AS PAREX BANKA ANNUAL REPORT

2007

FOR THE YEAR ENDED 31 DECEMBER 2007
TOGETHER WITH

INDEPENDENT AUDITORS' REPORT

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AS Parex banka
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Parex Group is one of the last remaining locally based and privately owned financial institutions in Latvia, offering universal banking services globally and throughout the Baltic region. *Parex banka* (further also – Bank) is a truly universal bank, active not only on European retail and corporate markets, but also on the international capital markets. *Parex Group* subsidiaries operate across banking, finance, leasing, asset management and life insurance sectors.

As at 31 December 2007, *Parex banka* was the market leader in Latvia in terms of deposits with 17.9% market share, according to the information provided by Association of Latvian Commercial Banks. The market share in terms of assets comprised 14.6%, while loans reached 11.7%. The Bank remains the leader on the Latvian deposit market and is a top three player in every retail and corporate segment.

The net profit for *Parex Group* for the year ended 2007 comprised 41.4 million lats. In 2007, *Parex Group's* assets grew by 35.8%, comprising 3.35 billion lats; issued loans grew by 40.1%, to 2 billion lats; and deposits increased by 33.3% to 2.1 billion lats.

In 2007, *Parex banka* was among the fastest growing retail banks in Latvia serving the financial needs of more than 400,000 retail customers. As part of its retail strategy *Parex Group* has focused on launching unique and conceptually new saving products such as *Maxi Account*, structured deposits, unit-linked life insurance, as well as prudent consumer and mortgage loans growth.

Once again, *Parex banka* demonstrated its commitment to high standards of customer service for its corporate clients resulting in a 21.2% increase in corporate deposits and 29.4% growth in corporate loans in 2007. The Bank is also historically strong in niche segments, e.g. shipping and transhipment financing.

Payment cards remain a high-growth area for *Parex banka*. The total number of active payment cards issued by the Bank increased by 38% during 2007, reaching 446 thousand, as at 31 December 2007. The number of *American Express* credit cards in issue rose by over 130% and are the current 'must have' card in the market. *Parex banka* is the exclusive issuer of *AmEx* credit cards in Latvia and, in the second half of 2007, extended this exclusive agreement for a further 5 years.

In 2007, *Parex banka* strengthened its position in investment banking, successfully arranging several deals for its corporate and institutional clients. In June 2007, *Parex banka* managed the bond issue for *Mugan Bank* (Azerbaijan) continuing the success of the pioneering cross border bond transaction for the Azerbaijan company *MKT Istehsalat-Kommersiya MMC*. In November 2007 the Bank organized a bond issue of SC Elko Grupa, Latvia's largest company. The issue raised EUR 6,500,000 with a fixed annual coupon of 10% and maturity date of 29 November 2010.

In May 2007, *Parex banka* became the first and only bank in the Baltic States to join the Continuous Linked Settlement (CLS) system for FX settlements. Our broad range of high quality FX products coupled with a leading market share on the Baltic market have been acknowledged by prestigious awards *"Best Foreign Exchange Bank in Latvia 2007"* and *"Best Foreign Exchange Bank in Latvia 2008"* from *Global Finance* magazine.

In 2007, *Parex banka* continued its strategy of diversifying its funding base, successfully closing two syndicated loans totalling EUR 885 million, at a margin of 0.45%-0.50% over EURIBOR. These transactions were the largest syndicated loans ever received by any Baltic borrower.

Parex banka has also maintained its growth and expansion strategy across Europe. The Bank opened three new branches: in Hamburg (Germany), Malmo (Sweden) and in Narva (Estonia), thus broadening its business activities in these countries. Currently, the Bank has 6 branches across Europe. Germany, Sweden and the Baltic States are the target markets of *Parex banka* and in the first half of the year 2008 the Bank plans to open an additional three branches, in Munich (Germany), Goteborg (Sweden) and Tartu (Estonia) in order to continue strengthening its position in retail and SMEs segment. *Parex banka* may also consider acquiring a Bank in Germany, to strengthen its position on the German retail market.

Moreover, after the reporting period, in January 2008, the Association of German Banks (Bundesverband Deutscher Banken) has officially accepted *Parex banka* as a participant in the Deposit Protection Fund granting guarantee status for individual clients up the amount of 1.5 million Euro. *Parex banka* is the only bank from the EU accession countries, operating in Germany, to satisfy all the requirements of the German banking association and to be accepted into the Deposit Protection Fund.

In February 2007, the rating agency *Moody's Investors Service* upgraded *Parex banka*'s rating to investment grade. After the reporting period, in January 2008, *Moody's Investors Service* confirmed *Parex banka's* long-term global local currency deposit rating Baa3 with a stable outlook. The Bank remains the only investment grade rated private financial institution in Latvia.

2007 was also a successful year for *Parex banka*'s subsidiaries.

AB Parex Bankas, the Lithuanian subsidiary of *Parex banka* (Latvia), has set an ambitious target to reach a Top 5 position in Lithuania in terms of assets within 5 years by actively expanding its retail banking and SMEs operations. Its branch network increased by 30% and number of active clients grew by 43% in 2007. Over the year the assets of *AB Parex Bankas* grew more than 2 times to LTL 1.6 billion, loans – 2.3 times to LTL 1.27 billion and customer deposits – by 65% to LTL 0.7 billion. In October 2007, *AB Parex Bankas* became the official and sole issuer of *American Express* credit cards in Lithuania. According to the survey conducted by *Metasite Business Solutions*, *AB Parex Bankas* is now the third largest Bank in Lithuania, attracting new clients and servicing old customers by electronic channels.

Offering traditional Swiss banking benefits coupled with *Parex Group's* investment expertise in CEE/CIS markets, *AP Anlage & Privatbank* has grown significantly in size and performance. As at 31 December 2007, *AP Anlage & Privatbank AG's* total assets were CHF 92 million with customer deposits of CHF 64 million. *AP Anlage & Privatbank AG's* net profit for 2007 amounted to CHF 2.4 million.

Parex Asset Management (PAM) remains the largest and fastest growing asset manager in the Baltics. In June 2007, *PAM* was included in the league table of European 400 largest asset managers, compiled by the magazine *Investment & Pension Europe*. Moreover, *PAM* has been named "*European Specialist Investment Firm 2007*" by *Funds Europe* magazine. In 2007, *PAM*'s consolidated commission and fee income increased to more than LVL 4 million, while clients' assets under management reached more than 0.5 billion LVL. Despite the growing competition, *PAM's* investment funds dominate in Latvia with more than 50% market share. 2007 was very significant in terms of the geographical range of distribution of *PAM* funds and new product launches. In 2007, *PAM* launched Caspian Sea Equity Fund, Ukrainian Equity Fund, as well as Strategic Allocation Funds. *PAM* also became the first investment company in the Baltics to set up funds on *HSBC* global distribution platform for institutional investors.

In June 2007, *Parex Dzīvība,* the life insurance arm of *PAM*, received a licence from Financial and Capital Markets Commission to operate in the life and accident insurance areas. *Parex Dzīvība* has captured 5% market share in new life insurance premiums signed in Latvia, as at end of 2007 by launching a conceptually new product *Uzkrajums* +, which combines life insurance services with savings.

Parex Group's leasing companies in the Baltics and the CIS produced excellent results in 2007. Interest income from the leasing portfolio of *Parex Group*'s companies is becoming an important contributor to *Parex Group*'s gross revenue. The total leasing portfolio of *Parex Group*'s subsidiaries increased by 63% to LVL 240 million in 2007, while total interest income of the leasing companies constituted LVL 22 million (92% growth y-o-y).

In 2008, *Parex Group* will continue to develop innovative products and to refine and improve the existing core banking products in order to retain its leading position in Latvia and broaden its operations in other countries. We believe that in 2008 *Parex Group* will show even better performance and growth!

Valery Kargin President/ Chairman of the Management Board	Viktor Krasovitsky Chairman of the Council of Directors	Guntars Grīnbergs Chairman of the Council

Riga,
29 February 2008

The well-considered public reform process in combination with appropriate monetary and fiscal policies has facilitated successful transformation of the Latvian economy into one of the fastest growing market economies in Central and Eastern Europe as well as the entire enlarged European Union.

Monetary policy

Lat (LVL), the only legal tender of the Republic of Latvia, is fully convertible against hard currencies without exchange controls. As of 1994, the Bank of Latvia pegged Lat to the International Monetary Fund Special Drawing Right (SDR), thereby implementing the policy of a fixed national currency exchange rate. Following Latvia's accession to the European Union in 2004, Lat has been pegged to Euro at the rate of 1 EUR = 0.702804 LVL effective from 1 January 2005. Since 2 May 2005, Latvia has joined European Exchange Rate Mechanism II. Latvia will have to participate in the ERM II for at least two years, while proving its compliance with the five Maastricht criteria. As soon as the Council of the European Union allows Latvia to join the Economic and Monetary Union (EMU), Euro will replace the national currency of Latvia in everyday transactions, and the Bank of Latvia will discontinue its independent monetary policy. Latvia, just like Estonia and Lithuania, meet all the Maastricht criteria, with exception of the inflation criterion. For this reason, Latvia had to revise its plan to join the EMU at the beginning of 2008. There is no new official schedule for the country's accession to the EMU, but we see the year 2012-2013 as a reasonable target.

The current peg mechanism allows for relative stability and predictability of the national currency, mitigates the foreign currency risks and creates a stable basis for corporate planning and pricing.

At the end of December 2007, the cash base (cash in circulation and deposits with the Bank of Latvia) coverage of net foreign assets constituted 112.3%, and net foreign reserves were equivalent to 3 months' volume of national imports of goods and services.

Official exchange rates of the Bank of Latvia are as follows:

		USD	EUR	GBP	RUB
As at 31 December 2007	LVL 1.00=	2.066	1.423	1.038	50.761
As at 31 December 2006	LVL 1.00=	1.866	1.423	0.954	49.261

Economy in 2007

In 2007 Latvia's economy started to show signs of slowdown, which became more pronounced in the second half of the year. GDP growth slowed down to 10.6% (estimate), compared to 11.9% in 2006. Like in previous years, the major GDP growth driver was domestic trade, while financial intermediation demonstrated the highest growth rates (on average 22% yoy in 1q-3q 2007).

Strong domestic consumption along with price convergence processes and recurrent increases in administrative prices (utility tariffs, excise taxes, transportation services) added to inflationary pressures in 2007. Additionally, the indirect effects of the previous increases in the prices of utilities continued to weigh on the inflation. Furthermore, food prices continued to increase rapidly as a result of both internal and external factors. Consequently, consumer prices in Latvia grew by 14.1% during 2007 (December to December) but the average annual inflation reached 10.1% in 2007. The registered unemployment rate fell further from 6.5% of the economically active population at the end of 2006 to 4.9% at the end of December 2007.

Latvia saw some improvements in external trade balance in 2007 due to the cooling of domestic demand in the second half of the year. According to the Bank of Latvia figures, during 2007 export of goods and services continued to grow steadily on average by 23% yoy, while import growth dropped from a 45% yoy growth in January to a 7% yoy decline in December. As a result, in 2007 both exports and imports grew by the same rate 23% yoy. Due to this, the widening of Latvia's current account imbalance stopped. The current account deficit in 4q 2007 decreased to 19% of GDP (preliminary figures), compared to 27% in 4q 2006, and may be around 23% of GDP for the whole year of 2007. Foreign direct investment stock increased by 31% in 2007 and inflows covered 1/3 of CA deficit. Loans to Latvian commercial banks are the main financing source of the current account deficit.

The budget deficit has been below 3.0% of GDP since 1996 (with the only exception in 1999). According to the official national budget performance figures, the consolidated national budget had a fiscal surplus of 0.7% of GDP in 2007.

Banking sector in 2007

As at 31 December 2007, there were 21 banks and two branches of foreign banks – the Latvian branch of *Nordea Bank Finland Plc* (Finland) and the Riga branch of *Skandinaviska Enskilda Banken AB*.

The Latvian banking sector continued growing rather steeply, although at slower pace than in 2006 as lending market has become more saturated and banks applied more conservative approach. During 2007 total banking assets grew by 38% (45% in 2006) and total loans increased by 37% (56% in 2006). Most commercial banks are operating with profit. Further improvements in the banking system's efficiency are closely linked to economic growth, structural reforms and the development of capital and real estate markets.

The banking sector is one of the most developed economic sectors in Latvia and is particularly attractive to foreign investors. This is evidenced by continued investments in the share capital of Latvian banks from several foreign banks: *Swedbank, Skandinaviska Enskilda Banken, DnB Nord, Sampo Bank* and *UniCredit Group*. As a result the non-resident's slice has reached 78% of total share capital, compared to 69% at the end of 2006. Last year the market leaders maintained their positions, and the five major banks currently hold assets comprising around 70% of the total banking assets in Latvian.

Council of the Bank as at the date of signing these financial statements:

Guntars Grīnbergs	Chairman of the Council
Valdis Birkavs	Deputy Chairman of the Council
Hans Eberhard Berndt	Member of the Council
Aija Poča	Member of the Council
Gints Poišs	Member of the Council

In 26 March 2007, the shareholders reappointed the previous Members of the Council and elected Aija Poča as the Member of the Council.

During the reporting period, there have been no other changes in the Council of the Bank.

Management Board as at the date of signing these financial statements:

Valery Kargin	President and Chairman of the Management Board
Viktor Krasovitsky	Deputy Chairman of the Management Board
Alexander Kvasov	Member of the Management Board
Arnis Lagzdiņš	Member of the Management Board
Jānis Skrastiņš	Member of the Management Board
Vladislavs Skrebelis	Member of the Management Board
Līga Puriņa	Member of the Management Board

On 29 November 2007, Gene Zolotarev resigned from the Management Board and Līga Puriņa was elected as the Member of the Management Board.

During the reporting period, there have been no other changes in the Management Board of the Bank.

Council of Directors as at the date of signing these financial statements:

Viktor Krasovitsky	Deputy Chairman of the Council of Directors
Normunds Vigulis	Member of the Council of Directors
Mārtiņš Jaunarājs	Member of the Council of Directors

In December 2007, the Council of the Directors was reorganised and new members were elected. After reorganisation, the main task of the Council of Directors is the coordination of fund-raising activities in the international financial markets.

The Management of AS Parex banka (hereinafter – the Bank) are responsible for the preparation of the 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 set out on pages 9 to 73 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 financial statements are prepared in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board as adopted by the European Union on a going concern basis. Appropriate accounting policies have been applied on a consistent basis. Prudent and reasonable judgments and estimates have been made by the Management in the preparation of the financial statements.

The Management of AS Parex banka 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. They are also responsible for operating the Bank in compliance with the Law on Credit Institutions, regulations of the Financial and Capital Market Commission and other legislation of the Republic of Latvia applicable for credit institutions.

Valery Kargin President/ Chairman of the Management Board	Viktor Krasovitsky Chairman of the Council of Directors	Guntars Grīnbergs Chairman of the Council

Riga,
29 February 2008

Statements of Income
for the years ended 31 December 2007 and 2006

		LVL 000's			
	Notes	2007 Group	2006 Group	2007 Bank	2006 Bank
Interest income	4	193,209	125,591	176,455	114,322
Interest expense	4	(109,949)	(67,903)	(106,681)	(66,247)
Net interest income		83,260	57,688	69,774	48,075
Commission and fee income	5	47,730	37,092	40,228	31,675
Commission and fee expense	5	(9,836)	(9,108)	(9,921)	(8,625)
Net commission and fee income		37,894	27,984	30,307	23,050
Trading and foreign exchange gains, net	6	22,645	16,514	20,716	14,586
Other income	7	10,110	27,767	6,953	26,153
Other expense		(878)	(1,424)	(710)	(500)
Administrative expense	8,9	(91,466)	(64,884)	(71,863)	(53,797)
Amortisation and depreciation charge	19,20	(7,629)	(6,637)	(5,748)	(5,780)
Impairment charges and reversals, net	10	(4,617)	3,759	(2,355)	4,233
Profit before taxation		49,319	60,767	47,074	56,020
Corporate income tax	11	(7,899)	(8,660)	(6,928)	(8,018)
Net profit for the year		41,420	52,107	40,146	48,002
Attributable to:					
Equity holders of the Bank		41,420	52,107	40,146	48,002
Minority interest		-	-	-	-
		41,420	52,107	40,146	48,002

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Balance Sheets
as at 31 December 2007 and 2006

	Notes	31/12/2007 Group	31/12/2006 Group	31/12/2007 Bank	31/12/2006 Bank
		LVL 000's			
Assets					
Cash and deposits with central banks	12	257,280	267,213	236,062	258,594
Balances due from credit institutions	13	430,868	174,174	522,633	189,988
Financial assets held for trading:					
- fixed income securities	16	5,575	31,465	4,323	27,364
- shares and other non-fixed income securities	17	39,809	49,713	38,466	47,207
Derivative financial instruments	28	11,516	8,800	11,785	8,837
Financial assets designated at fair value through profit and loss		277	-	-	-
Available-for-sale financial assets:					
- fixed income securities	16	475,042	382,483	438,175	359,204
- shares and other non-fixed income securities	17	548	339	57	57
Loans and receivables to customers	14,15	2,006,642	1,431,979	1,738,330	1,316,164
Held-to-maturity investments:					
- fixed income securities	16	40,224	67,932	73,898	80,866
Current income tax assets	11	3,356	11	3,209	-
Fixed assets	20	50,514	34,712	18,610	14,396
Goodwill and intangible assets	19	5,014	5,111	990	1,168
Investments in subsidiaries	18	-	-	56,477	32,660
Deferred income tax assets	11	1,141	-	830	-
Other assets	21	24,818	14,535	12,455	9,104
Total assets		3,352,624	2,468,467	3,156,300	2,345,609
Liabilities					
Financial liabilities held for trading		-	1,242	-	1,242
Derivative financial instruments	28	12,951	7,251	13,288	7,259
Financial liabilities designated at fair value through profit and loss		277	-	-	-
Financial liabilities measured at amortised cost:					
- balances due to credit institutions and central banks	23	777,111	463,198	775,345	453,354
- deposits from customers	24	2,081,965	1,561,484	1,909,128	1,461,787
- issued debt securities	22	187,907	210,073	187,907	210,073
- other financial liabilities		2,970	-	-	-
Current income tax liabilities	11	315	1,918	-	1,212
Deferred income tax liabilities	11	631	870	-	561
Other liabilities	25	34,438	21,803	25,372	17,450
Subordinated liabilities	26	28,113	-	28,113	-
Total liabilities		3,126,678	2,267,839	2,939,153	2,152,938
Equity					
Paid-in share capital	27	65,027	65,027	65,027	65,027
Share premium		12,694	12,694	12,694	12,694
Fair value revaluation reserve		(18,302)	(2,200)	(17,619)	(1,949)
Retained earnings		166,527	125,107	157,045	116,899
Total shareholders' equity attributable to the shareholders of the Bank		225,946	200,628	217,147	192,671
Minority interest		-	-	-	-
Total equity		225,946	200,628	217,147	192,671
Total liabilities and equity		3,352,624	2,468,467	3,156,300	2,345,609

Changes in the Group's equity are as follows:

