 401 | 7 050 | 45 401 | 7 050 |
| Balances due to credit institutions incorporated in Latvia | 10 193 | 25 088 | 7 187 | 22 086 |
| Balances due to credit institutions incorporated in other OECD countries | 6 013 | 2 116 | 6 013 | 2 116 |
| Balances due to credit institutions incorporated in other countries | 2 279 | 386 | 2 279 | 386 |
| **Total balances due to credit institutions and central banks** | **158 574** | **57 911** | **155 568** | **54 909** |



*The accompanying notes form an integral part of these consolidated financial statements.*

The following table provides the analysis of balances due to credit institutions and central banks by maturity profile:

| | Group 31/12/2007 LVL '000 | Group 31/12/2006 LVL '000 | Bank 31/12/2007 LVL '000 | Bank 31/12/2006 LVL '000 |
|---|---|---|---|---|
| Other term deposits | 152 976 | 49 131 | 149 970 | 46 129 |
| Demand deposits from credit institutions: | 5 598 | 8 780 | 5 598 | 8 780 |
| Balances repayable on demand | 5 598 | 5 388 | 5 598 | 5 388 |
| Overnight deposits | – | 3 392 | – | 3 392 |
| **Total balances due to credit institutions and central banks** | **158 574** | **57 911** | **155 568** | **54 909** |

Other term deposits include the syndicated loan of EUR 210 (50) million.

On 27 February 2007, the Bank received a syndicated loan from 18 foreign banks and one Latvian bank in the amount of EUR 85 million. The loan was issued for one year and bears interest at EURIBOR 3m + 0.70%. On 20 July 2007, the Bank received one more syndicated loan in the amount of EUR 125 million from 20 foreign banks and one Latvian bank, which effectively refinanced the syndicated loan of EUR 50 million received in 2006. The loan was issued for one year and bears interest at EURIBOR 3m + 0.60%.

The Bank has certain covenants related to the received syndicated loans. The major covenants are related to profit and equity of the Bank, quality of financial assets, and liquidity. During the reporting year, the Bank was in compliance with all the above requirements.

The Bank repaid the syndicated loan of EUR 85 million in February 2008, as mentioned in Note 33.

## 23. Deposits

| **Customer profile** | Group 31/12/2007 LVL '000 | Group 31/12/2006 LVL '000 | Bank 31/12/2007 LVL '000 | Bank 31/12/2006 LVL '000 |
|---|---|---|---|---|
| Corporate companies | 723 353 | 578 011 | 724 927 | 578 191 |
| Private individuals | 74 954 | 62 422 | 74 954 | 62 422 |
| State-owned enterprises | 17 448 | 11 715 | 17 448 | 11 715 |
| Financial institutions | 4 336 | 1 984 | 4 336 | 3 028 |
| Municipalities | 2 048 | 4 674 | 2 048 | 4 674 |
| Non-profit institutions serving private individuals | 1 638 | 920 | 1 638 | 920 |
| **Total deposits from customers** | **823 777** | **659 726** | **825 351** | **660 950** |

| **Geographical profile of customer residence** | Group 31/12/2007 LVL '000 | Group 31/12/2006 LVL '000 | Bank 31/12/2007 LVL '000 | Bank 31/12/2006 LVL '000 |
|---|---|---|---|---|
| Other EU Member States | 122 440 | 129 595 | 122 440 | 129 595 |
| Other OECD countries | 106 051 | 144 683 | 106 051 | 144 683 |
| Latvia | 82 174 | 84 863 | 83 748 | 86 087 |
| EMU countries | 5 284 | 1 498 | 5 284 | 1 498 |
| Other countries | 507 828 | 299 087 | 507 828 | 299 087 |
| **Total deposits from customers** | **823 777** | **659 726** | **825 351** | **660 950** |



*The accompanying notes form an integral part of these consolidated financial statements.*