	Attributable to equity holders of the Bank						
	Issued share capital	Share premium	Fair value revaluation reserve	Retained earnings	Total	Minority interest	Total equity
Balance as at 31 December 2005	**65,027**	**12,694**	**2,358**	**78,000**	**158,079**	**12**	**158,091**
Fair value revaluation reserve charged to statement of income	-	-	(1,417)	-	(1,417)	-	(1,417)
Changes in fair value of available for sale securities	-	-	(3,168)	-	(3,168)	-	(3,168)
Deferred income tax charged directly to equity	-	-	27	-	27	-	27
Total income/ (expense) recognised directly in equity			*(4,558)*		*(4,558)*		*(4,558)*
Net profit for the year	-	-	-	52,107	52,107	-	52,107
Total recognised income and (expense) for the year			*(4,558)*	*52,107*	*47,549*		*47,549*
Dividends paid	-	-	-	(5,000)	(5,000)	-	(5,000)
Changes in minority interest	-	-	-	-	-	(12)	(12)
Balance as at 31 December 2006	**65,027**	**12,694**	**(2,200)**	**125,107**	**200,628**	**-**	**200,628**
Fair value revaluation reserve charged to statement of income	-	-	(1,755)	-	(1,755)	-	(1,755)
Changes in fair value of available for sale securities	-	-	(14,817)	-	(14,817)	-	(14,817)
Deferred income tax charged directly to equity	-	-	*470*	-	*470*	-	470
Total income/ (expense) recognized directly in equity			*(16,102)*		*(16,102)*		*(16,102)*
Net profit for the year	-	-	-	41,420	41,420	-	41,420
Total recognised income and (expense) for the year			*(16,102)*	*41,420*	*25,318*		*25,318*
Balance as at 31 December 2007	**65,027**	**12,694**	**(18,302)**	**166,527**	**225,946**	**-**	**225,946**

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Statements of Changes in Equity
for the years ended 31 December 2007 and 2006

Changes in the Bank's equity are as follows:

	Issued share capital	Share premium	Fair value revaluation reserve	Retained earnings	Total equity
Balance as at 31 December 2005	**65,027**	**12,694**	**2,503**	**73,897**	**154,121**
Fair value revaluation reserve charged to statement of income	-	-	(1,263)	-	(1,263)
Changes in fair value of available for sale securities	-	-	(3,216)	-	(3,216)
Deferred income tax charged directly to equity	-	-	27	-	27
Total income/ (expense) recognized directly in equity			*(4,452)*		*(4,452)*
Net profit for the year	-	-	-	48,002	48,002
Total recognised income and (expense) for the year			*(4,452)*	*48,002*	*43,550*
Dividends paid	-	-	-	(5,000)	(5,000)
Balance as at 31 December 2006	**65,027**	**12,694**	**(1,949)**	**116,899**	**192,671**
Fair value revaluation reserve charged to statement of income	-	-	(1,608)	-	(1,608)
Changes in fair value of available for sale securities	-	-	(14,532)	-	(14,532)
Deferred income tax charged directly to equity	-	-	470	-	470
Total income/ (expense) recognized directly in equity	-	-	*(15,670)*	-	*(15,670)*
Net profit for the year	-	-	-	40,l46	40,146
Total recognised income and (expense) for the year			*(15,670)*	*40,l46*	*24,476*
Balance as at 31 December 2007	**65,027**	**12,694**	**(17,619)**	**157,045**	**217,147**

		LVL 000's			
	Notes	2007 Group	2006 Group	2007 Bank	2006 Bank
Cash flows from operating activities					
Profit before tax		49,319	60,767	47,074	56,020
Amortisation of intangible assets, depreciation of fixed assets		7,629	6,637	5,748	5,780
Change in impairment allowances		(925)	(7,017)	(3,013)	(8,088)
Other non-cash items		2,915	(121)	2,378	-
Cash generated before changes in assets and liabilities		**58,938**	**60,266**	**52,187**	**53,712**
Change in derivative financial instruments		2,285	(2,812)	2,392	(2,728)
(Increase) in other assets		(10,337)	(4,762)	(3,951)	(2,864)
Increase/ (decrease) in other liabilities		16,332	2,084	7,922	8,759
Decrease/ (increase) in trading investments		35,451	(21,336)	30,599	(20,711)
(Increase)/ decrease in balances due from credit institutions		10,716	101,881	(72,040)	79,675
(Increase) in loans and receivables to customers		(577,383)	(539,304)	(422,262)	(490,722)
Increase in balances due to credit institutions		24,612	8,162	42,493	4,903
Increase in deposits from customers		520,481	241,588	447,341	207,800
Cash generated from operating activities before corporate income tax		**81,095**	**(154,233)**	**85,218**	**(162,176)**
Corporate income tax (paid)		(14,294)	(7,263)	(12,270)	(7,536)
Net cash flow from operating activities		**66,801**	**(161,496)**	**72,411**	**(169,712)**
Cash flows from investing activities					
(Purchase) of intangible and fixed assets, net		(23,334)	(26,073)	(9,784)	(6,522)
Acquisitions and investments in subsidiaries		-	-	(23,817)	(11,115)
(Purchase) of equity investments and other non-trading investments		(102,736)	(50,174)	(108,348)	(55,193)
Net cash flow from investing activities		**(126,070)**	**(76,247)**	**(141,949)**	**(72,830)**
Cash flows from financing activities					
Dividends (paid)		-	(5,000)	-	(5,000)
Proceeds from debt securities issue		-	134,476	-	134,476
Proceeds from syndicated loan		263,551	177,107	263,551	177,107
Received in subordinated funding		28,113	-	28,113	-
Net cash flow from financing activities		**291,664**	**306,583**	**291,664**	**306,583**
Net cash flow for the year		**232,395**	**68,840**	**222,126**	**64,041**
Cash and cash equivalents at the beginning of the year	31	**367,668**	**298,828**	**357,574**	**293,533**
Cash and cash equivalents at the end of the year	31	**600,063**	**367,668**	**579,700**	**357,574**

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

	LVL 000's			
	2007 Group	2006 Group	2007 Bank	2006 Bank
Interest income received during the year	182,397	115,330	165,828	104,243
Interest expense paid during the year	(116,907)	(77,915)	(112,079)	(77,074)

AUTHORISATION OF THE FINANCIAL STATEMENTS

These financial statements have been authorised for issuance by the Management on 29 February 2008. In accordance with the Commercial Law of the Republic of Latvia, the shareholders' meeting has the right to make decision on approval of the financial statements.

NOTE 1. INFORMATION ON THE BANK

(Figures in parenthesis represent amounts as at 31 December 2006 or for year ended 31 December 2006, if not stated otherwise. If not mentioned otherwise, referral to Group's policies and procedures should be also considered as referral to the respective Bank's policies and procedures.)

AS Parex banka (hereinafter – the Bank) was registered as a joint stock company on 14 May 1992. The Bank commenced its operations in June 1992.

The Bank's head office and three main branches are located in Riga, Latvia. As at 31 December 2007, the Bank was operating a total of 72 (68) branches and client service centres in Riga and throughout Latvia. The Bank has 8 (3) foreign branches – in Tallinn (Estonia), Narva (Estonia), Tartu (Estonia), Berlin (Germany), Hamburg (Germany), Munich (Germany), Malmo (Sweden) and Stockholm (Sweden). The Bank owns also 27 (26) other subsidiaries, which operate in various financial markets sectors.

The Bank's main areas of operation include accepting deposits from customers, granting short-term and long-term loans to the State Treasury, local municipalities, corporate customers, private individuals and other credit institutions, issuing and servicing payment cards, dealing with finance lease and foreign exchange transactions. The Bank offers its clients also trust management and investment banking services, performs local and international payments, as well as provides a wide range of other financial services.

As at 31 December 2007, the Group had 3,607 (3,086) employees. The main shareholders of the Bank are Latvian citizens Mr. Valery Kargin and Mr. Viktor Krasovitsky.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union. Certain disclosures are prepared in the format required by the Financial and Capital Market Commission (FCMC). These financial statements comprise of both, the financial statements of the parent company AS Parex banka (Latvia) and the consolidated statements.

A summary of the Group's principal accounting policies, all of which have been applied consistently throughout the years ended 31 December 2007 and 2006, except that the Group has adopted those new/ revised standards mandatory for financial years beginning on or after 1 January 2007, is set out below.

Changes in Accounting Policies

The accounting policies adopted in the preparation of these consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2006, except for the adoption of the following amendments mandatory for annual periods beginning on or after 1 January 2007:

Adoption of new and/or changed IFRSs

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

- IFRS 7 Financial Instruments: Disclosures.
- Amendments to IAS 1 Capital Disclosures.
- IFRIC 7 Applying the Restatement Approach under IAS 29 "Financial Reporting in Hyperinflationary Economies"
- IFRIC 8 Scope of IFRS 2.
- IFRIC 9 Reassessment of Embedded Derivatives.
- IFRIC 10 Interim Financial Reporting and Impairment.

The principal effects of these changes are as follows:

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

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

IAS 1 *Presentation of Financial Statements.* This amendment requires the Group to make new disclosures to enable users of the financial statements to evaluate the Group's objectives, policies and processes for managing capital. These new disclosures are shown in Note 32. (Capital management).

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

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

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

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

- *IFRS 8 Operating Segments* (effective for annual periods beginning on or after 1 January 2009). The standard sets out requirements for disclosure of information about an entity's operating segments and also about the entity's products and services, the geographical areas in which it operates, and its major customers. IFRS 8 supersedes IAS 14 Segment Reporting.
- IAS 1 *Presentation of Financial Statements – Revised* (effective for annual periods beginning on or after 1 January 2009 once adopted by EU). IAS 1 has been revised to enhance the usefulness of the information presented in the financial statements. Revision includes number of changes, including introduction of a new terminology, revised presentation of equity transactions and introduction of a new statement of comprehensive income as well as amended requirements related to the presentation of the financial statements in a case of their retrospective restatement.
- IAS 23 *Borrowing Costs – Revised* (effective for annual periods beginning on or 1 January 2009 once adopted by EU). The revised standard eliminates the option of expensing all borrowing costs and requires borrowing costs to be capitalised if they are directly attributable to the acquisition, construction or production of a qualifying asset. In accordance with the transitional requirements of the Standard, the Group will adopt this as a prospective change. Accordingly, borrowing costs will be capitalized on qualifying assets with a commencement date after 1 January 2009. No changes will be made for borrowing costs incurred to this date that have been expensed.
- IAS 27 *Consolidated and Separate Financial Statements – Revised* (effective for annual periods beginning on or 1 January 2009 once adopted by EU). Revised standard requires that changes in ownership interest in a subsidiary are accounted for as equity transactions. Also, accounting for losses incurred by the subsidiary was changed: such losses will be allocated between the controlling and non-controlling interests even if the losses exceed the non-controlling equity investment in the subsidiary. On a loss of control of a subsidiary, any retained interest will be remeasured to fair value and will impact the gain or loss recognized on disposal. In addition, revised standard provides more guidance as to when multiple arrangements should be accounted for as a single transaction. These most significant changes introduced by the revised standard will be applied prospectively, except for the multiple arrangements that have been accounted for as a single transaction – these arrangements require retrospective assessment.
- IFRS 3 *Business Combinations – Revised* (effective for annual periods beginning on or 1 January 2009 once adopted by EU). The scope of IFRS 3 has been revised to include combinations of mutual entities and combinations without consideration (dual listed shares). Also a number of changes are introduced in accounting for business combinations that will impact the amount of goodwill recognized, the results in the period when the acquisition occurs, and future revenues reported. In accordance with the transitional requirements of the Standard, the Group will adopt this as a prospective change. Accordingly, assets and liabilities arising from business combinations prior to the date of application of the revised standard will not be restated.
- IFRIC 11 *IFRS 2 – Group and Treasury Share Transactions* (effective for annual periods beginning on or after 1 March 2007). The interpretation provides guidance on classification of transactions as equity-settled or as cash-settled and also gives guidance on how to account for share-based payment arrangements that involve two or more entities

within the same group in the individual financial statements of each group entity.

- IFRIC 12 *Service Concession Agreements* (effective for annual periods beginning on or after 1 January 2008 once adopted by EU). The interpretation addresses how service concession operators should apply existing International Financial Reporting Standards (IFRSs) to account for the obligations they undertake and rights they receive in service concession arrangements.
- IFRIC 13 *Customer Loyalty Programmes* (effective for annual periods beginning on or after 1 July 2008 once adopted by EU). This interpretation requires customer loyalty award credits to be accounted for as a separate component of the sales transaction in which they are granted and therefore part of the fair value of the consideration received is allocated to the award credit and deferred over the period that the award credit is fulfilled.
- IFRIC 14 *IAS 19* – The Limit on Defined Benefit Asset, Minimum Funding Requirements and their Interaction (effective for annual periods beginning on or after 1 January 2008 once adopted by EU). This interpretation specifies the conditions for recognising a net asset for a defined benefit pension plan.
- Amendment to IFRS 2 Share-based Payment (effective for annual periods beginning on or after 1 January 2009 once adopted by EU). The amendment deals with two matters. It clarifies that vesting conditions are service conditions and performance conditions only. Other features of a share-based payment are not vesting conditions. It also specifies that all cancellations, whether by the entity or by other parties, should receive the same accounting treatment.
- Amendments to IAS 32 Financial Instruments: Presentation and IAS 1 Presentation of Financial Statements - Puttable Financial Instruments and Obligations Arising on Liquidation (effective for annual periods beginning on or after 1 January 2009 once adopted by EU). The amendments to IAS 32 require entities to classify the following types of financial instruments as equity, provided they have particular features and meet specific conditions: puttable financial instruments and instruments, or components of instruments, that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation. Additional disclosures are required about the instruments affected by the amendments

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

IFRS 8 Operating Segments

This standard requires disclosure of information about the Group’s operating segments and replaced the requirement to determine primary (geographical) and secondary (business) reporting segments of the Group. The Group has preliminary assessed that the operating segments were the same as the business segments identified under IAS 14 *Segment Reporting*.

IAS 1 Presentation of Financial Statements – Revised

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

a) Comparative figures

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year. In light of the new requirements set in IFRS 7, the Group and the Bank considered it to be useful to amend the presentation of the balance sheet items so that clear distinction is made between the categories of financial instruments. As a result, comparative data as at 31 December 2006 also were reclassified accordingly. The changes in presentation did not affect the net profit neither of the Group and the Bank.

b) Reporting Currency

The accompanying financial statements are reported in thousands of Lats (LVL 000’s).

c) Basis of Consolidation

As at 31 December 2007 and 2006, the Bank had a number of investments in subsidiaries, in which the Bank held directly and indirectly more than 50% of the shares and voting rights, and accordingly, had the ability to exercise control. The investments in the subsidiaries are presented in the Bank’s financial statements at acquisition cost. More detailed information on the Bank’s subsidiaries has been presented in Note 18.

The financial statements of AS Parex banka and its subsidiaries are consolidated in the Group's financial statements on a line by line basis by adding together like items of assets and liabilities as well as income and expenses. For the purposes of consolidation, intra-group balances and intra-group transactions, including interest income and expense as well as unrealised profits and loss resulting from intra-group transactions, are eliminated in the Group's financial statements. However, intra-group losses may indicate an impairment that requires recognition in the Group's financial statements.

d) *Income and Expense Recognition*

Interest income and expense items are recognised on an accrual basis using the effective interest rate.

Commissions in respect of the acquisition of financial assets or the issue of financial liabilities that are not at fair value through profit or loss are deferred and recognised as an adjustment to the effective yield on the respective asset or liability. Other commissions and fees are credited and/ or charged to the statement of income as services are provided or on the execution of a significant act, as applicable, under the line "commission and fee income" or "commission and fee expense", as appropriate.

e) *Foreign Currency Translation*

Transactions denominated in foreign currencies are recorded in Lats at actual rates of exchange effective at the date of the transaction. Non-monetary items that are measured at fair value in a foreign currency, such as investments in equity instruments, are translated using the exchange rates at the date, when the fair value was determined. Monetary assets and liabilities denominated in foreign currencies are translated into Lats at the official rate of exchange prevailing at the end of the year. Any gain or loss resulting from a change in rates of exchange subsequent to the date of the transaction is included in the statement of income as a profit or loss from revaluation of foreign currency positions.

f) *Taxation*

For the year ended 31 December 2007 corporate income tax is applied at the rate of 15% (2006: 15%) on taxable income generated by the Bank for the taxation period.

Deferred corporate income tax arising from temporary differences in the timing of the recognition of items in the tax returns and these financial statements is assessed using the balance sheet liability method. The deferred corporate income tax is determined based on the tax rates that are expected to apply when the temporary differences reverse based on tax rates enacted or substantively enacted by the balance sheet date. The principal temporary differences arise from differing rates of accounting and tax depreciation on the Bank's fixed assets, revaluation of securities, as well as the treatment of collective impairment allowances, deferred commissions for financial assets and vacation pay reserve.

The carrying amount of deferred corporate income tax asset, if any, is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

g) *Financial instruments*

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

Financial assets in the scope of IAS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable incremental transaction costs. The classification of investments between the categories is determined at acquisition based on the guidelines established by the Management.

All "regular way" purchases and sales of investments are recognised using settlement date accounting. The settlement date is the date when an asset is delivered to or by the Group. Settlement date accounting refers to the recognition of an asset on the day it is transferred to the Group and to the derecognition of an asset, on the day that it is transferred by the Group. All other purchases or sales are recognised as derivative instruments until settlement occurs.

Financial assets and liabilities held for trading

Financial assets and liabilities classified as held for trading are included in the category "financial assets/ liabilities at fair value through profit or loss". Financial assets and/ or liabilities are classified as held for trading if they are either acquired for generating a profit from short-term fluctuations in price or dealer's margin, or are included in a portfolio in which a pattern of short-term profit taking exists. Held for trading financial assets and liabilities are subsequently re-measured at fair value based on available market prices or quotes of brokers. The result of re-measuring trading financial assets and liabilities at fair value is charged directly to the statement of income.

Financial assets/ liabilities designated at fair value through profit and loss

Only unit-linked insurance contract liabilities and respective investments are accounted for as financial liabilities and assets designated at fair value through profit and loss. According to unit-linked investment contract term, the credit risk associated with the investments made by the insurance underwriter is fully attributable to the counterparty entering the insurance agreement and not the underwriter. As such, by designating both assets acquired and liabilities undertaken at fair value through profit and loss, potential accounting mismatch is avoided.

Held to maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held to maturity if the Group has both the positive intent and ability to hold these investments to maturity. Held to maturity financial assets are carried at amortised cost using the effective interest rate method, less any allowance for impairment.

A financial asset is impaired if its carrying amount is greater than its estimated recoverable amount. The amount of the impairment loss for assets carried at amortised cost is calculated as the difference between the asset's carrying amount and the present value of expected future cash flows discounted at the financial instrument's original effective interest rate.

Loans and receivables

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. Gains and losses are recognised in income when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Loans and receivables are recognised on drawdown. From the date of signing a contractual agreement till drawdown they are accounted for as loan commitments off balance sheet.

When the loans or receivables cannot be recovered, they are written-off and charged against impairment for credit losses. The management of the Group makes the decision on writing-off loans. Recoveries of loans previously written-off are credited to the statement of income.

Included in the category of 'loans and receivables' are such financial instruments: a) cash and deposits with central banks, b) balances due from credit institutions and c) loans and receivables to customers.

Available for sale financial assets

Available for sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the three preceding categories. The Group's available for sale financial assets are intended to be held for an undefined period of time and may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

Available for sale financial assets are subsequently re-measured at fair value based on available market prices or quotes of brokers. The result of fair value revaluation of available for sale securities is recognised in equity as a fair value revaluation reserve. The difference between the initial carrying amount and amortised cost determined by the effective interest rate method is treated as interest income. When the securities are disposed of, the related accumulated fair value revaluation is included in the statement of income as profit/ (loss) from sale of securities available for sale. If there is objective evidence that the value of an investment has been impaired, the cumulative net loss that has been recognised directly in equity is charged to the statement of income. In the case of the debt securities classified as available for sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. In the case of equity instruments classified as available for sale, the impairment is measured as the difference between the acquisition cost and the current fair value.

Derivative Financial Instruments

In the ordinary course of business, the Group engages as a party to contracts for forward foreign exchange rate, currency and interest rate swap instruments and other derivative financial instruments. Except for designated and effective hedging instruments, all derivatives are classified as held-for-trading. The accounting treatment of derivatives designated as hedging instruments is described further in sub-section 'Hedge accounting'.

Subsequent to initial recognition, outstanding forward foreign exchange rate contracts, currency swaps and other derivative financial instruments are carried in the balance sheet at their fair value. The fair value of these instruments is recognised on the balance sheet under designated assets and liabilities caption "Derivative financial instruments". The notional amounts of these financial instruments are reported in off-balance sheet accounts.

Gains or losses from changes in the fair value of outstanding forward foreign exchange rate contracts, currency and interest rate swaps and other derivative financial instruments, which are not designated as hedging instruments, are recognised in the statement of income as they arise.

Hedge accounting

In order to manage particular risks arising from changes in interest rates the Bank uses derivative instruments and applies hedge accounting for transactions meeting the specified criteria.

At inception of the hedge relationship, a formal documentation is prepared of the relationship between the hedged item and the hedging instrument, including the objective and strategy for undertaking the hedge and the method that will be used to assess the effectiveness of the hedging relationship.

Further, at the inception of the hedge relationship, a formal assessment is undertaken to ensure that the hedge relationship is expected to be highly effective. A hedge is considered to be highly effective if the changes in fair value or cash flows attributable to the hedged risk during the period for which the hedge is designated are expected to offset in a range of 80% to 125%.

For the purposes of hedge accounting, hedges are classified into two categories: (a) fair value hedges which hedge the exposure to changes in the fair value of a recognised asset or liability; and (b) cash flow hedges which hedge exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a forecasted transaction.

In relation to hedges (fair value and cash flow hedges), which meet the conditions for hedge accounting, any gain or loss from re-measuring the hedging instrument to fair value is recognised immediately in the statement of income except for the fair value change in relation to the effective part of a cash flow hedge, which is recognised directly in equity. For fair value hedges the hedged item is adjusted for fair value changes relating to the risk being hedged and the difference is recognised in the statement of income. Where the adjustment relates to a hedged interest-bearing financial instrument and the hedge instrument is terminated or designated, the adjustment is amortised to the statement of income on a systematic basis using effective interest rate so that it is fully amortised by its maturity date.

Dollar-offset method is used to calculate the retrospective and prospective effectiveness of the hedging relationships.

For derivatives, which do not qualify for hedge accounting, any gains or losses arising from changes in the fair value are taken directly to the statement of income for the period.

Hedge accounting is discontinued prospectively when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting.

Issued debt, subordinated debt and other borrowed funds

The Group recognises financial liabilities on its balance on drawdown.

After initial measurement, being fair value plus directly attributable transaction costs, debt issued, subordinated debt and borrowings are measured at amortised cost and any difference between net proceeds and value at redemption is recognised in the statement of income over the period of borrowings using the effective interest rate.

h) Derecognition of Financial Assets and Liabilities

Financial assets

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

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

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

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

Financial liabilities

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

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

i) Leases

Finance leases – Group as lessor

Finance leases, which transfer substantially all the risks and rewards incidental to ownership of the assets, are recognised as assets at amounts equal at the inception of the lease 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 the purposes of these financial statements, finance lease receivables are included in loans and receivables to customers.

Operating leases – Group as lessor

The Group presents assets subject to operating leases in the balance sheets according to the nature of the asset. Lease income from operating leases is recognized in statement of income on a straight-line basis over the lease term as other income. The aggregate cost of incentives provided to lessees is recognized as a reduction of rental income over the lease term on a straight-line basis. Initial direct costs incurred specifically to earn revenues from an operating lease are added to the carrying amount of the leased asset.

The depreciation policy for depreciable leased assets is consistent with the lessor's normal depreciation policy for similar assets, and depreciation is calculated in accordance with accounting policies, used for the Group's property, plant and equipment.

Operating leases – Group as lessee

Leases of assets under which substantially all the risks and rewards of ownership are retained by the lessor are classified as operating leases. Lease payments under an operating lease are recognized as expenses on a straight-line basis over the lease term and included into administrative expenses.

j) Impairment of loans and receivables to customers

The Group has granted commercial and consumer loans to customers throughout its market area. The economic condition of the market area may have an impact on the borrowers' ability to repay their debts. The Management of the Group have considered both specific and portfolio-level risks in determining the balance of impairment allowance for incurred credit losses. Impairment allowance for incurred credit losses is established to represent the estimated amounts of probable losses that have been incurred at the balance sheet date. The specific element of the impairment relates to credits that individually have objective evidence of impairment. The specific impairment loss is determined after individual review of all credits with objective indications of impairment. The collective impairment of the loan portfolio relates to the losses, which experience indicates have occurred in the Group's portfolio of loans and receivables to customers, but have not yet been specifically identified through the specific review of those financial assets.

The specific impairment for incurred credit losses is assessed as a difference between the present value of expected future cash flows discounted at the loans' original effective interest rate and the loan's outstanding balance. The value of collateral held in connection with loans is based on the estimated realisable value of the asset and is taken into account when estimating present values of expected future cash flows.

When there is objective evidence of impairment at portfolio level, the collective impairment allowance is estimated based upon historical pattern of losses in the loan portfolio, as well as taking into account credit concentration risk regarding industry, changes in collateral values, current economic conditions and general market or operating events that have occurred prior to the balance sheet date and that indicate an adverse impact on the future cash flows from certain loans and receivables balances outstanding, but for which a specific credit risk provision is not yet quantifiable.

When loans and receivables cannot be recovered, they are written-off and charged against impairment allowance. They are not written-off until all the necessary legal procedures have been completed and the amount of the loss is finally determined.

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

k) Business combinations and goodwill

Business combinations are accounted for using the purchase method of accounting, which, in essence, involves recognizing identifiable assets, liabilities and contingent liabilities of the acquired business at fair value. Any excess of the cost of acquisition over the fair value of identifiable net assets acquired is recognized as goodwill. If the cost of acquisition is less than fair value of the identifiable net assets acquired, the discount on acquisition is recognized in the income statement in the year of acquisition.

Following the initial recognition, in Group accounts the goodwill arising from the business combinations is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment at each reporting date, or more frequently if events or changes in circumstances indicate that the carrying amount of the goodwill may be impaired.

l) Intangible Assets

Intangible assets comprise software and capitalised costs relating to leasehold rights. The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition. Subsequent the initial recognition, intangible assets are carried at cost less accumulated amortisation and any accumulated impairment loss.

Leasehold rights are amortised over the remaining lease contract on a straight-line basis. Annual amortisation rates applied on a straight-line basis to software and other intangible assets range from 7% to 50%. All intangible assets, except for goodwill, are with definite lives.

m) Fixed Assets

Fixed assets are recorded at historical cost less accumulated depreciation less any impairment losses. Fixed assets are periodically reviewed for impairment. If the recoverable value of a fixed asset is lower than its carrying amount, the respective asset is written down to its recoverable amount.

Depreciation is calculated using the straight-line method based on the estimated useful life of the asset. The following depreciation rates have been applied:

Category	Annual depreciation rate
Buildings	2%
Transport vehicles	20%
Other fixed assets	20% - 33%

Leasehold improvements are capitalised and depreciated over the remaining lease contract period on a straight-line basis. Assets under construction are not depreciated.

Certain reconstruction and renovation costs of buildings, which improve their quality and performance, are capitalised and amortised over the estimated useful life on a straight-line basis.

Maintenance and repair costs are charged to the statement of income as incurred.

n) Sale and Repurchase Agreements

These agreements are accounted for as financing transactions. Under sale and repurchase agreements, where the Group is the transferor, assets transferred remain on the Group's balance sheet and are subject to the Group's usual accounting policies, with the purchase price received included as a liability owed to the transferee.

Where the Group is the transferee, the assets are not included in the Group's balance sheet, but the purchase price paid by it to the transferor is included as an asset. Interest income or expense arising from outstanding sale and repurchase agreements is recognised in the statement of income over the term of the agreement.

o) Off-balance Sheet Financial Commitments and Contingent Liabilities

In the ordinary course of business, the Group is involved with off-balance sheet financial commitments and contingent liabilities comprising commitments to extend loans and receivables to customers, commitments for unutilised credit lines or credit card limits, financial guarantees and commercial letters of credit.

Such financial instruments are recorded in the financial statements as follows:
- commitment to extend loans and advances, credit card and overdraft facilities are recognized on drawdown; and
- financial guarantees and letters of credit are recognized when the related fee received as consideration is recognized.

Commitments to extend loans and receivables and commitments for unutilised credit lines or credit card limits represent contractual commitments to make loans and revolving credits. Commitments generally have fixed expiration dates, or other termination clauses. Since commitments may expire without being drawn upon, the total contract amounts do not necessarily represent future cash requirements.

On initial recognition financial guarantee contracts are measured at fair value. Subsequently, they are carried at the higher of the amount initially recognised less cumulative amortisation over the life of the guarantee and the amount determined in accordance with the accounting policy for provisions when enforcement of the guarantee has become probable.

The methodology for provisioning against possible losses arising from off-balance sheet financial commitments and contingent liabilities is consistent with that described in paragraph *p)* below.

p) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

q) Trust Activities

Funds managed by the Group on behalf of individuals, corporate customers, trusts and other institutions are not regarded as assets of the Group and, therefore, are not separately included in the balance sheet. Funds under trust management are presented in these financial statements only for disclosure purposes.

r) Fair Values of Financial Assets and Liabilities

Fair value represents the amount at which an asset could be exchanged or a liability settled, between knowledgeable, willing parties on an arm's length basis.

s) Cash and Cash Equivalents

For the purpose of presentation in the statement of cash flows, cash and cash equivalents are defined as the amounts comprising cash and demand deposits with central banks and other credit institutions with an insignificant risk of changes in value and a remaining maturity of not more 3 months from the date of acquisition, less demand deposits due to credit institutions.

t) Offsetting

Financial assets and liabilities are offset and the net amount is reported in the balance sheet when there is a currently enforceable legal right to set off the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously.

u) Use of estimates in the preparation of financial statements

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

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

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

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

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

v) Subsequent events

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

NOTE 3. SUMMARY OF RISK MANAGEMENT POLICIES

Management of risk is an essential element of the Group's regular management process. Risk management within the Group is controlled by independent and non-customer-serving structural units, i.e. the Risk Management Sector and the Compliance Sector.

The objective of the Group is to ensure low risk exposure, meanwhile maintaining the well-diversified asset portfolio, hedged risks on financial markets, and low operational risk.

Risks are assessed in relation to the expected yield. Risk exposures that are not acceptable for the Group are eliminated or hedged. The Group does not assume high or uncontrollable risks irrespective of the amount of benefits they bring. Risks should be diversified and those risks that are quantifiable should be hedged. Operational risks are minimised.

The Group pursues a prudent risk management policy, relevant for the Group's business and specifics, ensuring the effective total risk mitigation.

In the ordinary course of business, the Group is exposed to various risks. Those risks include mainly credit risk, market risk, and liquidity risk. In order to manage the above risks, the Group has approved the risk management policies, which are briefly summarised below.

a) Credit risk

Credit risk is the risk that the Group will incur a loss because its counterparties fail to discharge their contractual obligations.

Credit risk management is based on the adequate risk assessment and decision-making. In the event of significant risks, the risk analysis is conducted by independent, non-customer-serving structural units of the Risk Management Sector. The analysis of credit risk comprises evaluation of customer's creditworthiness and collateral and its liquidity. The analysis of customer's creditworthiness includes the analysis of the industry, the company, and its current and forecasted financial position. In the event of significant risks, the issue of loans is subject to a decision by the Credit Committee, which is further reviewed by the Bank's Management Board.

After the loan is issued, the customer's financial position is monitored on a regular basis to timely identify potential credit losses.

To limit its credit risk, the Group has placed limits on the amount of risk accepted in relation to one individual counterparty, and one group of mutually related customers, Group's related parties, as well as a group of customers within the same industry segment.

The Group reviews its loan portfolio on a regular basis to assess its quality and concentrations, as well as to evaluate the portfolio trends.

The Group's maximum exposure to credit risk is represented by the carrying amount of each financial asset, including derivative financial instruments, in the balance sheet and off-balance sheet items bearing credit risk. The detailed analysis of the Group's credit exposures is presented in Notes 13 – 17, 28, 33 and 36.

The Group analyses all issuers and counterparties to set risk limits for each respective issuer or counterparty. The limit amount is subject to a decision of the Financial Market and Counterparty Committee, which is approved by the Bank's Management Board. Compliance with the risk limits set is monitored by independent structural units of the Risk Management Sector.

b) Market risk

Market risk is the risk that the Group's future cash flows will fluctuate as a result of the mark-to-market revaluation of balance sheet and/ or memorandum items caused by changes in market values of financial instruments, commodities and commodity derivatives due to changes in foreign exchange rates, interest rates, and other factors. Market risk comprises three types of risk: interest rate risk, currency risk and other price risk.

i) Interest rate risk

Interest rate risk arises from the potential adverse effect produced by fluctuations of interest rates on the Group's income and economic value.

Interest rate risk is assessed and decisions are made by the Assets and Liabilities Management Committee; further the decisions are approved by the Bank's Management Board. Risk is managed by competent structural units in accordance with the Group's internal regulations.

The Assets and Liabilities Management Committee sets the acceptable level of interest rate risk, defines the Group's internal limit system, controls compliance with the limits set, and supervises how risk management instruments are used.

The fundamental element of interest rate risk management is clear, accurate, and timely risk assessment. To assess interest rate risk on cash-flows and interest-bearing financial instruments, scenario analysis is applied. According to the Group's interest rate risk assessment as at 31 December 2007, in the event of simultaneous parallel increase in all interest rates by 0.5%, the potential decrease in the Group's pre-tax profit (in 12-months time) would approximate LVL 0.7 million and equity would decrease by approximately LVL 6.7 million. Using the same scenario, as at 31 December 2006, the potential decrease in the Group's net profit (in 12-months time) would approximate LVL 1.8 million and equity would decrease by approximately LVL 6.1 million. Given the Group's assets and liabilities term structure, for the purposes of interest rate sensitivity analysis it was assumed that on the short-term amounts are being constantly replaced by new ones at market rates.

The Group mitigates the interest rate risk using derivatives. For hedging purposes, fair value hedges are used.

ii) Currency risk

Currency risk is the risk that the Group will incur a loss as a result of the fluctuation of the fair value or future cash flows in relation to balance sheet and memorandum items caused by changes in market values of financial instruments and derivatives due to fluctuations of foreign exchange rates.

Currency risk is assessed and decisions are made by the Assets and Liabilities Management Committee on the basis of the amount of open currency positions; further the decisions are approved by the Bank's Management Board. The permissible open currency position is determined on the basis of limits set by the FCMC in respect of open positions for individual currencies as well as for total open positions.

To assess currency risk, scenario analysis is applied. According to the Group's currency risk assessment as at 31 December 2007 and 2006, in the event that exchange rates for all currencies, in which the Group has open positions show an adverse change of 1%, the potential total decrease in the Group's pre-tax profit and equity would be approximately LVL 0.6 million and LVL 0.7 million, accordingly. As the central banks of Lithuania and Estonia have chosen to maintain fixed exchange rate between their national currencies, litas and krona, accordingly, and euro, for the purposes of the calculation the Group's open positions in these currencies are consolidated with euro open position.

The Group's exposure to currency risk is presented in Note 35.

iii) Equity price risk

Equity price risk is the risk that the Group will incur a loss due to changes in equity prices. Equity price risk is assessed and decisions on limits set are made by the Financial Market and Counterparty Committee. Further the decisions so made are approved by the Bank's Management Board.

To assess equity price risk, scenario analysis is applied. The Group applies the stress scenario, which is based on actual historical data and shows changes in prices of various financial instruments in case of any emergency. In addition, the flight-to-quality scenario is used, which refers to investors largely moving their capital away from riskier investments toward safer investments (for instance, U.S. or other AAA country bonds).

According to the Group's equity price risk assessment as at 31 December 2007 and 2006, in the event that all equity prices drop by 2%, pre-tax profit and equity in total would decrease by approximately LVL 0.8 million and LVL 1 million, accordingly.

c) Liquidity risk

Liquidity risk is the risk that the Group will be unable to meet its legal payment obligations. The purpose of liquidity management is to ensure the availability of liquid assets sufficient to meet potential obligations.

The Group maintains its liquidity position so that all its obligations to depositors and other creditors can be met timely and properly, meanwhile ensuring sufficient cash flows to be able to expand business relations with customers.

The Assets and Liabilities Management Committee sets the objectives of liquidity risk management, makes assessment, as well as decides on the liquidity position and measures to be taken to mitigate liquidity risks. The decisions are approved by the Bank's Management Board. To assess liquidity risk, scenario analysis is used.

Liquidity risk is managed by stringent monitoring and planning of the movements in the balances of demand deposits with banks and cash on hand, and by allocation of a predetermined proportion of the Group's assets in highly liquid financial instruments and short-term money-market instruments. This proportion is determined based on the analysis of the maturities of the Group's contractual obligations, including outstanding liabilities and commitments as well as based on the potential calls for withdrawal of funds from current accounts, overnight deposits, loans and credit lines granted as well as under guarantees issued by the Group.

The Bank's liquidity ratio as at 31 December 2007 calculated in accordance with the FCMC regulations was 51% (2006: 43%) exceeding the minimum liquidity requirement of 30% set by the FCMC.

The Group's assets and liabilities as well as memorandum items by their remaining contractual maturities are presented in Note 33.