## 24. Memorandum Items

| Contingent liabilities | Group/ Bank 31/12/2007 LVL '000 | Group/ Bank 31/12/2006 LVL '000 |
|---|---|---|
| Outstanding guarantees | 18 262 | 6 699 |
| Letters of credit | 928 | 1 829 |
| **Total contingent liabilities** | **19 190** | **8 528** |
| | | |
| **Financial commitments** | | |
| Loan commitments | 49 689 | 40 833 |
| Unutilised credit lines | 13 874 | 14 049 |
| Undrawn credit facilities on settlement cards | 3 765 | 2 821 |
| Contractual commitments on purchase of intangible assets | 1 200 | 276 |
| Contractual commitments on purchase of other tangible assets | 900 | 86 |
| **Total financial commitments** | **69 428** | **58 065** |
| **Total contingent liabilities and financial commitments** | **88 618** | **66 593** |

Funds under trust management by the Group amount to LVL 49,992 (5,250) thousand, while funds under trust management by the Bank amount to LVL 4,189 (3,995) thousand. The Bank's funds under trust management comprise loans issued from the funds specifically assigned by customers to the Bank. Meanwhile, the Group's funds under trust management include also funds of the customers of AB.LV Asset Management managed by the said company based on the customers' authorisation.

The related credit risk and all other risks remain fully with the customer, who provided these funds to the Group and/or Bank.

## 25. Subordinated Liabilities

The Bank received subordinated loans for a total amount of USD 38.6 (31.6) million and EUR 3.4 (3.4) million. Subordinated loans are included in the second tier of equity calculation. According to the provisions of the subordinated loan agreements, the lenders have no right to demand anticipatory repayment of the loans and capitalise the subordinated loans into the Bank's share capital.

| Lenders | Sum of the loan LVL '000 | Accumulated interest LVL '000 | % of total subordinated capital (%) | Interest rate | Currency | Date of the agreement | Date of maturity |
|---|---|---|---|---|---|---|---|
| Multicross LLC | 4 840 | 32 | 23.01 | 8.08 | USD | 19.03.2007 | 02.04.2017 |
| Euro swiss LLC | 4 840 | 32 | 23.01 | 8.08 | USD | 19.03.2007 | 02.04.2017 |
| Reynolds holding Ltd | 2 420 | 5 | 11.51 | 7.40 | USD | 09.11.2006 | 20.11.2011 |
| **Major lenders in total** | **12 100** | **69** | **57.53** | | | | |
| | | | | | | | |
| **Other lenders** | | | | | | | |
| residents | 218 | – | 1.03 | 8.13–8.39 | USD | | |
| non-residents | 6 348 | 14 | 30.18 | 7.40–8.39 | USD | | |
| residents | 35 | – | 0.17 | 7.14 | EUR | | |
| non-residents | 2 333 | 4 | 11.09 | 6.31–7.14 | EUR | | |
| **Other lenders in total** | **8 934** | **18** | **42.47** | | | | |
| **Total** | **21 034** | **87** | **100.00** | | | | |

The proportionate share of other lenders (for each individual lender) does not exceed 10% of the total amount of the subordinated capital. Their weighted average maturity is 5.92 years.


*The accompanying notes form an integral part of these consolidated financial statements.*

## 26. Paid-in Share Capital

As at 31 December 2007, the registered and paid-up share capital of the Bank amounted to LVL 15 million (15 million). The share capital consists of ordinary shares with voting rights only. All shares have the par value of LVL 150 (150) each.

As at 31 December 2007, the Bank had 108 (110) shareholders, including 18 (21) legal entities and 90 (89) private individuals, holding the total of 100,000 shares.

The members of the Board directly hold 93.15% (93.30%) of the share capital, while the members of the Council hold 3.35% (3.35%) of the share capital.

The major shareholders of the Bank and the groups of related shareholders are as follows:

| | 31/12/2007 | | 31/12/2006 | |
|---|---|---|---|---|
| | Paid-in share capital LVL '000 | % of total paid-in share capital (%) | Paid-in share capital LVL '000 | % of total paid-in share capital (%) |
| Oļegs Fiļs | 7 053 | 47.02 | 7 053 | 47.02 |
| | | | | |
| **Group of related shareholders** | | | | |
| Ernests Bernis | 6 899 | 45.99 | 6 899 | 45.99 |
| Nika Berne | 154 | 1.03 | 154 | 1.03 |
| **Total group of related shareholders** | **7 053** | **47.02** | **7 053** | **47.02** |