NOTE 4. INTEREST INCOME AND EXPENSE

	LVL 000's			
	2007 Group	2006 Group	2007 Bank	2006 Bank
Interest income:				
- interest on financial assets measured at amortised cost:	159,114	98,578	143,815	88,810
- interest on loans and receivables to customers	142,324	81,753	122,627	70,855
- interest on balances due from credit institutions and central banks	13,874	11,281	16,753	11,962
- interest on held-to-maturity investments	2,916	5,544	4,435	5,993
- interest on financial assets at fair value through profit or loss:	9,054	7,874	9,000	7,874
- interest on derivatives	8,084	6,225	8,084	6,225
- interest on held for trading financial assets	970	1,649	916	1,649
- interest on available-for-sale financial assets	25,041	19,139	23,640	17,638
Total interest income	**193,209**	**125,591**	**176,455**	**114,322**
Interest expense:				
- interest on financial liabilities measured at amortised cost:	(100,123)	(61,816)	(96,855)	(60,160)
- interest on deposits from customers	(55,027)	(37,894)	(51,875)	(36,880)
- interest on balances due to credit institutions and central banks	(34,096)	(15,308)	(34,026)	(14,666)
- interest on issued debt securities	(10,483)	(8,614)	(10,483)	(8,614)
- interest on subordinated liabilities	(471)	-	(471)	-
- interest on other financial liabilities	(46)	-	-	-
- interest on derivatives	(9,826)	(6,087)	(9,826)	(6,087)
Total interest expense	**(109,949)**	**(67,903)**	**(106,681)**	**(66,247)**
Net interest income	**83,260**	**57,688**	**69,774**	**48,075**

	LVL 000's			
	2007 Group	2006 Group	2007 Bank	2006 Bank
Interest income recognised on impaired assets	1,040	855	242	598

NOTE 5. COMMISSION AND FEE INCOME AND EXPENSE

	LVL 000's			
	2007 Group	2006 Group	2007 Bank	2006 Bank
Commission and fee income:				
- transactions with settlement cards	18,395	13,935	18,039	13,661
- payment transfer fee	9,691	9,685	8,610	8,391
- custody, trust and asset management fees	4,408	2,719	34	62
- securities, financial instrument brokerage fees	3,794	4,013	3,491	4,027
- financial consulting fees *	3,593	535	3,593	535
- cash disbursement/ transaction commission	2,141	1,395	1,837	991
- review of loan applications and collateral evaluation	1,267	840	1,199	774
- investment banking services	1,251	1,079	1,251	1,079
- cash collection	857	497	856	497
- letters of credit and guarantees	646	612	549	561
- service fee for account maintenance	618	592	549	551
- other fees	1,069	1,190	220	546
Total commission and fee income	**47,730**	**37,092**	**40,228**	**31,675**

* Financial consulting fees comprise fees received by the Bank for assistance in arranging a third party financing transaction.

	LVL 000's			
	2007 Group	2006 Group	2007 Bank	2006 Bank
Commission and fee expense:				
- fees related to settlement card operations	(5,593)	(4,714)	(5,411)	(4,612)
- fees related to correspondent accounts	(2,697)	(2,237)	(2,480)	(2,011)
- brokerage and custodian fees:	(1,012)	(1,665)	(1,672)	(1,765)
- securities, financial instrument brokerage fees	(175)	(1,106)	(849)	(1,328)
- custody, trust and asset management fees	(837)	(559)	(823)	(437)
- other fees	(534)	(492)	(358)	(237)
Total commission and fee expense	**(9,836)**	**(9,108)**	**(9,921)**	**(8,625)**
Net commission and fee income	**37,894**	**27,984**	**30,307**	**23,050**

Commission and fee income and expense from financial instruments not at fair value through profit and loss, other than amounts included in determining the effective interest rate, can be specified as follows:

	LVL 000's			
	2007 Group	2006 Group	2007 Bank	2006 Bank
Commission and fee income	47,730	37,092	40,228	31,675
Commission and fee expense	(9,812)	(9,023)	(9,880)	(8,539)

NOTE 6. TRADING AND FOREIGN EXCHANGE GAINS, NET

	LVL 000's			
	2007 Group	2006 Group	2007 Bank	2006 Bank
Profit from trading and revaluation of securities held for trading purposes, net	5,276	8,251	5,199	8,237
Profit from foreign exchange trading and revaluation of open positions, net	15,712	7,048	14,007	5,288
Profit from disposal of available for sale securities, net	1,755	1,417	1,608	1,263
(Loss) from trading and revaluation of other financial instruments, net	(98)	(202)	(98)	(202)
Profit on trading with financial instruments, net	**22,645**	**16,514**	**20,716**	**14,586**

	LVL 000's			
	2007 Group	2006 Group	2007 Bank	2006 Bank
Net gains on financial instruments not at fair value through profit or loss	1,755	1,417	1,608	1,263
Net gains on financial instruments at fair value through profit or loss	20,890	15,097	19,108	13,323
Total net gains on financial instruments	**22,645**	**16,514**	**20,716**	**14,586**

NOTE 7. OTHER OPERATING INCOME

	LVL 000's			
	2007 Group	2006 Group	2007 Bank	2006 Bank
Penalties received	2,951	1,831	1,731	1,710
Dividends received	346	655	345	653
Other income *	6,813	25,281	4,877	23,790
Total other operating income	**10,110**	**27,767**	**6,953**	**26,153**

* In December 2006, the Bank sold several items of real estate. The profit before tax on the aforementioned deals amounted to LVL 22,961 thousand. In the short-term, the Bank will continue to lease the premises in the sold buildings under operating lease terms.

NOTE 8. ADMINISTRATIVE EXPENSE

	LVL 000's			
	2007 Group	2006 Group	2007 Bank	2006 Bank
Personnel expense	51,735	34,083	39,887	27,683
Advertising, marketing and sponsorship	8,171	5,487	7,280	5,004
Business travel expense	5,520	4,743	5,211	4,614
Rent for premises	4,756	2,254	3,222	1,367
Non-refundable value added tax	3,753	2,735	3,186	2,420
Communications (telephone, mail, etc.)	2,672	2,096	2,171	1,810
Repairs and maintenance	2,635	3,122	2,144	2,936
Consulting and professional fees	2,207	2,279	1,617	1,928
EDP maintenance	1,990	1,654	1,183	1,275
Representation	1,859	1,456	1,630	1,339
Office expense	1,153	875	745	715
Security	675	471	562	389
Insurance	350	237	234	182
Real estate and other taxes	199	546	35	172
Other administrative expense	3,791	2,846	2,756	1,963
Total administrative expense	**91,466**	**64,884**	**71,863**	**53,797**

NOTE 9. PERSONNEL EXPENSE

Personnel expense has been presented in these financial statements within administrative expense. Personnel expense includes remuneration for work to the personnel and related social security contributions and other short-term benefits costs.

	LVL 000's			
	2007 Group	2006 Group	2007 Bank	2006 Bank
Remuneration for work	43,557	28,418	34,027	23,265
Social security contributions	8,178	5,665	5,860	4,418
Total personnel expense	**51,735**	**34,083**	**39,887**	**27,683**
Average number of personnel during the year	3,363	2,778	2,501	2,225

The total remuneration paid by the Bank to the members of the Council and the Management Board amounted to LVL 1,060 thousand (2006: LVL 620 thousand).

NOTE 10. IMPAIRMENT OF FINANCIAL ASSETS AND CHANGES IN IMPAIRMENT ALLOWANCES

An analysis of the change in allowances for impairment is presented as follows:

	LVL 000's			
	2007 Group	2006 Group	2007 Bank	2006 Bank
Total allowance for impairment at the beginning of the year, including:	**15,849**	**22,866**	**14,360**	**22,448**
- loans - specifically assessed impairment	9,582	11,033	8,317	10,785
- loans - collectively assessed impairment	4,747	6,587	4,523	6,417
- securities not measured at amortised cost	694	767	694	767
- securities measured at amortised cost	722	1,859	722	1,859
- due from credit institutions	-	2,514	-	2,514
- non-financial assets	104	106	104	106
Charge:	**7,780**	**1,072**	**5,413**	**476**
- loans - specifically assessed impairment	4,600	1,046	3,147	471
- loans - collectively assessed impairment	2,960	21	2,047	-
- securities not measured at amortised cost	-	-	-	-
- securities measured at amortised cost	43	-	43	-
- due from credit institutions	-	5	-	5
- non-financial assets	177	-	176	-
Release:	**(3,163)**	**(4,831)**	**(3,058)**	**(4,709)**
- loans - specifically assessed impairment	(3,131)	(1,855)	(3,035)	(1,826)
- loans - collectively assessed impairment	(9)	(1,987)	-	(1,894)
- securities not measured at amortised cost	-	-	-	-
- securities measured at amortised cost	(21)	(984)	(21)	(984)
- due from credit institutions	-	(5)	-	(5)
- non-financial assets	(2)	-	(2)	-
Provision charged to the statement of income, net, including:	**4,617**	**(3,759)**	**2,355**	**(4,233)**
- loans - specifically assessed impairment	1,469	(809)	112	(1,355)
- loans - collectively assessed impairment	2,951	(1,966)	2,047	(1,894)
- securities not measured at amortised cost	-	-	-	-
- securities measured at amortised cost	22	(984)	22	(984)
- due from credit institutions	-	-	-	-
- non-financial assets	175	-	174	-
Change of allowance due to write-offs, net:	**(4,935)**	**(2,929)**	**(4,763)**	**(2,929)**
- loans and receivables to customers	(4,093)	(580)	(3,921)	(580)
- securities not measured at amortised cost	(220)	-	(220)	-
- securities measured at amortised cost	(521)	-	(521)	-
- due from credit institutions	-	(2,349)	-	(2,349)
- non-financial assets	(101)	-	(101)	-
Effect of changes in currency exchange rates:	**(607)**	**(329)**	**(605)**	**(926)**
- loans and receivables to customers	(522)	64	(520)	(533)
- securities not measured at amortised cost	(51)	(73)	(51)	(73)
- securities measured at amortised cost	(24)	(153)	(24)	(153)
- due from credit institutions	-	(165)		(165)
- non-financial assets	(10)	(2)	(10)	(2)
Total allowance for impairment at the end of the year, including:	**14,924**	**15,849**	**11,347**	**14,360**
- loans - specifically assessed impairment	6,436	9,582	3,988	8,317
- loans - collectively assessed impairment	7,698	4,747	6,570	4,523
- securities not measured at amortised cost	423	694	423	694
- securities measured at amortised cost	199	722	199	722
- due from credit institutions	-	-	-	-
- non-financial assets	168	104	167	104

NOTE 11. TAXATION

Corporate income tax expense comprises the following items:

	LVL 000's			
	2007 Group	2006 Group	2007 Bank	2006 Bank
Current corporate income tax	6,858	7,161	5,641	6,787
Deferred income tax	(910)	289	(921)	21
Tax withheld abroad	2,130	1,211	2,130	1,211
Prior year adjustments	(179)	(1)	78	(1)
Total corporate income tax expense	**7,899**	**8,660**	**6,928**	**8,018**

The reconciliation of the Bank's and the Group's pre-tax profit for the year to the corporate income tax expense for the year may be specified as follows:

	LVL 000's			
	2007 Group	2006 Group	2007 Bank	2006 Bank
Profit before corporate income tax	49,319	60,767	47,074	56,020
Corporate income tax (at standard rate) *	**7,398**	**9,115**	**7,061**	**8,403**
Permanent differences, net	1,867	(144)	976	(74)
Prior year adjustments	(179)	1	78	1
Tax reductions (donations and other deductions)	(1,187)	(312)	(1,187)	(312)
Total corporate income tax expense	**7,899**	**8,660**	**6,928**	**8,018**

* standard rate for the year ended 31 December 2007 was 15% (2006: 15%).

The movements in deferred corporate income tax liability can be specified as follows:

	LVL 000's			
	2007 Group	2006 Group	2007 Bank	2006 Bank
As at 1 January	870	608	561	567
Charge to statement of income	(910)	289	(921)	21
Charge to equity **	(470)	(27)	(470)	(27)
Total deferred income tax (asset)/ liability at the end of the year	**(510)**	**870**	**(830)**	**561**

Deferred corporate income tax assets and liabilities can be specified as follows:

	LVL 000's			
	2007 Group	2006 Group	2007 Bank	2006 Bank
Deferred tax liabilities:				
Accumulated excess of tax depreciation over accounting depreciation	1,347	970	904	770
Revaluation of securities and derivatives **	205	1,044	205	1,044
Other deferred tax liabilities	287	109	-	-
Deferred tax assets:				
Vacation pay accrual	(260)	(188)	(257)	(188)
Non-taxable impairment allowance	(986)	(678)	(986)	(678)
Unutilised tax losses	(22)	-	-	-
Other deferred tax assets	(1,081)	(387)	(696)	(387)
Total deferred corporate income tax (asset)/ liability	**(510)**	**870**	**(830)**	**561**

** - all changes in deferred tax liability that are charged directly to equity are related to revaluation of securities and derivatives.

The movements in tax accounts of the Bank during 2007 can be specified as follows:

	LVL 000's			
	Balance as at 31/12/2006	Calculated in 2007	Paid in 2007	Balance as at 31/12/2007
Corporate income tax	(1,212)	(7,849)	12,270	3,209
including corporate income tax withheld abroad	-	*(2,130)*	*2,130*	-
Social security contributions	-	(7,917)	7,888	(29)
Personal income tax	-	(7,266)	7,204	(62)
Value added tax	573	417	(169)	821
Real estate tax	-	(25)	25	-
Total tax (payable)/ receivable	**(639)**			**3,939**

NOTE 12. CASH AND DEPOSITS WITH CENTRAL BANKS

	LVL 000's			
	31/12/2007 Group	31/12/2006 Group	31/12/2007 Bank	31/12/2006 Bank
Cash	60,203	43,832	55,566	40,606
Deposits with the Bank of Latvia	178,827	211,564	178,827	211,564
Demand deposits with other central banks	18,250	11,817	1,669	6,424
Total cash and deposits with central banks	**257,280**	**267,213**	**236,062**	**258,594**

According to the resolution of the Council of the Bank of Latvia, credit institutions should comply with the compulsory reserve requirement calculated on the basis of attracted funding. The Bank's compulsory reserve must be exceeded by a credit institution's average monthly LVL balance on its correspondent account with the Bank of Latvia. Similar requirements also apply to of the funding attracted by the Bank's branch in Estonia. During the reporting year, the Bank was in compliance with these requirements of the Bank of Latvia and the Bank of Estonia.

Demand deposits with other central banks include balances with central banks of Lithuania, Estonia and Germany. As at 31 December 2007 and 2006, none of the amounts due from central banks were past due.

NOTE 13. BALANCES DUE FROM CREDIT INSTITUTIONS

	LVL 000's			
	31/12/2007 Group	31/12/2006 Group	31/12/2007 Bank	31/12/2006 Bank
Due from credit institutions registered in OECD countries	308,900	83,196	280,645	71,388
Due from credit institutions registered in Latvia	68,768	14,721	68,331	14,661
Due from credit institutions registered in other non-OECD countries	53,200	76,257	173,657	103,939
Total balances due from credit institutions	**430,868**	**174,174**	**522,633**	**189,988**

As at 31 December 2007, the Bank had inter-bank deposits with 3 (2006: 3) Latvian credit institutions and 5 (2006: 5) OECD region credit institutions. Corresponding balances comprised 60% (2006: 97%) and 64% (2006: 87%) of total balances due from credit institutions registered in Latvia and OECD, respectively. As at 31 December 2007 and 2006, none of the amounts due from credit institutions were past due.

The Bank's balances with its subsidiary Parex Bankas (Lithuania) accounted for 72% (2006: 37%) of the total balances due from credit institutions registered in other non-OECD countries.

	LVL 000's			
	31/12/2007 Group	31/12/2006 Group	31/12/2007 Bank	31/12/2006 Bank
Correspondent accounts	83,343	52,801	76,108	47,772
Overnight deposits	95,548	80,169	81,486	70,619
Total demand deposits	**178,891**	**132,970**	**157,594**	**118,391**
Term deposits with credit institutions:				
due within 1 month	223,632	4,207	237,419	1,263
due within 1-3 months	8,597	2,555	46,459	5,409
due within 3-6 months	8,648	1,307	50,570	11,815
due within 6-12 months	6,872	17,736	27,455	35,628
due within 1-5 years	4,228	9,516	3,136	8,801
over 5 years and undated	-	5,883	-	8,681
Total term deposits	**251,977**	**41,204**	**365,039**	**71,597**
Total balances due from credit institutions	**430,868**	**174,174**	**522,633**	**189,988**

As at 31 December 2007, balances due from Latvian and non-OECD credit institutions totalling LVL 24,457 thousand (2006: LVL 19,416 thousand) were collateralised by deposits amounting to LVL 26,700 thousand (2006: LVL 21,116 thousand) (see also Note 23).

NOTE 14. LOANS AND RECEIVABLES TO CUSTOMERS

	Group, LVL 000's					
	31/12/2007			31/12/2006		
	Balance sheet amount	Off-balance sheet credit exposure	Total gross credit exposure	Balance sheet amount	Off-balance sheet credit exposure	Total gross credit exposure
Regular loans	1,434,493	30,246	1,464,739	1,016,599	44,133	1,060,732
Utilised credit lines	191,859	106,331	298,190	144,622	183,399	328,021
Finance leases	225,247	2,457	227,704	134,178	-	134,178
Debit balances on settlement cards	74,560	134,900	209,460	37,417	72,592	110,009
Overdraft facilities	24,089	41,527	65,616	33,756	36,727	70,483
Loans under reverse repurchase agreements	32,949	29,914	62,863	36,850	-	36,850
Factoring	26,426	-	26,426	28,422	313	28,735
Due from investment and brokerage firms	11,153	-	11,153	14,464	-	14,464
Total loans and receivables to customers	**2,020,776**	**345,375**	**2,366,151**	**1,446,308**	**337,164**	**1,783,472**
Impairment allowance	(14,134)	-	(14,134)	(14,329)	-	(14,329)
Total net loans and receivables to customers	**2,006,642**	**345,375**	**2,352,017**	**1,431,979**	**337,164**	**1,769,143**

Off-balance sheet credit exposure comprises various committed financing facilities to the borrowers.

	Bank, LVL 000's					
	31/12/2007			31/12/2006		
	Balance sheet amount	Off-balance sheet credit exposure	Total gross credit exposure	Balance sheet amount	Off-balance sheet credit exposure	Total gross credit exposure
Regular loans	1,228,547	15,728	1,244,275	923,212	37,369	960,581
Utilised credit lines *	348,427	141,334	489,761	246,416	215,367	461,783
Debit balances on settlement cards	72,041	127,194	199,235	36,431	70,600	107,031
Overdraft facilities	30,063	41,551	71,614	37,114	36,465	73,579
Loans under reverse repurchase agreements	29,847	29,914	59,761	35,557	-	35,557
Factoring	23,677	-	23,677	27,999	38	28,037
Due from investment and brokerage firms	13,547	-	13,547	15,294	-	15,294
Finance leases	2,739	-	2,739	6,981	-	6,981
Total loans and receivables to customers	**1,748,888**	**355,721**	**2,104,609**	**1,329,004**	**359,839**	**1,688,843**
Impairment allowance	(10,558)	-	(10,558)	(12,840)	-	(12,840)
Total net loans and receivables to customers	**1,738,330**	**355,721**	**2,094,051**	**1,316,164**	**359,839**	**1,676,003**

* The Bank has reclassified loans amounting to LVL 282,469 thousand, which as at 31 December 2006 were reported in 'Utilised credit lines'. The amount relates to the loans where the drawdown is done in several portions, taking into account various contractual provision and is currently included in "Regular loans".

As at 31 December 2007, loans and receivables to customers totalling LVL 15,791 thousand (2006: LVL 12,382 thousand) or 0.9% (2006: 0.9%) of the Group's total portfolio of net loans and receivables to customers were classified as zero risk, as collateralised by deposits (see Note 24).

The Latvian banking legislation requires that any credit exposure to a non-related entity may not exceed 25% of equity as defined by the Financial and Capital Market Commission (FCMC) (see Note 32) and the total credit exposure to all related parties, except for consolidated subsidiaries, may not exceed 15% of equity as defined by the FCMC. As at 31 December 2007, the Bank was in compliance with the above requirements.

The table below provides information about loans with renegotiated terms:

	LVL 000's			
	31/12/2007 Group	31/12/2006 Group	31/12/2007 Bank	31/12/2006 Bank
Carrying amount of loans with renegotiated terms	52,701	88,964	51,326	87,959

The table below provides Group's loan portfolio ageing analysis:

	Group, LVL 000's 31/12/2007								
	Regular loans	Utilised credit lines	Finance leases	Debit balances on settlement cards	Loans under reverse repurchase agreement	Overdraft facilities	Factoring	Due from investment and brokerage firms	Total
Not delayed - not impaired	1,313,274	184,481	177,222	46,731	32,949	23,976	25,711	11,153	1,815,497
Not delayed - impaired	4,235	320	10	-	-	62	-	-	4,627
Total not delayed loans	**1,317,509**	**184,801**	**177,232**	**46,731**	**32,949**	**24,038**	**25,711**	**11,153**	**1,820,124**
Past due loans - not impaired									
Delayed days:									
=< 30	55,937	4,235	28,985	13,550	-	44	406	-	103,157
31-60	26,341	630	5,895	5,245	-	-	-	-	38,111
61-90	10,331	465	1,994	2,523	-	-	-	-	15,313
91 and more	15,788	1,534	3,381	3,263	-	-	-	-	23,966
Total past due loans - not impaired	**108,397**	**6,864**	**40,255**	**24,581**	**-**	**44**	**406**	**-**	**180,547**
Total past due loans - impaired	**8,587**	**194**	**7,760**	**3,248**	**-**	**7**	**309**	**-**	**20,105**
Total gross loans and receivables to customers	**1,434,493**	**191,859**	**225,247**	**74,560**	**32,949**	**24,089**	**26,426**	**11,153**	**2,020,776**
Impairment allowance	(8,417)	(104)	(1,499)	(3,428)	-	(291)	(395)	-	(14,134)
Total net loans and receivables to customers	**1,426,076**	**191,755**	**223,748**	**71,132**	**32,949**	**23,798**	**26,031**	**11,153**	**2,006,642**

Mostly, not-delayed loans falling into categories 'regular loans' and 'utilised credit lines' are secured by collateral. More than 60% are secured by real estate collateral. In general, settlement card loans are granted to clients on a basis of their cash flows' assessment and no collateral is required in most cases. Finance leases are secured by the respective property leased out (for more details on leasing portfolio please refer to Note 15). Loans under reverse repurchase agreements are secured with securities that can be sold in case of client's default.

	Group, LVL 000's								
	31/12/2006								
	Regular loans	Utilised credit lines	Finance leases	Debit balances on settlement cards	Loans under reverse repurchase agreement	Overdraft facilities	Factoring	Due from investment and brokerage firms	Total
Not delayed - not impaired	966,561	127,726	112,583	28,237	36,850	33,756	28,151	14,464	1,348,328
Not delayed - impaired	1,154	1,631	38	-	-	-	-	-	2,823
Total not delayed loans	**967,715**	**129,357**	**112,621**	**28,237**	**36,850**	**33,756**	**28,151**	**14,464**	**1,351,151**
Past due loans - not impaired									
Delayed days:									
=< 30	35,188	5,441	6,126	4,223	-	-	-	-	50,978
31-60	5,014	4,622	1,317	1,794	-	-	-	-	12,747
61-90	1,224	26	6,513	704	-	-	-	-	8,467
91 and more	1,825	414	520	1,582	-	-	13	-	4,354
Total past due loans - not impaired	**43,251**	**10,503**	**14,476**	**8,303**	**-**	**-**	**13**	**-**	**76,546**
Total past due loans - impaired	**5,633**	**4,762**	**7,081**	**877**	**-**	**-**	**258**	**-**	**18,611**
Total gross loans and receivables to customers	**1,016,599**	**144,622**	**134,178**	**37,417**	**36,850**	**33,756**	**28,422**	**14,464**	**1,446,308**
Impairment allowance	(9,886)	(104)	(2,010)	(979)	-	(138)	(1,212)	-	(14,329)
Total net loans and receivables to customers	**1,006,713**	**144,518**	**132,168**	**36,438**	**36,850**	**33,618**	**27,210**	**14,464**	**1,431,979**

The table below provides Bank's loan portfolio ageing analysis:

	Bank, LVL 000's								
	31/12/2007								
	Regular loans	Utilised credit lines	Finance leases	Debit balances on settlement cards	Loans under reverse repurchase agreement	Overdraft facilities	Factoring	Due from investment and brokerage firms	Total
Not delayed - not impaired	1,130,305	342,259	2,359	44,836	29,847	30,063	23,491	13,547	1,616,707
Not delayed - impaired	61	-	10	-	-	-	-	-	71
Total not delayed loans	**1,130,366**	**342,259**	**2,369**	**44,836**	**29,847**	**30,063**	**23,491**	**13,547**	**1,616,778**
Past due loans - not impaired									
Delayed days:									
=< 30	44,521	3,552	149	13,278	-	-	-	-	61,500
31-60	26,074	569	41	5,136	-	-	-	-	31,820
61-90	10,249	465	4	2,441	-	-	-	-	13,159
91and more	15,524	1,535	101	3,102	-	-	-	-	20,262
Total past due loans - not impaired	**96,368**	**6,121**	**295**	**23,957**	-	-	**-**	-	**126,741**
Total past due loans - impaired	**1,813**	**47**	**75**	**3,248**	-	-	**186**	-	**5,369**
Total gross loans and receivables to customers	**1,228,547**	**348,427**	**2,739**	**72,041**	**29,847**	**30,063**	**23,677**	**13,547**	**1,748,888**
Impairment allowance	(6,687)	-	(83)	(3,248)	-	(264)	(276)	-	(10,558)
Total net loans and receivables to customers	**1,221,860**	**348,427**	**2,656**	**68,793**	**29,847**	**29,799**	**23,401**	**13,547**	**1,738,330**

	Bank, LVL 000's								
	31/12/2006								
	Regular loans	Utilised credit lines	Finance leases	Debit balances on settlement cards	Loans under reverse repurchase agreement	Overdraft facilities	Factoring	Due from investment and brokerage firms	Total
Not delayed - not impaired	882,014	231,917	4,749	27,544	35,557	37,114	27,761	15,294	1,261,950
Not delayed - impaired	19	-	33	-	-	-	-	-	52
Total not delayed loans	**822,033**	**231,917**	**4,782**	**27,544**	**35,557**	**37,114**	**27,761**	**15,294**	**1,262,002**
Past due loans - not impaired									
Delayed days:									
=< 30	30,437	4,803	248	4,099	-	-	-	-	39,587
31-60	4,757	4,560	57	1,751	-	-	-	-	11,125
61-90	928	26	4	663	-	-	-	-	1,621
91and more	1,742	414	409	1,497	-	-	13	-	4,075
Total past due loans - not impaired	**37,864**	**9,803**	**718**	**8,010**	**-**	**-**	**13**	**-**	**56,408**
Total past due loans - impaired	**3,315**	**4,696**	**1,481**	**877**	**-**	**-**	**225**	**-**	**10,594**
Total gross loans and receivables to customers	**923,212**	**246,416**	**6,981**	**36,431**	**35,557**	**37,114**	**27,999**	**15,294**	**1,329,004**
Impairment allowance	(8,768)	(30)	(1,914)	(877)	-	(138)	(1,113)	-	(12,840)
Total net loans and receivables to customers	**914,444**	**246,386**	**5,067**	**35,554**	**35,557**	**36,976**	**26,886**	**15,294**	**1,316,164**

Loans and advances by customer profile may be specified as follows:

	LVL 000's			
	31/12/2007 Group	31/12/2006 Group	31/12/2007 Bank	31/12/2006 Bank
Privately held companies	1,211,469	907,720	1,126,902	871,143
Private individuals	763,324	500,176	580,455	423,562
State owned enterprises	21,144	9,787	18,186	7,088
Public and religious institutions	11,504	12,725	11,154	12,426
Municipality owned enterprises	8,863	9,882	8,850	9,773
Local municipalities	4,470	4,541	3,339	3,535
Government	2	1,477	2	1,477
Total gross loans and receivables to customers	**2,020,776**	**1,446,308**	**1,748,888**	**1,329,004**
Impairment allowance	(14,134)	(14,329)	(10,558)	(12,840)
Total net loans and receivables to customers	**2,006,642**	**1,431,979**	**1,738,330**	**1,316,164**

The borrowers' industry analysis of the gross portfolio of loans and receivables to corporate customers before impairment allowance may be specified as follows:

	LVL 000's			
	31/12/2007 Group	31/12/2006 Group	31/12/2007 Bank	31/12/2006 Bank
Real estate purchase and management	378,638	238,843	340,068	223,114
Transport and communications	236,036	219,918	176,878	187,477
Trade	190,072	129,868	117,026	89,305
Construction	123,253	80,322	71,673	42,839
Electricity, gas and water supply	77,351	51,561	75,723	50,678
Financial intermediation	48,577	49,565	250,289	183,234
Manufacturing	47,496	79,117	25,328	62,702
Hotels, restaurants	29,099	26,274	27,394	24,192
Agriculture and forestry	18,056	9,657	2,518	2,152
Other industries	108,874	61,007	81,535	39,749
Total gross loans and receivables to corporate customers	**1,257,452**	**946,132**	**1,168,433**	**905,442**

The following table represents geographical profile of the portfolio of loans and receivables to customers analysed by the place of customers' reported residence:

	LVL 000's			
	31/12/2007 Group	31/12/2006 Group	31/12/2007 Bank	31/12/2006 Bank
Latvian residents	1,148,539	821,716	1,175,854	838,336
OECD region residents	63,890	106,474	56,811	99,083
Non-OECD region residents	808,347	518,118	516,223	391,585
Total gross loans and receivables to customers	**2,020,776**	**1,446,308**	**1,748,888**	**1,329,004**
Impairment allowance	(14,134)	(14,329)	(10,558)	(12,840)
Total net loans and receivables to customers	**2,006,642**	**1,431,979**	**1,738,330**	**1,316,164**

NOTE 15. LEASES

The following table represents finance leases analysed by type of assets:

	LVL 000's			
	31/12/2007 Group	31/12/2006 Group	31/12/2007 Bank	31/12/2006 Bank
Transport vehicles	180,102	99,571	940	3,055
Real estate	2,758	17,663	1,695	2,613
Manufacturing equipment	19,745	2,891	41	141
Other	22,642	14,053	63	1,172
Total present value of finance lease payments, excluding impairment	**225,247**	**134,178**	**2,739**	**6,981**
Impairment allowance	(1,499)	(2,010)	(83)	(1,914)
Net present value of finance lease payments	**223,748**	**132,168**	**2,656**	**5,067**

The following table represents reconciliation between the gross investment in the finance leases and the present value of minimum lease payments receivable:

	LVL 000's			
	31/12/2007 Group	31/12/2006 Group	31/12/2007 Bank	31/12/2006 Bank
Gross investment in finance leases receivable:				
within 1 year	47,611	33,871	1,463	1,104
later than 1 year and no later than in 5 years	196,134	117,617	1,529	6,444
later than in 5 years	19,135	4,109	-	178
Total gross investment in finance leases	**262,880**	**155,597**	**2,992**	**7,726**
Unearned finance income receivable:				
within 1 year	11,175	6,814	165	322
later than 1 year and no later than in 5 years	25,462	14,481	88	390
later than in 5 years	996	124	-	33
Total	**37,633**	**21,419**	**253**	**745**
Present value of minimum lease payments receivable:				
within 1 year	36,436	27,057	1,298	782
later than 1 year and no later than in 5 years	170,672	103,136	1,441	6,054
later than in 5 years	18,139	3,985	-	145
Total	**225,247**	**134,178**	**2,739**	**6,981**

NOTE 16. FIXED INCOME SECURITIES

	LVL 000's			
	31/12/2007 Group	31/12/2006 Group	31/12/2007 Bank	31/12/2006 Bank
Credit institution bonds	237,264	242,135	232,043	233,445
Government bonds	159,159	112,312	140,844	110,683
Corporate bonds	91,703	81,747	81,374	70,727
Other financial institution bonds	24,934	25,463	56,938	36,086
Municipality bonds	6,914	17,997	4,330	15,231
Managed funds	1,489	3,642	1,489	2,678
Total gross fixed income securities	**521,463**	**483,296**	**517,018**	**468,850**
Less impairment allowance	(622)	(1,416)	(622)	(1,416)
Total net fixed income securities	**520,841**	**481,880**	**516,396**	**467,434**

There are no off-balance sheet commitments bearing credit risk that are related to the issuers of the above securities.

As at 31 December 2007, the carrying amount of the Group's and Bank's securities on which the payments are past due was LVL 0 (2006: LVL 257 thousand).

As at 31 December 2007, the carrying amount of the Group's and Bank's securities, which were impaired but there were no past due payments amounted to LVL 1,269 thousand (2006: LVL 2,677 thousand).

As at 31 December 2007 and 2006, there are no securities, which were restructured during the respective year.

The Group's fixed income securities are further split as follows:

	LVL 000's							
	31/12/2007				31/12/2006			
	Held to maturity	Available for sale	Held for trading	Total	Held to maturity	Available for sale	Held for trading	Total
Government bonds	124	158,575	460	159,159	133	101,606	10,573	112,312
Municipality bonds	865	6,049	-	6,914	909	16,990	98	17,997
Credit institution bonds	36,030	199,161	2,073	237,264	62,777	175,413	3,945	242,135
Corporate bonds	-	88,698	3,005	91,703	953	64,909	15,885	81,747
Other financial institution bonds	1,915	22,982	37	24,934	1,204	24,259	-	25,463
Managed funds	1,489	-	-	1,489	2,678	-	964	3,642
Total gross fixed income securities	**40,423**	**475,465**	**5,575**	**521,463**	**68,654**	**383,177**	**31,465**	**483,296**
Impairment allowance	(199)	(423)	-	(622)	(722)	(694)	-	(1,416)
Total net fixed income securities	**40,224**	**475,042**	**5,575**	**520,841**	**67,932**	**382,483**	**31,465**	**481,880**

	Group, LVL 000's							
	31/12/2007				31/12/2006			
	Held to maturity	Available for sale	Held for trading	Total	Held to maturity	Available for sale	Held for trading	Total
Investment grade:								
AAA	5,550	18,451	108	24,109	6,363	37,735	1,626	45,724
AA	990	67,980	86	69,056	1,096	51,291	-	52,387
A	-	122,110	-	122,110	-	132,084	1,282	133,366
BBB/Baa	498	131,665	1,061	133,224	491	46,262	10,858	57,611
Other lower ratings	3,925	82,614	1,632	88,171	3,802	62,874	11,893	78,569
Not rated	29,460	52,645	2,688	84,793	56,902	52,931	5,806	115,639
Total gross fixed income securities	**40,423**	**475,465**	**5,575**	**521,463**	**68,654**	**383,177**	**31,465**	**483,296**
Impairment allowance	(199)	(423)	-	(622)	(722)	(694)	-	(1,416)
Total net fixed income securities	**40,224**	**475,042**	**5,575**	**520,841**	**67,932**	**382,483**	**31,465**	**481,880**

	Bank, LVL 000's							
	31/12/2007				31/12/2006			
	Held to maturity	Available for sale	Held for trading	Total	Held to maturity	Available for sale	Held for trading	Total
Investment grade:								
AAA	5,550	16,164	-	21,714	6,363	35,593	-	41,956
AA	990	58,905	-	59,895	1,096	41,167	-	42,263
A	-	101,078	-	101,078	-	126,732	1,282	128,014
BBB/Baa	-	127,439	302	127,741	-	41,025	9,545	50,570
Other lower ratings	-	82,509	1,333	83,842	-	62,484	11,893	74,377
Not rated	67,557	52,503	2,688	122,748	74,129	52,897	4,644	131,670
Total gross fixed income securities	**74,097**	**438,598**	**4,323**	**517,018**	**81,588**	**359,898**	**27,364**	**468,850**
Impairment allowance	(199)	(423)	-	(622)	(722)	(694)	-	(1,416)
Total net fixed income securities	**73,898**	**438,175**	**4,323**	**516,396**	**80,866**	**359,204**	**27,364**	**467,434**

	LVL 000's					
	31/12/2007			31/12/2006		
	Listed	Unlisted	Total	Listed	Unlisted	Total
Government bonds:						
Latvia	137,599	-	137,599	93,468	-	93,468
OECD	836	-	836	4,055	-	4,055
Non-OECD	20,460	264	20,724	14,789	-	14,789
Total government bonds	**158,895**	**264**	**159,159**	**112,312**	**-**	**112,312**
Municipality bonds:						
OECD	-	-	-	-	-	-
Non-OECD	6,183	731	6,914	17,997	-	17,997
Total municipality bonds	**6,183**	**731**	**6,914**	**17,997**	**-**	**17,997**
Credit institution bonds:						
Latvia	7,756	-	7,756	5,214	-	5,214
OECD	77,989	50,570	128,559	125,536	18,105	143,641
Non-OECD	66,258	34,691	100,949	38,530	54,750	93,280
Total credit institution bonds	**152,003**	**85,261**	**237,264**	**169,280**	**72,855**	**242,135**
Corporate bonds (OECD and non-OECD)	67,518	24,185	91,703	73,421	8,326	81,747
Other financial institution bonds (OECD and non-OECD)	20,656	4,278	24,934	24,452	1,011	25,463
Managed funds	-	1,489	1,489	-	3,642	3,642
Total gross fixed income securities	**405,255**	**116,208**	**521,463**	**397,462**	**85,834**	**483,296**
Impairment allowance	-	(622)	(622)	-	(1,416)	(1,416)
Total net fixed income securities	**405,255**	**115,586**	**520,841**	**397,462**	**84,418**	**481,880**

NOTE 17. SHARES AND OTHER NON-FIXED INCOME SECURITIES

The following table provides the classification of the Group's shares and other non-fixed income securities between available for sale and fair value through profit and loss (where all securities are held for trading) portfolio:

	LVL 000's					
	31/12/2007			31/12/2006		
	Available for sale	Held for trading	Total	Available for sale	Held for trading	Total
Equity shares:						
in Latvian financial institutions	-	7	7	-	-	-
in Latvian corporate entities	-	1,876	1,876	-	1,528	1,528
in OECD financial entities	61	194	255	57	-	57
in OECD corporate entities	14	3,799	3,813	26	5,108	5,134
in non-OECD credit institutions	-	454	454	1	2,488	2,489
in non-OECD corporate entities	49	6,712	6,761	-	12,400	12,400
Total equity shares	124	13,042	13,166	84	21,524	21,608
Mutual investment funds	424	26,767	27,191	255	28,189	28,444
Total shares and other non-fixed income securities	**548**	**39,809**	**40,357**	**339**	**49,713**	**50,052**

Due to the fact that the Group does not possess enough detailed specification of investments in managed funds, which are managed on the behalf of investors by other financial institutions, such investments are not analysed by their ultimate issuer. Investments in mutual funds, where the Group does not possess sufficient information on portfolios' composition between fixed income securities and shares are classified as investments in shares and other non-fixed income securities.