## 27. Dividends Declared and Paid

| | Group/ Bank 2007 LVL '000 | Group/ Bank 2006 LVL '000 |
|---|---|---|
| Dividends declared | 6 000 | 3 000 |
| Dividends paid | 5 999 | 3 000 |

| | Group/ Bank 2007 LVL | Group/ Banka 2006 LVL |
|---|---|---|
| Dividends declared per share | 60 | 30 |
| Dividends paid per share | 60 | 30 |

The Board has proposed payment of dividends to shareholders of LVL 50 per share, or LVL 5 000 000, which is subject to approval by the shareholders' meeting scheduled in March 2008.


*The accompanying notes form an integral part of these consolidated financial statements.*

## 28. Related Party Disclosures

Related parties are defined as shareholders who have the ability to exercise significant influence over the Group and the Bank, members of the Council and the Board, key management personnel, their close relatives, and companies in which they have a controlling interest, as well as subsidiaries and associates of the Group.

| | Group/ Bank 31/12/2007 | | Group/ Bank 31/12/2006 | |
|---|---|---|---|---|
| **Loans issued to related parties** | Amount LVL '000 | Terms | Amount LVL '000 | Terms |
| Management | 180 | 5–10% | 538 | 5–13% |
| Related legal entities | 3 156 | 6–18% | 1 940 | 5–18% |
| Other related private individuals | 819 | 5–21% | 614 | 5–21% |
| **Total loans issued to related parties** | **4 155** | | **3 092** | |
| Loan commitments and other memorandum items | 1 736 | 5–21% | 2 195 | 5–21% |
| Less allowance for credit losses | (33) | | – | |
| **Net loans, loan commitments and other memorandum items** | **5 858** | | **5 287** | |
| Percentage of equity, % (see Note 30) | 6.09 | | 7.22 | |

As at 31 December 2007, the deposits of related parties with the Group amounted to LVL 2,047 (2,125) thousand, while those with the Bank amounted to LVL 3,600 (3,344) thousand. All related party deposits bear standard interest rates offered by the Bank.

During the reporting year, the Bank disposed of part of its shareholding in subsidiary SIA Elizabetes 21a in the amount of 15% to its related entity.

Interest revenue and expense from transactions with related parties:

| | Group 2007 LVL '000 | Group 2006 LVL '000 | Bank 2007 LVL '000 | Bank 2006 LVL '000 |
|---|---|---|---|---|
| Interest revenue | 212 | 157 | 212 | 157 |
| Interest expense | 135 | 52 | 170 | 77 |

## 29. Cash and Cash Equivalents

| | Group 31/12/2007 LVL '000 | Group 31/12/2006 LVL '000 | Bank 31/12/2007 LVL '000 | Bank 31/12/2006 LVL '000 |
|---|---|---|---|---|
| Cash and deposits with the Bank of Latvia | 63 684 | 56 674 | 63 684 | 56 674 |
| Balances due from credit institutions | 190 278 | 150 974 | 190 271 | 150 963 |
| Balances due to credit institutions | (5 598) | (8 780) | (5 598) | (8 780) |
| **Total cash and cash equivalents** | **248 364** | **198 868** | **248 357** | **198 857** |

## 30. Capital Adequacy

The primary objective of the Group and Bank's capital management is to ensure that the Group and the Bank comply with externally imposed capital requirements (i.e. FCMC regulations and IFRS) and that the Group and the Bank maintain healthy capital ratios in order to support their business and maximise the shareholders' value.

The goals and procedures of the Group and Bank's capital management are consistent with those of the previous years.

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

As at 31 December 2007, the Bank's capital adequacy ratio in accordance with FCMC requirements was 13.48% (12.66%), while the Group's capital adequacy ratio was 13.19% (12.24%).

The Group and Bank's equity consists of Tier 1, comprising paid-in share capital, share premium, reserve capital, and retained earnings, including current year's profit which is not to be paid in dividends, less negative fair value revaluation reserve of available-for-sale financial assets and intangible fixed assets. Tier 2 includes subordinated capital and positive fair value revaluation reserve of available-for-sale financial assets (55%).

The reserve capital is the value of the Group and Bank's property, which, following the defined procedure, is accrued to cover unexpected losses or for other financing needs, based on the decision of the shareholders' meeting. There are no legal restrictions on utilisation of the reserves.



*The accompanying notes form an integral part of these consolidated financial statements.*

The capital adequacy ratio of the Group and the Bank is calculated in accordance with FCMC requirements.

| **Tier 1** | Group 31/12/2007 LVL '000 | Group 31/12/2006 LVL '000 | Bank 31/12/2007 LVL '000 | Bank 31/12/2006 LVL '000 |
|---|---|---|---|---|
| Paid-in share capital | 15 000 | 15 000 | 15 000 | 15 000 |
| Share premium | 255 | 255 | 255 | 255 |
| Reserve capital | 1 500 | 1 500 | 1 500 | 1 500 |
| Retained earnings | 41 385 | 24 528 | 43 608 | 24 526 |
| Intangible fixed assets | (2 061) | (1 583) | (1 988) | (1 572) |
| Minority interest | 215 | 34 | – | – |
| Current year's audited profit (not subject to distribution of dividends) | 22 506 | 16 857 | 22 186 | 19 082 |
| Negative fair value revaluation reserve of available-for-sale financial assets | (2 286) | – | (2 286) | – |
| **Total tier 1** | **76 514** | **56 591** | **78 275** | **58 791** |
| | | | | |
| **Tier 2** | | | | |
| Revaluation reserve of available-for-sale financial assets (55%) | – | 949 | – | 949 |
| Subordinated capital (based on the remaining maturity with the adjustment rate of 40%-100%) | 17 990 | 13 464 | 17 990 | 13 464 |
| **Total tier 2** | **17 990** | **14 413** | **17 990** | **14 413** |
| **Total eligible capital** | **94 504** | **71 004** | **96 265** | **73 204** |
| Capital charge for credit risk on banking book | 55 327 | 44 131 | 55 365 | 44 193 |
| Capital charge for foreign currency risk | 476 | 981 | 476 | 981 |
| Capital charge for position risk | 1 274 | 1 082 | 1 274 | 1 082 |
| Capital charge for counter party risk | 23 | 13 | 23 | 13 |
| Total capital charge for market risks on trading book | 1 773 | 2 076 | 1 773 | 2 076 |
| **Total capital charge 8%** | **57 100** | **46 207** | **57 138** | **46 269** |
| **Capital adequacy ratio (%)** | **13.24** | **12.29** | **13.48** | **12.66** |
| Minimum capital adequacy ratio (%) | 8.00 | 8.00 | 8.00 | 8.00 |

## 31. Fair Value of Financial Instruments

The Group and the Bank disclose the fair values of each category of financial assets and financial liabilities in such a manner so as to be able to compare the fair values with the carrying amounts. The breakdown of the Group and Bank's financial assets and financial liabilities by category is presented in Note 2.

For financial assets or financial liabilities that are liquid or have a short-term maturity, it is assumed that the carrying amounts approximate to their fair value. The fair value of the Group and Bank's financial assets and financial liabilities is mainly estimated considering the market prices quoted in an active market.

As at 31 December 2007, the carrying amounts of financial assets and financial liabilities whose fair values have been determined by discounting cash flows and determining their net present value were as follows: loans and advances to customers – LVL 324,595 (156,618) thousand, and financial liabilities at amortised cost – LVL 200,186 (192,598) thousand.

The table below presents the carrying amounts and fair values of the Group's financial assets and financial liabilities:

| | 31/12/2007 | | 31/12/2006 | |
|---|---|---|---|---|
| **Financial assets** | Carrying amount LVL '000 | Fair value LVL '000 | Carrying amount LVL '000 | Fair value LVL '000 |
| Cash and demand deposits with central banks | 63 684 | 63 684 | 56 674 | 56 674 |
| Balances due from credit institutions | 223 772 | 223 772 | 163 999 | 163 999 |
| Financial assets at fair value through profit or loss | 4 952 | 4 952 | 3 684 | 3 684 |
| Available-for-sale financial assets | 92 625 | 92 625 | 71 247 | 71 247 |
| Loans and advances to customers | 686 677 | 686 133 | 491 212 | 491 933 |
| **Total financial assets** | **1 071 710** | **1 071 166** | **786 816** | **787 537** |
| | | | | |
| **Financial liabilities** | | | | |
| Demand deposits from credit institutions | 5 598 | 5 598 | 8 780 | 8 780 |
| Financial liabilities at fair value through profit or loss | 9 429 | 9 429 | 3 512 | 3 512 |
| Financial liabilities at amortised cost | 997 874 | 997 546 | 728 187 | 727 940 |
| **Total financial liabilities** | **1 012 901** | **1 012 573** | **740 479** | **740 232** |