	LVL 000's			
	31/12/2007 Group	31/12/2006 Group	31/12/2007 Bank	31/12/2006 Bank
Latvian entities' equity shares:				
listed	1,791	1,358	1,791	1,358
unlisted	92	92	92	92
Total Latvian entities' equity shares	1,883	1,450	1,883	1,450
Foreign entities' equity shares:				
listed	11,145	20,044	11,145	19,939
unlisted	138	114	7	114
Total foreign entities' equity shares	11,283	20,158	11,152	20,053
Mutual investment funds	27,191	28,444	25,488	25,761
Total shares and other non-fixed income securities	**40,357**	**50,052**	**38,523**	**47,264**

There are no off-balance sheet commitments bearing credit risk that are related to the issuers of the above securities. Further, no payments on the above instruments are past due.

NOTE 18. INVESTMENTS IN SUBSIDIARIES AND BUSINESS COMBINATIONS

Changes in the Bank's investments in subsidiaries may be specified as follows:

	LVL 000's	
	2007	2006
Balance as at 1 January	**32,660**	**21,547**
Establishment of new subsidiaries	25	-
Acquisitions	-	4,744
Equity investments in the existing subsidiaries	24,074	6,766
Disposals	(282)	(397)
Balance as at 31 December	**56,477**	**32,660**

In 2007, the Bank established a new leasing subsidiary *Parex Leasing & Factoring* (Georgia). The company will commence the operating activities in the first half of 2008.

In 2007, the shares of *UAB Parex Faktoringas ir Lizingas* were sold by Parex Bank (Latvia) to the Bank's subsidiary AB Parex Bankas (Lithuania).

As at 31 December 2007 and 2006, the Bank held the following investments in subsidiaries:

			As at 31/12/2007				
Company	Country of registration	Business profile	Share capital in LVL 000's	The Bank's share (%)	% of total voting rights	Investment carrying value in LVL 000's 31/12/2007	Investment carrying value in LVL 000's 31/12/2006
AB Parex Bankas	Lithuania	Banking	36,720	100.0	100.0	35,378	11,305
AP Anlage & Privatbank AG	Switzerland	Banking	4,210	100.0	100.0	9,702	9,702
AS Parex atklātais pensiju fonds	Latvia	Pension fund	450	99.6	99.6	451	451
IPAS Parex Asset Management	Latvia	Finance	4,150	100.0	100.0	4,151	4,151
Parex Asset Management	Russia	Finance	1,084	100.0	100.0	-	-
Parex Asset Management	Ukraine	Finance	992	100.0	100.0	-	-
UAB Parex Investiciju valdymas	Lithuania	Finance	449	100.0	100.0	-	-
OU Parex Leasing & Factoring	Estonia	Finance	351	100.0	100.0	313	313
UAB Parex Faktoringas ir Lizingas	Lithuania	Finance	306	100.0	100.0	-	282
SIA Rīgas Pirmā Garāža	Latvia	Real estate management	352	100.0	100.0	4,537	4,537
SIA Parex Private Banking	Latvia	Real estate management	180	100.0	100.0	457	457
SIA Parex Express Kredīts	Latvia	Leasing	31	100.0	100.0	613	613
SIA E & P Baltic Properties	Latvia	Finance	20	50.0	50.0	-	-
SIA Parex Līzings un faktorings	Latvia	Leasing	200	100.0	100.0	200	200
AS Parex Dzīvība	Latvia	Life insurance	2,500	100.0	100.0	-	-
OOO Laska Lizing	Ukraine	Leasing	102	100.0	100.0	122	122
OOO Ekspress Lizing	Russia	Leasing	68	100.0	100.0	76	76
OOO Pareks lizing and Faktoring	Azerbaijan	Leasing	24	100.0	100.0	26	26
OOO Pareks Lizing	Russia	Leasing	136	100.0	100.0	141	141
IOOO Pareks Lizing	Belarus	Leasing	10	100.0	100.0	11	11
OOO Ekstrolizing	Russia	Leasing	-	100.0	100.0	222	222
OOO Ekstrokredit	Russia	Finance	-	99.0	100.0	-	-
OOO Pareks lizing and Faktoring	Georgia	Leasing	24	100.0	100.0	25	-
Regalite Holdings Ltd.	Cyprus	Finance	6	100.0	100.0	-	-
Calenia Investments Limited	Cyprus	Finance	1	100.0	100.0	-	-
Parex Group representation Ltd.	United Kingdom	Representative office	48	100.0	100.0	51	51
Total investments in subsidiaries						**56,477**	**32,660**

NOTE 19. INTANGIBLE ASSETS

	LVL 000's			
	31/12/2007 Group	31/12/2006 Group	31/12/2007 Bank	31/12/2006 Bank
Goodwill from acquisition of subsidiaries:				
AP Anlage & Privatbank AG	1,246	1,246	-	-
AB Parex Bankas	35	35	-	-
SIA Parex Express Kredīts	123	123	-	-
	1,404	1,404	-	-
Software	1,449	1,336	986	1,159
Other intangible assets	2,147	2,366	4	4
Total intangible assets excluding advances	5,000	5,106	990	1,163
Advances for intangible assets	14	5	-	5
Total net book value of intangible assets	**5,014**	**5,111**	**990**	**1,168**

For the purposes of goodwill impairment assessment the Bank compared the total carrying amount of the cash-generating units to their recoverable amount. For this purpose the recoverable amount was determined based on fair value less costs to sell, which was derived from an analysis of recent actual merger & acquisition transactions that are comparable to the cash-generating units under review. The impairment test did not result in the recognition of any impairment loss.

Movements in the Group's intangible assets excluding advances for the year ended 31 December 2007 can be specified as follows:

	LVL 000's			
	Goodwill from acquisition of subsidiaries	Software	Other intangible assets	Total intangible assets excluding advances
Historical cost				
As at 31 December 2005	2,552	6,090	37	8,679
Acquisition of subsidiaries	-	-	462	462
Additions	-	962	1,947	2,909
Disposals	-	-	(4)	(4)
As at 31 December 2006	2,552	7,052	2,442	12,046
Additions	-	1,049	141	1,190
Disposals	-	(45)	(34)	(79)
As at 31 December 2007	**2,552**	**8,056**	**2,549**	**13,157**
Accumulated amortisation				
As at 31 December 2005	1,148	4,731	27	5,906
Charge for the year	-	985	53	1,038
Reversal due to disposals	-	-	(4)	(4)
As at 31 December 2006	1,148	5,716	76	6,940
Charge for the year	-	893	357	1,250
Reversal due to disposals	-	(2)	(31)	(33)
As at 31 December 2007	**1,148**	**6,607**	**402**	**8,157**
Net book value				
As at 31 December 2005	1,404	1,359	10	2,773
As at 31 December 2006	1,404	1,336	2,366	5,106
As at 31 December 2007	**1,404**	**1,449**	**2,147**	**5,000**

NOTE 20. FIXED ASSETS

	LVL 000's			
	31/12/2007 Group	31/12/2006 Group	31/12/2007 Bank	31/12/2006 Bank
Leasehold improvements	4,661	2,271	4,635	2,250
Land and buildings	15,461	13,208	4,212	3,725
Transport vehicles	6,421	5,546	3,187	2,577
Other fixed assets	7,816	7,057	6,173	5,777
Construction in progress	11,041	5,278	-	-
Total fixed assets excluding advances	45,400	33,360	18,207	14,329
Advances for fixed assets	5,114	1,352	403	67
Total net book value of fixed assets	**50,514**	**34,712**	**18,610**	**14,396**

The following changes in the *Group's* fixed assets excluding advances for fixed assets took place during the years ended 31 December 2007 and 31 December 2006:

	LVL 000's					
	Leasehold improve-ments	Land and buildings	Transport vehicles	Other fixed assets	Construction in progress	Total fixed assets excluding advances
Historical cost						
As at 31 December 2005	**3,062**	**13,787**	**5,642**	**26,541**	**-**	**49,032**
Acquisition of subsidiaries	-	6,949	18	5	3,633	10,605
Additions	984	812	4,094	3,722	1,645	11,257
Disposals	(131)	(7,794)	(620)	(349)	-	(8,894)
As at 31 December 2006	**3,915**	**13,754**	**9,134**	**29,919**	**5,278**	**62,000**
Acquisition of subsidiaries	-	-	-	-	-	-
Additions	3,240	2,426	2,962	4,535	5,763	18,926
Disposals	(116)	(41)	(1,196)	(943)	-	(2,296)
As at 31 December 2007	**7,039**	**16,139**	**10,900**	**33,511**	**11,041**	**78,630**
Accumulated depreciation						
As at 31 December 2005	**1,265**	**1,732**	**2,847**	**19,541**	**-**	**25,385**
Acquisition of subsidiaries	-	127	5	3	-	135
Charge for the year	508	253	1,146	3,692	-	5,599
Reversal due to disposals	(129)	(1,566)	(410)	(374)	-	(2,479)
As at 31 December 2006	**1,644**	**546**	**3,588**	**22,862**	**-**	**28,640**
Charge for the year	850	173	1,717	3,639	-	6,379
Reversal due to disposals	(116)	(41)	(826)	(806)	-	(1,789)
As at 31 December 2007	**2,378**	**678**	**4,479**	**25,695**	**-**	**33,230**
Net book value						
As at 31 December 2005	**1,797**	**12,055**	**2,795**	**7,000**	**-**	**23,647**
As at 31 December 2006	**2,271**	**13,208**	**5,546**	**7,057**	**5,278**	**33,360**
As at 31 December 2007	**4,661**	**15,461**	**6,421**	**7,816**	**11,041**	**45,400**

The following changes in the *Bank's* fixed assets excluding advances for fixed assets took place during the years ended 31 December 2007 and 31 December 2006:

	LVL 000's				
	Leasehold Improvements	Land and buildings	Transport vehicles	Other fixed assets	Total fixed assets excluding prepayments
Historical cost					
As at 31 December 2005	**3,061**	**11,050**	**5,046**	**24,213**	**43,370**
Additions	959	652	1,203	3,020	5,834
Disposals	(131)	(7,773)	(490)	(298)	(8,692)
As at 31 December 2006	**3,889**	**3,929**	**5,759**	**26,935**	**40,512**
Additions	3,228	598	1,658	3,453	8,937
Disposals	(116)	(40)	(647)	(489)	(1,292)
As at 31 December 2007	**7,001**	**4,487**	**6,770**	**29,899**	**48,157**
Accumulated depreciation					
As at 31 December 2005	**1,265**	**1,543**	**2,676**	**18,209**	**23,693**
Charge for the year	504	206	860	3,247	4,817
Reversal due to disposals	(130)	(1,545)	(354)	(298)	(2,327)
As at 31 December 2006	**1,639**	**204**	**3,182**	**21,158**	**26,183**
Charge for the year	843	77	960	3,055	4,935
Reversal due to disposals	(116)	(6)	(559)	(487)	(1,168)
As at 31 December 2007	**2,366**	**275**	**3,583**	**23,726**	**29,950**
Net book value					
As at 31 December 2005	**1,796**	**9,507**	**2,370**	**6,004**	**19,677**
As at 31 December 2006	**2,250**	**3,725**	**2,577**	**5,777**	**14,329**
As at 31 December 2007	**4,635**	**4,212**	**3,187**	**6,173**	**18,207**

NOTE 21. OTHER ASSETS

	LVL 000's			
	31/12/2007 Group	31/12/2006 Group	31/12/2007 Bank	31/12/2006 Bank
Prepayments	3,487	4,434	2,345	1,884
Money in transit	4,702	2,840	4,460	2,840
Accrued income	616	796	232	72
Non-current assets held for sale	2,378	98	2,345	67
Other assets	13,803	6,471	3,240	4,345
Total gross other assets	**24,986**	**14,639**	**12,622**	**9,208**
Less impairment allowance	(168)	(104)	(167)	(104)
Total net other assets	**24,818**	**14,535**	**12,455**	**9,104**

NOTE 22. ISSUED DEBT SECURITIES

As at 31 December 2007 and 2006, the Bank had the following outstanding debt issues:

					Debt outstanding (LVL 000's)	
Issue date	Issue amount	Coupon	Payment, frequency	Maturity	31/12/2007	31/12/2006
March, 2005	LVL 5 million	4.250%	Annual	March, 2008	4,170	5,070
June, 2005	EUR 100 million	4.375%	Annual	June, 2008	65,943	68,952
May, 2006	EUR 200 million	5.625%	Annual	May, 2011	117,794	136,051
Total					**187,907**	**210,073**

The Bank has engaged in interest rate swap transactions, whereby swapped certain part of the fixed coupon payments to EURIBOR. The interest rate swap agreements are being used to maintain certain level of the Bank's debt, corresponding to the debt issues of EUR 100 million and EUR 200 million, at floating rates, thus effectively working as fair value hedges. The details of the respective hedging relationships are as follows:

	Gains/ (losses) on the hedged item attributable to the hedged risk		Gains/ (losses) on the hedging instrument	
Hedged item	LVL 000's		LVL 000's	
	2007	2006	2007	2006
EUR 100 million notes	923	(537)	998	(561)
EUR 200 million notes	(1,438)	(1,098)	(1,461)	(1,226)
Total	**(515)**	**(1,635)**	**(463)**	**(1,787)**

NOTE 23. BALANCES DUE TO CREDIT INSTITUTIONS AND CENTRAL BANKS

	LVL 000's			
	31/12/2007 Group	31/12/2006 Group	31/12/2007 Bank	31/12/2006 Bank
Due to credit institutions registered in OECD countries	695,735	394,968	695,905	387,100
Due to credit institutions registered in Latvia	65,579	28,833	66,014	28,833
Due to credit institutions registered in other non-OECD countries	15,797	39,397	13,426	37,421
Total balances due to credit institutions and central banks	**777,111**	**463,198**	**775,345**	**453,354**

The following table presents the Group's balances due to credit institutions according to maturity profile:

	LVL 000's				
	Due to credit institutions registered in:				
	OECD countries	Latvia	Other countries	Total 31/12/2007	Total 31/12/2006
Balances on demand	421	10,817	2,362	13,600	12,906
Overnight deposits	-	34,459	1,541	36,000	16,097
Total balances repayable on demand	**421**	**45,276**	**3,903**	**49,600**	**29,003**
Loans from credit institutions:					
due within 1 month	17,906	9,744	6,482	34,132	55,603
due within 1-3 months	270,084	7,172	4,179	281,435	149,078
due within 3-6 months	1,767	2,786	368	4,921	2,354
due within 6-12 months	-	601	595	1,196	226,548
due within 1-5 years	405,557	-	270	405,827	612
Total loans from credit institutions	**695,314**	**20,303**	**11,894**	**727,511**	**434,195**
Total due to credit institutions	**695,735**	**65,579**	**15,797**	**777,111**	**463,198**

On 19 February 2007, the Bank received a syndicated loan from 49 banks in the amount of EUR 385 million (LVL 271 million), which effectively refinanced previous syndicated loan of EUR 200 million (LVL 141 million). The loan has been issued for 1 year and it bears an interest rate of EURIBOR + 0.5%.

On 29 June 2007, the Bank signed a syndicated loan agreement for the amount of EUR 500 million (LVL 351 million), which effectively refinanced the previous syndicated loan of EUR 310 million (LVL 218 million). The loan term is 2 years and it bears an interest rate of EURIBOR + 0.45%.

As at 31 December 2007, the Bank held restricted balances due to credit institutions amounting to LVL 26,700 thousand (2006: LVL 21,116 thousand) that are dependent upon the repayment of outstanding balances due from credit institutions and loans and receivables to customers.

NOTE 24. DEPOSITS FROM CUSTOMERS

	LVL 000's			
	31/12/2007 Group	31/12/2006 Group	31/12/2007 Bank	31/12/2006 Bank
Demand deposits	1,164,373	1,030,518	1,086,578	969,871
Term deposits:				
due within 1 month	494,925	311,373	454,651	298,299
due within 1-3 months	149,078	81,845	125,657	68,764
due within 3-6 months	126,602	62,853	111,719	57,479
due within 6-12 months	118,730	52,503	104,697	46,395
due within 1-5 years	22,951	20,825	20,333	19,431
due in more than 5 years	5,306	1,567	5,493	1,548
Total term deposits	917,592	530,966	822,550	491,916
Total deposits from customers	**2,081,965**	**1,561,484**	**1,909,128**	**1,461,787**

The following table presents deposits from customers according to customer profile:

	LVL 000's			
	31/12/2007 Group	31/12/2006 Group	31/12/2007 Bank	31/12/2006 Bank
Privately held companies	1,232,511	999,027	1,143,838	943,605
Private individuals	648,335	461,543	576,200	423,911
State owned enterprises	77,107	28,605	75,716	28,403
Financial institutions	65,505	40,035	59,668	34,437
Municipalities	44,883	18,768	44,722	18,743
Government	9,014	9,531	5,179	9,160
Public and religious institutions	4,610	3,975	3,805	3,528
Total deposits from customers	**2,081,965**	**1,561,484**	**1,909,128**	**1,461,787**

The following table provides the split of deposits from customers by their place of reported residence.

	LVL 000's			
	31/12/2007 Group	31/12/2006 Group	31/12/2007 Bank	31/12/2006 Bank
Latvian residents	722,805	541,792	722,513	545,519
Non-residents	1,359,160	1,019,692	1,186,615	916,268
Total deposits from customers	**2,081,965**	**1,561,484**	**1,909,128**	**1,461,787**

As at 31 December 2007, the Bank held restricted deposits amounting to LVL 15,814 thousand (2006: LVL 12,562 thousand) that are dependent upon repayment of outstanding balances due from customers.

NOTE 25. OTHER LIABILITIES

	LVL 000's			
	31/12/2007 Group	31/12/2006 Group	31/12/2007 Bank	31/12/2006 Bank
Money in transit	16,633	10,693	16,772	10,693
Accrued expense	5,091	4,513	3,819	3,525
Deferred income	271	3,163	-	50
Suspense liabilities	1,712	2,214	1,702	2,214
Other liabilities	10,731	1,220	3,079	968
Total other liabilities	**34,438**	**21,803**	**25,372**	**17,450**

Suspense liabilities comprise funds received by the Group and the Bank as at year end, but not transferred to ultimate beneficiaries due to unclear or incomplete details of the supporting documentation.

NOTE 26. SUBORDINATED DEBT

The following table represents the details of subordinated capital attracted during 2007:

Counterparty	Currency	Issue size, 000's	Interest rate	Agreement date	Original maturity date	Amortised cost (LVL 000's) 31/12/2007
Taberna Securities Ltd.	EUR	20,000	3M Euribor + 4.55%	21/12/2007	28/12/2017	13,103
Valery Kargin	LVL	7,500	6M Rigibor, daily repricing	28/09/2007	26/09/2017	7,505
Viktor Krasovitsky	LVL	7,500	6M Rigibor daily repricing	28/09/2007	26/09/2017	7,505
Total						**28,113**

The EUR 20,000 thousand subordinated debt was attracted through private placement of subordinated notes. Given tight market conditions prevailing at the time of issue, the notes were issued at discount and net proceeds amounted to EUR 18,630 thousand. The notes are to be redeemed at 100%. The Bank has the right to extend the term of the notes until 28 December 2022, in which case the Bank also has the right to redeem the notes after the original maturity date giving a notice within 30-60 days.

The agreements concluded with Valery Kargin and Viktor Krasovitsky are equal in terms and do not provide the Bank nor with the right to extend the term of the debt, neither with the early redemption option.