*The accompanying notes form an integral part of these consolidated financial statements.*

The table below presents the carrying amounts and fair values of the Bank's financial assets and financial liabilities:

| | 31/12/2007 | | 31/12/2006 | |
|---|---|---|---|---|
| | Carrying amount | Fair value | Carrying amount | Fair value |
| **Financial assets** | LVL '000 | LVL '000 | LVL '000 | LVL '000 |
| Cash and demand deposits with central banks | 63 684 | 63 684 | 56 674 | 56 674 |
| Balances due from credit institutions | 223 765 | 223 765 | 163 988 | 163 988 |
| Financial assets at fair value through profit or loss | 4 952 | 4 952 | 3 684 | 3 684 |
| Available-for-sale financial assets | 92 625 | 92 625 | 71 247 | 71 247 |
| Loans and advances to customers | 686 674 | 686 130 | 491 210 | 491 931 |
| **Total financial assets** | **1 071 700** | **1 071 156** | **786 803** | **787 524** |
| | | | | |
| **Financial liabilities** | | | | |
| Demand deposits from credit institutions | 5 598 | 5 598 | 8 780 | 8 780 |
| Financial liabilities at fair value through profit or loss | 9 429 | 9 429 | 3 512 | 3 512 |
| Financial liabilities at amortised cost | 996 442 | 996 114 | 726 409 | 726 162 |
| **Total financial liabilities** | **1 011 469** | **1 011 141** | **738 701** | **738 454** |

## 32. Litigation and Claims

In the ordinary course of business, the Bank has been involved in a number of legal proceedings to recover outstanding credit balances and maintain collaterals, as well as specific transactions. The Management of the Bank believe that any legal proceedings pending as at 31 December 2007 will not result in material losses for the Bank and/ or Group.

## 33. Events After Balance Sheet Date

As of the last day of the reporting year until the date of signing these consolidated financial statements there have been no events requiring adjustment of or disclosure in the consolidated financial statements or notes thereto.

On 19 February 2008, the Bank repaid a syndicated loan in the amount of EUR 85 million. On 20 February 2008, the Bank received a syndicated loan from 15 foreign banks and one Latvian bank in the amount of EUR 70 million, which effectively refinanced the previous syndicated loan of EUR 85 million. The loan was issued for one year and bears interest at EURIBOR 3m + 0.95%.



# Independent Auditors' Report

ERNST & YOUNG
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## To the Shareholders of AS Aizkraukles Banka

## Report on the Financial Statements

We have audited the 2007 consolidated financial statements of AS Aizkraukles Banka and its subsidiaries (hereinafter – the Group) and the accompanying financial statements of AS Aizkraukles Banka (hereinafter – the Bank), which are set out on pages 39 through 88 of the accompanying 2007 Consolidated Annual Report and which comprise the balance sheet as at 31 December 2007, the statements of income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

## Management's Responsibility for the Financial Statements

The Bank's management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as endorsed 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 consolidated 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 International Financial Reporting Standards as endorsed by the European Union.

## Report on Compliance of the Management Report

Furthermore, we have read the Management Report for the year ended 31 December 2007 (included on pages 34 through 36 of the accompanying 2007 Consolidated Annual Report) and have not noted any material inconsistencies between the financial information included in it and the consolidated financial statements for the year ended 31 December 2007.

**Iveta Vimba**
Personal ID: 210275-12309
Member of the Board
Latvian Sworn Auditor
Certificate No 153

SIA Ernst & Young Baltic
Licence No 17

Rīga, 26 February 2008

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