NOTE 27. ISSUED SHARE CAPITAL

As at 31 December 2007, the Bank's registered and paid-in share capital was LVL 65,027 thousand. In accordance with the Bank's statutes, the share capital consists of 60,633 thousand ordinary shares with voting rights and 4,394 thousand ordinary shares without voting rights. All shares have a par value of LVL 1 each and, as at 31 December 2007, they all were issued and fully paid. As at 31 December 2007, the Bank did not possess any of its own shares.

As at 31 December 2007, the Bank had 61 (2006:64) shareholders. The respective shareholdings as at 31 December 2007 and 2006 may be specified as follows:

	31/12/2007			31/12/2006		
	Paid-in share capital (LVL 000's)	% of total paid-in capital	% of total voting rights	Paid-in share capital (LVL 000's)	% of total paid-in capital	% of total voting rights
Valery Kargin	27,887	42.89	45.99	27,887	42.89	45.99
Viktor Krasovitsky	27,887	42.89	45.99	27,887	42.89	45.99
Other	9,253	14.22	8.02	9,253	14.22	8.02
Total	**65,027**	**100.00**	**100.00**	**65,027**	**100.00**	**100.00**

Dividends paid and proposed

	2007		2006	
	LVL 000's	LVL per share	LVL 000's	LVL per share
Declared and paid during the year				
Equity dividends on ordinary shares	-	-	5,000	0.077
Proposed for approval at Annual General Meeting (not recognized as a liability as at 31 December)				
Equity dividends on ordinary shares	-	-	-	-

NOTE 28. MEMORANDUM ITEMS

Memorandum items comprise contingent liabilities, financial commitments, foreign exchange contracts and derivative financial instruments. The following table provides a specification of contingent liabilities (showing maximum amount payable) and financial commitments outstanding as at 31 December 2007 and 2006.

	LVL 000's			
	31/12/2007 Group	31/12/2006 Group	31/12/2007 Bank	31/12/2006 Bank
Contingent liabilities:				
Outstanding guarantees	23,463	26,277	17,859	22,646
Outstanding letters of credit	8,257	4,246	8,176	4,193
Total contingent liabilities	**31,720**	**30,523**	**26,035**	**26,839**
Financial commitments:				
Loans granted, not fully drawn down	88,864	174,211	71,888	174,857
Unutilised credit lines and overdraft facilities *	121,611	90,361	156,639	114,382
Credit card commitments	134,900	72,592	127,194	70,600
Other financial commitments	41,081	8,996	-	-
Financial commitments	**386,456**	**346,160**	**355,721**	**359,839**

* The Bank has reclassified commitments amounting to LVL 137,488 thousand, which as at 31 December 2006 were reported in 'unutilised credit lines and overdraft facilities' to 'loans granted, not fully drawn down'. The amount relates to the loans where the drawdown is done in several portions, taking into account various contractual provision.

The following table presents the notional amounts and fair values of foreign exchange contracts and derivative financial instruments. The notional amounts of foreign exchange contracts represent the amounts receivable under these contracts. The notional amounts of other financial instruments represent the value of the underlying assets.

	Notional amount LVL 000's				Fair value LVL 000's			
	31/12/2007 Group	31/12/2006 Group	31/12/2007 Bank	31/12/2006 Bank	31/12/2007 Group	31/12/2006 Group	31/12/2007 Bank	31/12/2006 Bank
Foreign exchange contracts:								
Spot exchange	89,141	99,499	86,134	101,024	(917)	(85)	(918)	(96)
Forwards	190,952	81,944	207,561	82,648	317	272	326	282
Swaps	930,835	936,860	974,122	961,136	1,420	435	1,344	465
Total foreign exchange contracts	**1,210,928**	**1,118,303**	**1,267,817**	**1,144,808**	**820**	**622**	**752**	**651**
Other financial instruments:								
Futures, sold	-	10,331	-	10,331	-	215	-	215
Interest rate swaps	232,389	233,949	232,389	233,949	423	712	423	712
incl. designated hedging instruments	210,841	210,841	210,841	210,841	222	850	222	850
Other derivatives	22,545	-	22,545	-	(2,678)	-	(2,678)	-
Total other financial instruments	**254,934**	**244,280**	**254,934**	**244,280**	**(2,255)**	**927**	**(2,255)**	**927**

The Group's banks use derivative foreign exchange instruments to manage their currency positions, which among others arise also due to derivative foreign exchange contracts concluded with the banks' clients. Before entering into derivative foreign currency agreement with private individual or company, the Group's entities assess the counterparty's ability to meet the contractual provisions. As at 31 December 2007, more than 90% (2006: 80%) of the fair value (assets) on foreign exchange contracts is attributable to credit and finance institutions. To limit the interest rate risk, the Bank has engaged in several interest rate swap transactions concluded with investment-grade credit institutions. As at 31 December 2007 and 2006, none of the payments receivable arising out of derivative transactions was past due.

NOTE 29. FUNDS UNDER TRUST MANAGEMENT

The table below provides analysis of the funds managed on behalf of customers by investment type:

	LVL 000's			
	31/12/2007 Group	31/12/2006 Group	31/12/2007 Bank	31/12/2006 Bank
Fixed income securities:				
Government bonds	19,069	13,335	-	-
Foreign municipality bonds	1,740	2,185	-	-
Credit institution bonds	80,863	52,171	-	-
Corporate bonds	60,097	23,573	-	-
Mutual investment funds	185,455	32,447	5	-
Total investments in fixed income securities	**347,224**	**123,711**	**5**	**-**
Other investments:				
Deposits with credit institutions	101,231	28,813	2,176	1,787
Loans to corporate entities	967	2,274	725	2,090
Loans to financial institutions	14	-	-	-
Real estate	35,689	37,471	-	-
Shares	81,256	86,775	-	10
Other	29,735	32,929	5	6
Total other investments	**248,892**	**188,262**	**2,906**	**3,893**
Total assets under trust management agreements	**596,116**	**311,973**	**2,911**	**3,893**

The table below provides an analysis of the customer profile on whose behalf the funds are managed:

	LVL 000's			
	31/12/2007 Group	31/12/2006 Group	31/12/2007 Bank	31/12/2006 Bank
Privately held companies	184,392	92,909	730	3,158
Private individuals	135,027	68,835	5	735
Investors of investment funds	212,473	124,902	-	-
Financial institutions	64,224	25,327	2,176	-
Total liabilities under trust management agreements	**596,116**	**311,973**	**2,911**	**3,893**

NOTE 30. ASSETS PLEDGED

	LVL 000's			
	31/12/2007 Group	31/12/2006 Group	31/12/2007 Bank	31/12/2006 Bank
Available-for-sale securities	85,084	29,476	85,084	29,476
Total assets pledged	**85,084**	**29,476**	**85,084**	**29,476**
Due to banks	68,602	27,872	68,602	27,872
Total liabilities secured by pledged assets	**68,602**	**27,872**	**68,602**	**27,872**

As at 31 December 2007 and 2006, the Bank has entered into repo agreements, whereby it pledged several of its securities against financing facilities received.

NOTE 31. CASH AND CASH EQUIVALENTS

The table below provides a breakdown of cash and cash equivalents as at 31 December 2007 and 2006:

	LVL 000's			
	31/12/2007 Group	31/12/2006 Group	31/12/2007 Bank	31/12/2006 Bank
Cash and demand deposits with central banks	257,280	267,213	236,062	258,594
Deposits with other credit institutions *	392,383	124,973	386,859	126,254
Demand deposits due to other credit institutions	(49,600)	(29,003)	(43,221)	(27,274)
Total cash and cash equivalents	**600,063**	**367,668**	**579,700**	**357,574**

* Deposits include term facilities with initial agreement term of 3 months or less.

NOTE 32. CAPITAL MANAGEMENT

Capital adequacy refers to the sufficiency of the Group's capital resources to cover the credit risks and market risks arising from the portfolio of assets and the off-balance sheet exposures. The Financial and Capital Markets Commission's, the bank regulator, regulations require Latvian banks to maintain a capital adequacy ratio based on financial statements prepared under IFRS as adopted by EU of 8% of risk weighted assets.

Since the Bank has subsidiaries, which are financial institutions, it should comply with the regulatory requirements based on both the Group's financial statements and the Bank's financial statements as a stand-alone entity.

The eligible capital for the capital adequacy purposes constitutes the capital that Bank manages. The eligible capital comprises of Tier 1 and Tier 2 items, as well as specific capital charges in accordance with the regulatory requirements. The Group's and Bank's primary objective is to ensure that the capital adequacy ratio is above the level required by FCMC. As part of capital management, Assets and Liabilities Committee (ALCO) of the Bank reviews on a monthly basis the three-month and one year capital adequacy forecasts of the Bank and Group.

Based on the guidelines set forth by the Financial and Capital Markets Commission, the capital adequacy has been calculated as follows:

	LVL 000's			
Description	31/12/2007 Group	31/12/2006 Group	31/12/2007 Bank	31/12/2006 Bank
Tier 1				
- paid-in share capital	65,027	65,027	65,027	65,027
- share premium	12,694	12,694	12,694	12,694
- audited retained earnings (not subject to dividend distribution)	125,107	73,000	116,899	68,897
- audited profit for the year (not subject to dividend distribution)	41,420	52,107	40,146	48,002
Less				
- negative fair value revaluation reserve	(18,302)	(2,200)	(17,619)	(1,949)
- intangible assets (as defined by FCMC)	(5,014)	(5,111)	(990)	(1,168)
Total Tier 1	**220,932**	**195,517**	**216,157**	**191,503**
Tier 2				
- Subordinated debt	28,113	-	28,113	-
Total Tier 2	**28,113**	**-**	**28,113**	**-**
Equity charges				
- Investments in subsidiaries – insurance company	(2,500)	-	-	-
Equity to be utilised in the capital adequacy ratio as per FCMC	**246,545**	**195,517**	**244,270**	**191,503**
Risk-weighted assets	2,371,624	1,672,949	2,090,571	1,567,393
Risk-weighted off-balance sheet items	116,228	146,297	107,780	150,979
Total risk-weighted balances	**2,487,852**	**1,819,246**	**2,198,351**	**1,718,372**

		Risk weighted balance LVL 000's			
Capital adequacy under the FCMC's requirements	Risk weighting	31/12/2007 Group	31/12/2006 Group	31/12/2007 Bank	31/12/2006 Bank
Total credit risk capital charge	8%	196,649	145,540	175,868	137,470
Foreign currency open positions subject to capital charge		2,161	3,215	1,864	2,971
Fixed income securities position risk capital charge		3,135	4,258	1,691	3,252
Equity position risk capital charge		1,653	2,865	1,610	2,853
Derivatives counterparty risk capital charges		1,524	1,549	1,531	1,554
Total capital charges		**205,122**	**157,427**	**182,564**	**148,100**
Equity to be utilised in the capital adequacy ratio		**246,545**	**195,517**	**244,270**	**191,503**
Capital Adequacy Ratio (Equity/Total capital charges) x 8%		**9.6%**	**9.9%**	**10.7%**	**10.3%**

NOTE 33. ASSETS, LIABILITIES AND MEMORANDUM ITEMS BY MATURITY STRUCTURE

Group's assets, liabilities and memorandum items by contractual maturity structure as at 31 December 2007

In this and further tables showing the maturity structure of the balance sheet and certain memorandum items, the balance sheet amounts are disclosed based on the contractual maturity of the final payment, not each specific cash flow. Memorandum items are included based on the expected date of their realisation.

	Group as at 31/12/2007, LVL 000's						
	Within 1 month	1-3 months	3-6 months	6-12 months	1-5 years	Over 5 years and undated	Total
Assets							
Cash and deposits with central banks	257,280	-	-	-	-	-	257,280
Balances due from credit institutions	402,523	8,597	8,648	6,872	4,228	-	430,868
Financial assets held for trading	-	-	-	714	3,925	40,745	45,384
Financial assets designated at fair value through profit or loss	-	-	-	-	277	-	277
Available-for-sale financial assets	9,978	13,590	12,604	22,311	187,602	229,505	475,590
Loans and receivables to customers	36,400	37,446	54,499	172,396	832,832	873,069	2,006,642
Held-to-maturity investments	4,232	1,066	4,914	5,766	16,301	7,945	40,224
Derivatives financial instruments	8,148	1,508	497	866	105	392	11,516
Other assets	7,822	2,008	40	490	3,011	71,472	84,843
Total assets	**726,383**	**64,215**	**81,202**	**209,415**	**1,048,281**	**1,223,128**	**3,352,624**
Liabilities							
Financial liabilities designated at fair value through profit or loss	-	-	-	-	277	-	277
Financial liabilities measured at amortised cost	1,743,086	434,794	197,632	120,238	548,897	33,419	3,078,066
Derivative financial instruments	5,836	530	908	421	4,006	1,250	12,951
Other liabilities	26,422	1,877	727	625	1,617	4,116	35,384
Total liabilities	**1,775,344**	**437,201**	**199,267**	**121,284**	**554,797**	**38,785**	**3,126,678**
Equity	-	-	-	-	-	225,946	225,946
Total liabilities and equity	**1,775,344**	**437,201**	**199,267**	**121,284**	**554,797**	**264,731**	**3,352,624**
Net balance sheet position – long/ (short)	(1,048,961)	(372,986)	(118,065)	88,131	493,484	958,397	-
Memorandum items							
Contingent liabilities	31,720	-	-	-	-	-	31,720
Financial commitments	386,465	-	-	-	-	-	386,465

Group's contractual cash flows of the financial liabilities as at 31 December 2007

The following table represents the analysis of the estimated contractual cash flows arising from Group's financial liabilities as at 31 December 2007:

	LVL 000's						
	Within 1 month	1-3 months	3-6 months	6-12 months	1-5 years	Over 5 years	Total contractual cash flows
Financial liabilities							
Financial liabilities designated at fair value through profit or loss	-	-	-	-	277	-	277
Financial liabilities measured at amortised cost	1,777,195	436,926	207,515	137,423	572,056	214	3,131,329
Derivative financial instruments (short leg)	124	1,676	3,648	3,701	16,982	-	26,131
Total	**1,777,319**	**438,602**	**211,163**	**141,124**	**589,315**	**214**	**3,157,737**
Derivative financial instruments (long leg)	-	-	7,602	425	17,394	-	25,421
Memorandum items							
Contingent liabilities	31,720	-	-	-	-	-	31,720
Financial commitments	386,465	-	-	-	-	-	386,465

Group's assets, liabilities and memorandum items by contractual maturity structure as at 31 December 2006

	Group as at 31/12/2006, LVL 000's						
	Within 1 month	1-3 months	3-6 months	6-12 months	1-5 years	Over 5 years and undated	Total
Assets							
Cash and deposits with central banks	267,213	-	-	-	-	-	267,213
Balances due from credit institutions	128,640	4,712	8,741	15,291	11,281	5,509	174,174
Financial assets held for trading	-	-	-	2,506	-	78,672	81,178
Available-for-sale financial assets	-	568	2,244	4,623	203,944	171,444	382,822
Loans and receivables to customers	74,603	80,935	16,642	93,834	663,521	502,444	1,431,979
Held-to-maturity investments	-	-	162	-	4,008	63,761	67,932
Derivatives financial instruments	2,223	6,502	34	41	-	-	8,800
Other assets	8,957	2,397	6	504	2,671	39,834	54,369
Total assets	**481,636**	**95,114**	**27,829**	**116,799**	**885,425**	**861,664**	**2,468,467**
Liabilities							
Financial liabilities held for trading	-	-	-	-	-	1,242	1,242
Financial liabilities measured at amortised cost	1,426,497	230,923	65,207	279,051	231,510	1,567	2,234,755
Derivative financial instruments	1,840	2,144	64	38	3,165	-	7,251
Other liabilities	11,586	3,521	4,357	-	-	5,127	24,591
Total liabilities	**1,493,923**	**236,588**	**69,628**	**279,089**	**234,675**	**7,936**	**2,267,839**
Equity						200,628	200,628
Total liabilities and equity	**1,439,923**	**236,588**	**69,628**	**279,089**	**234,675**	**208,564**	**2,468,467**
Net balance sheet position – long/ (short)	(958,287)	(141,474)	(41,799)	(162,290)	650,750	653,100	-
Memorandum items							
Contingent liabilities	30,523	-	-	-	-	-	30,523
Financial commitments	346,160	-	-	-	-	-	346,160

Group's contractual cash flows of the financial liabilities as at 31 December 2006

The following table represents the analysis of the estimated contractual cash flows arising from Group's financial liabilities as at 31 December 2006:

	LVL 000's						
	Within 1 month	1-3 months	3-6 months	6-12 months	1-5 years	Over 5 years	Total contractual cash flows
Financial liabilities							
Financial liabilities held for trading	1,242	-	-	-	-	-	1,242
Financial liabilities measured at amortised cost	1,484,313	310,095	70,064	78,774	253,096	32	2,196,374
Derivative financial instruments (short leg)	144	1,325	2,916	4,384	20,286	-	29,055
Total	**1,485,699**	**311,420**	**72,980**	**83,158**	**273,382**	**32**	**2,226,671**
Derivative financial instruments (long leg)	-	-	7,649	446	25,097	-	33,192
Memorandum items							
Contingent liabilities	30,523	-	-	-	-	-	30,523
Financial commitments	346,160	-	-	-	-	-	346,160

Bank's assets, liabilities and memorandum items by contractual maturity structure as at 31 December 2007

	Bank as at 31/12/2007, LVL 000's						
	Within 1 month	1-3 months	3-6 months	6-12 months	1-5 years	Over 5 years and undated	Total
Assets							
Cash and deposits with central banks	236,062	-	-	-	-	-	236,062
Balances due from credit institutions	395,014	46,459	50,570	27,455	3,135	-	522,633
Financial assets held for trading	-	-	-	714	3,306	38,769	42,789
Available-for-sale financial assets	2,590	6,956	11,886	13,104	179,040	224,656	438,232
Loans and receivables to customers	30,602	23,953	37,134	130,135	735,783	780,723	1,738,330
Held-to-maturity investments	4,232	2,139	6,590	14,803	38,303	7,831	73,898
Derivatives financial instruments	8,381	1,544	497	866	105	392	11,785
Other assets	4,692	-	-	-	-	87,879	92,571
Total assets	**681,573**	**81,051**	**106,677**	**187,077**	**959,672**	**1,140,250**	**3,156,300**
Liabilities							
Financial liabilities measured at amortised cost	1,623,755	411,837	180,748	106,149	544,398	33,606	2,900,493
Derivative financial instruments	6,048	589	917	478	4,006	1,250	13,288
Other liabilities	23,831	-	-	-	-	1,541	25,372
Total liabilities	**1,653,634**	**412,426**	**181,665**	**106,627**	**548,404**	**36,397**	**2,939,153**
Equity	-	-	-	-	-	217,147	217,147
Total liabilities and equity	**1,653,634**	**412,426**	**181,665**	**106,627**	**548,404**	**253,544**	**3,156,300**
Net balance sheet position – long/ (short)	(972,061)	(331,375)	(74,988)	80,450	411,268	886,706	-
Memorandum items							
Contingent liabilities	26,035	-	-	-	-	-	26,035
Financial commitments	355,721	-	-	-	-	-	355,721

Banks's contractual cash flows of the financial liabilities as at 31 December 2007

	LVL 000's						
	Within 1 month	1-3 months	3-6 months	6-12 months	1-5 years	Over 5 years	Total contractual cash flows
Financial liabilities							
Financial liabilities measured at amortised cost	1,632,815	413,662	190,590	122,880	569,999	195	2,930,141
Derivative financial instruments (short leg)	124	1,676	3,648	3,701	16,982	-	26,131
Total	**1,632,939**	**415,338**	**194,238**	**126,581**	**586,981**	**195**	**2,956,272**
Derivative financial instruments (long leg)	-	-	7,602	425	17,394	-	25,421
Memorandum items							
Contingent liabilities	26,035	-	-	-	-	-	26,035
Financial commitments	355,721	-	-	-	-	-	355,721

Bank's assets, liabilities and memorandum items by contractual maturity structure as at 31 December 2006

	Bank as at 31/12/2006, LVL 000's						
	Within 1 month	1-3 months	3-6 months	6-12 months	1-5 years	Over 5 years and undated	Total
Assets							
Cash and deposits with central banks	-	-	-	-	-	258,594	258,594
Balances due from credit institutions	1,288	5,399	11,810	35,628	2,311	133,552	189,988
Financial assets held for trading	-	-	-	993	6,411	67,167	74,571
Available-for-sale financial assets	616	4,496	1,590	13,381	147,622	191,556	359,261
Loans and receivables to customers	203,828	377,403	605,399	52,131	54,207	23,196	1,316,164
Held-to-maturity investments	-	218	9,858	26,603	34,401	9,786	80,866
Derivatives financial instruments	-	-	-	-	-	8,837	8,837
Other assets	-	-	-	-	-	57,328	57,328
Total assets	**205,732**	**387,516**	**628,657**	**128,736**	**244,952**	**750,016**	**2,345,609**
Liabilities							
Financial liabilities held for trading	-	-	-	-	-	1,242	1,242
Financial liabilities measured at amortised cost	378,935	212,778	58,622	273,309	25,372	1,176,198	2,125,214
Derivative financial instruments	-	-	-	-	-	7,259	7,259
Other liabilities	-	-	-	-	-	19,223	19,223
Total liabilities	**378,935**	**212,778**	**58,622**	**273,309**	**25,372**	**1,203,922**	**2,152,938**
Equity	-	-	-	-	-	192,671	192,671
Total liabilities and equity	**378,935**	**212,778**	**58,622**	**273,309**	**25,372**	**1,396,593**	**2,345,609**
Net balance sheet position – long/ (short)	(173,203)	174,738	570,035	(144,573)	219,580	(646,577)	-
Memorandum items							
Contingent liabilities	26,839	-	-	-	-	-	26,839
Financial commitments	359,839	-	-	-	-	-	359,839

Bank's contractual cash flows of the financial liabilities as at 31 December 2006

	LVL 000's						
	Within 1 month	1-3 months	3-6 months	6-12 months	1-5 years	Over 5 years	Total contractual cash flows
Financial liabilities							
Financial liabilities held for trading	1,242	-	-	-	-	-	1,242
Financial liabilities measured at amortised cost	1,330,899	291,586	63,733	70,798	251,624	7	2,008,647
Derivative financial instruments (short leg)	144	1,325	2,916	4,384	20,286	-	29,055
Total	**1,332,285**	**292,911**	**66,649**	**75,182**	**271,910**	**7**	**3,038,944**
Derivative financial instruments (long leg)	-	-	7,649	446	25,097	-	33,192
Memorandum items							
Contingent liabilities	26,839	-	-	-	-	-	26,839
Financial commitments	359,839	-	-	-	-	-	359,839

NOTE 34. REPRICING MATURITY OF ASSETS AND LIABILITIES

Interest rate risk is the sensitivity of the financial position of the Bank and its subsidiaries to the change in market interest rates. In the normal course of business, the Bank and its subsidiaries encounter interest rate risk as a result of differences within maturities or interest re-fixing dates of respective interest sensitive assets and liabilities. The interest rate risk is managed through the activities of the Bank's Treasury department. The table below allocates the Group's and Bank's assets and liabilities as at 31 December 2007 and 2006 to maturity groupings based on the time remaining from the balance sheet date to the closest interest re-fixing date.

	Group as at 31/12/2007, LVL 000's							
	Within 1 month	1-3 months	3-6 months	6-12 months	1-5 years	More than 5 years	Non-interest bearing	Total
Assets								
Cash and deposits with central banks	16,539	-	-	-	-	-	240,741	257,280
Balances due from credit institutions	318,150	7,052	9247	7,312	2,209	1,779	85,119	430,868
Financial assets held for trading	1,061	793	734	647	2,467	301	39,381	45,384
Financial assets designated at fair value through profit or loss	277	-	-	-	-	-	-	277
Available-for-sale financial assets	39,544	95,092	17,378	17,464	142,207	137,564	26,341	475,590
Loans and receivables to customers	372,010	550,904	889,565	22,670	136,908	34,582	3	2,006,642
Held-to-maturity investments	1,567	2,356	5,886	5,766	16,303	114	8,232	40,224
Derivatives financial instruments	-	-	-	-	-	-	11,516	11,516
Other assets	-	-	-	-	-	-	84,843	84,843
Total assets	**749,148**	**656,197**	**922,810**	**53,859**	**300,094**	**174,340**	**496,176**	**3,352,624**
Liabilities								
Financial liabilities designated at fair value through profit or loss	277	-	-	-	-	-	-	277
Financial liabilities measured at amortised cost	563,701	909,319	192,677	117,982	548,402	16,211	729,774	3,078,066
Derivative financial instruments	-	-	-	-	-	-	12,951	12,951
Other liabilities	-	-	-	-	-	-	35,384	35,384
Total liabilities	**563,978**	**909,319**	**192,677**	**117,982**	**548,402**	**16,211**	**778,109**	**3,126,678**
Equity	-	-	-	-	-	-	225,946	225,946
Total liabilities and equity	**563,978**	**909,319**	**192,677**	**117,982**	**548,402**	**16,211**	**1,004,055**	**3,352,624**
Net balance sheet position – long/ (short)	185,170	(253,122)	730,133	(64,123)	(248,308)	158,129	(507,879)	-
Interest rate swaps (notional amount)	(9,680)	(145,401)	(7,028)	4,840	157,269	-	-	-

	Group as at 31/12/2006, LVL 000's							
	Within 1 month	1-3 months	3-6 months	6-12 months	1-5 years	More than 5 years	Non-interest bearing	Total
Assets								
Cash and deposits with central banks	223,381	-	-	-	-	-	43,832	267,213
Balances due from credit institutions	87,274	529	1,185	17,257	9,092	24	58,813	174,174
Financial assets held for trading	4,101	-	1,035	993	5,375	17,281	52,393	81,178
Available-for-sale financial assets	22,785	59,004	2,841	13,805	141,782	141,304	1,301	382,822
Loans and receivables to customers	166,709	341,064	569,560	64,758	173,268	103,228	13,392	1,431,979
Held-to-maturity investments	7,654	2,171	5,825	10,649	41,510	123	-	67,932
Derivatives financial instruments	-	-	-	-	-	-	8,800	8,800
Other assets	-	-	-	-	-	-	54,369	54,369
Total assets	**511,904**	**402,768**	**580,446**	**107,462**	**371,027**	**261,960**	**232,900**	**2,468,467**
Liabilities								
Financial liabilities held for trading	-	-	-	-	-	-	1,242	1,242
Financial liabilities measured at amortised cost	448,419	444,173	61,424	269,709	273,935	19	737,076	2,234,755
Derivative financial instruments	-	-	-	-	-	-	7,251	7,251
Other liabilities	-	-	-	-	-	-	24,591	24,591
Total liabilities	**448,419**	**444,173**	**61,424**	**269,709**	**273,935**	**19**	**770,160**	**2,267,839**
Equity	-	-	-	-	-	-	200,628	200,628
Total liabilities and equity	**448,419**	**444,173**	**61,424**	**269,709**	**273,935**	**19**	**970,788**	**2,468,467**
Net balance sheet position – long/ (short)	63,485	(41,405)	519,022	(162,247)	97,092	261,941	(737,888)	
Futures (notional amount)	-	10,331	-	-	-	-	-	10,331
Interest rate swaps (notional amount)	(10,720)	(145,921)	(77,308)		233,949	-	-	-

	Bank as at 31/12/2007, LVL 000's							
	Within 1 month	1-3 months	3-6 months	6-12 months	1-5 years	More than 5 years	Non-interest bearing	Total
Assets								
Cash and deposits with central banks	-	-	-	-	-	-	236,062	236,062
Balances due from credit institutions	317,012	46,459	50,570	27,455	1,473	-	79,664	522,633
Financial assets held for trading	-	793	734	647	1,848	301	38,466	42,789
Financial assets designated at fair value through profit or loss	-	-	-	-	-	-	-	-
Available-for-sale financial assets	32,902	94,358	16,660	12,222	129,587	137,121	15,382	438,232
Loans and receivables to customers	442,982	506,625	707,288	7,414	54,572	19,449	-	1,738,330
Held-to-maturity investments	1,567	3,429	7,562	14,803	38,305	-	8,232	73,898
Derivatives financial instruments	-	-	-	-	-	-	11,785	11,785
Other assets	-	-	-	-	-	-	92,571	92,571
Total assets	**794,463**	**651,664**	**782,814**	**62,541**	**225,785**	**156,871**	**482,162**	**3,156,300**
Liabilities								
Financial liabilities designated at fair value through profit or loss	-	-	-	-	-	-	-	-
Financial liabilities measured at amortised cost	527,756	886,230	175,873	103,877	545,194	15,105	646,458	2,900,493
Derivative financial instruments	-	-	-	-	-	-	13,288	13,288
Other liabilities	-	-	-	-	-	-	25,372	25,372
Total liabilities	**527,756**	**886,230**	**175,873**	**103,877**	**545,194**	**15,105**	**685,118**	**2,939,153**
Equity	-	-	-	-	-	-	217,147	217,147
Total liabilities and equity	**527,756**	**886,230**	**175,873**	**103,877**	**545,194**	**15,105**	**902,265**	**3,156,300**
Net balance sheet position – long/ (short)	266,707	(234,566)	606,941	(41,336)	(319,409)	141,766	(420,103)	-
Interest rate swaps (notional amount)	(9,680)	(145,401)	(7,028)	4,840	157,269	-	-	-

	Bank as at 31/12/2006, LVL 000's							
	Within 1 month	1-3 months	3-6 months	6-12 months	1-5 years	More than 5 years	Non-interest bearing	Total
Assets								
Cash and deposits with central banks	-	-	-	-	-	-	258,594	258,594
Balances due from credit institutions	75,555	3,667	11,719	35,550	8,844	-	54,653	189,988
Financial assets held for trading	-	-	1,036	993	5,375	17,280	49,887	74,571
Available-for-sale financial assets	22,785	73,428	2,182	12,242	106,295	130,625	11,704	359,261
Loans and receivables to customers	203,828	377,403	605,399	52,131	54,207	23,196	-	1,316,164
Held-to-maturity investments	1,735	2,173	5,664	10,649	31,019	-	29,626	80,866
Derivatives financial instruments	-	-	-	-	-	-	8,837	8,837
Other assets	-	-	-	-	-	-	57,328	57,328
Total assets	**303,903**	**456,671**	**626,000**	**111,565**	**205,740**	**171,101**	**470,629**	**2,345,609**
Liabilities								
Financial liabilities held for trading	-	-	-	-	-	-	1,242	1,242
Financial liabilities measured at amortised cost	424,039	423,138	53,358	261,903	62,469	-	900,307	2,125,214
Derivative financial instruments	-	-	-	-	-	-	7,259	7,259
Other liabilities	-	-	-	-	-	-	19,223	19,223
Total liabilities	**424,039**	**423,138**	**53,358**	**261,903**	**62,469**	**-**	**928,031**	**2,152,938**
Equity	-	-	-	-	-	-	192,671	192,671
Total liabilities and equity	**424,039**	**423,138**	**53,358**	**261,903**	**62,469**	**-**	**1,120,702**	**2,345,609**
Net balance sheet position – long/ (short)	(120,136)	33,533	572,642	(150,338)	143,271	171,101	(650,073)	-
Futures (notional amount)	-	10,331	-	-	-	-	-	10,331
Interest rate swaps (notional amount)	(10,720)	(145,921)	(77,308)		233,949	-	-	-

NOTE 35. CURRENCY PROFILE

The Latvian banking legislation requires that open positions in each foreign currency may not exceed 10% of the Bank's equity (see Note 32 for the definition of equity under the FCMC's regulations) and that the total foreign currency open position may not exceed 20% of equity.

The Bank was in compliance with the above requirements as at 31 December 2007 and 2006.

The following table provides an analysis of the Group's and Bank's assets and liabilities and shareholders' equity as well as memorandum items outstanding as at 31 December 2007 and 2006 by currency profile:

	Group as at 31/12/2007, LVL 000's								
	LVL	USD	EUR	UAH	EEK	LTL	RUR	Other	Total
Assets									
Cash and deposits with central banks	209,233	8,686	13,772	34	1,796	19,685	414	3,660	257,280
Balances due from credit institutions	21,883	260,397	70,945	986	28	192	23,518	52,919	430,868
Financial assets held for trading	3,489	18,112	15,435	5,564	248	145	1,638	753	45,384
Financial assets designated at fair value through profit or loss	3	146	128	-	-	-	-	-	277
Available-for-sale financial assets	144,133	188,444	108,635	144	2	17,769	11,998	4,465	475,590
Loans and receivables to customers	138,844	294,078	1,350,430	480	31,486	161,632	11,919	17,773	2,006,642
Held-to-maturity investments	-	27,538	12,686	-	-	-	-	-	40,224
Derivatives financial instruments	11,516	-	-	-	-	-	-	-	11,516
Other assets	58,969	4,058	4,231	1,156	721	8,073	6,329	1,306	84,843
Total assets	**588,070**	**801,459**	**1,576,262**	**8,364**	**34,281**	**207,496**	**55,816**	**80,876**	**3,352,624**
Liabilities									
Financial liabilities held for trading	-	-	-	-	-	-	-	-	-
Financial liabilities designated at fair value through profit or loss	226	12	39	-	-	-	-	-	277
Financial liabilities measured at amortised cost	443,952	868,949	1,564,316	459	24,358	85,108	29,484	61,440	3,078,066
Derivative financial instruments	5,286	1,880	5,783	-	2	-	-	-	12,951
Other liabilities	23,393	1,866	2,988	782	190	1,376	2,408	2,381	35,384
Total liabilities	**472,857**	**872,707**	**1,573,126**	**1,241**	**24,550**	**86,484**	**31,892**	**63,821**	**3,126,678**
Equity	225,946	-	-	-	-	-	-	-	225,946
Total liabilities and equity	**698,803**	**872,707**	**1,573,126**	**1,241**	**24,550**	**86,484**	**31,892**	**63,821**	**3,352,624**
Net long/ (short) position for balance sheet items	(110,733)	(71,248)	3,136	7,123	9,731	121,012	23,924	17,055	-
Off-balance sheet claims arising from foreign exchange									
Spot exchange contracts	(196)	(9,809)	10,780	-	(168)	(217)	(3,865)	3,365	(110)
Forward foreign exchange contracts	44,611	45,550	(87,019)	(14)	-	4,628	(6,983)	(258)	515
Swap exchange contracts	1,039	32,349	(46,127)	-	-	23,643	(7,044)	(1,469)	2,391
Net long/ (short) positions on foreign exchange	*45,454*	*68,090*	(122,366)	*(14)*	*(168)*	*28,054*	*(17,892)*	*1,638*	*2,796*
Net long/ (short) position as at 31 December 2007	**(65,279)**	**(3,158)**	**(119,230)**	**7,109**	**9,563**	**149,066**	**6,032**	**18,693**	**2,796**
Exchange rates applied as at 31 December 2007 (LVL for 1 foreign currency unit)		0.484	0.702804	0.0958	0.0449	0.204	0.0197	-	-

The large open position in EUR and LTL mainly arises due to fact that AB Parex bankas (Lithuania) is allowed consolidate the open position in both currencies because of the LTL hard-peg to EUR currency.

	Group as at 31/12/2006, LVL 000's								
	LVL	USD	EUR	UAH	EEK	LTL	RUR	Other	Total
Assets									
Cash and deposits with central banks	231,225	8,327	11,394	17	6,582	7,344	183	2,141	267,213
Balances due from credit institutions	1,230	93,869	39,539	247	48	3,777	30,160	5,304	174,174
Financial assets held for trading	4,160	39,971	26,488	4,890	320	359	2,236	2,754	81,178
Available-for-sale financial assets	86,500	189,320	93,824	62	-	32	8,018	5,066	382,822
Loans and receivables to customers	192,576	332,200	809,471	-	8,327	78,043	9,746	1,616	1,431,979
Held-to-maturity investments	-	55,909	12,023	-	-	-	-	-	67,932
Derivatives financial instruments	4,049	-	4,751	-	-	-	-	-	8,800
Other assets	38,409	1,139	3,876	-	152	-	585	10,208	54,369
Total assets	**558,149**	**720,735**	**1,001,366**	**5,216**	**15,429**	**89,555**	**50,928**	**27,089**	**2,468,467**
Liabilities									
Financial liabilities held for trading	-	1,242	-	-	-	-	-	-	1,242
Financial liabilities measured at amortised cost	296,696	770,296	1,037,612	10	7,667	37,169	34,354	50,951	2,234,755
Derivative financial instruments	3,118	-	4,081	-	-	-		52	7,251
Other liabilities	17,355	1,838	4,046	-	-	-	232	1,120	24,591
Total liabilities	**317,169**	**773,376**	**1,045,739**	**10**	**7,667**	**37,169**	**34,586**	**52,123**	**2,267,839**
Equity	200,628	-	-	-	-	-	-	-	200,628
Total liabilities and equity	**517,797**	**773,376**	**1,045,739**	**10**	**7,667**	**37,169**	**34,586**	**52,123**	**2,468,467**
Net long/ (short) position for balance sheet items	40,352	(52,641)	(44,373)	5,206	7,762	52,386	16,342	(25,034)	-
Off-balance sheet claims arising from foreign exchange									
Spot exchange contracts	3,264	(20,381)	22,900	-	(7,693)	117	108	1,600	(85)
Forward foreign exchange contracts	(20,962)	9,465	15,510	-	-	(46)	(2,530)	(1,165)	272
Swap exchange contracts	3,167	60,114	(87,602)	-	2	797	(9,987)	33,944	435
Net long/ (short) positions on foreign exchange	*(14,531)*	*49,198*	*(49,192)*	-	*(7,691)*	*868*	*(12,409)*	*34,379*	*622*
Net long/ (short) position as at 31 December 2006	**25,821**	**(3,443)**	**(93,565)**	**5,206**	**71**	**53,254**	**3,933**	**9,345**	**622**
Exchange rates applied as at 31 December 2006 (LVL for 1 foreign currency unit)	-	0.536	0.702804	0.106	0.0449	0.204	0.0203	-	-

	Bank as at 31/12/2007, LVL 000's								
	LVL	USD	EUR	UAH	EEK	LTL	RUR	Other	Total
Assets									
Cash and deposits with central banks	209,173	8,066	13,011	14	1,778	280	366	3,374	236,062
Balances due from credit institutions	21,515	273,666	168,341	562	24	1,790	20,842	35,893	522,633
Financial assets held for trading	2,756	17,261	15,107	5,564	248	82	1,019	753	42,789
Financial assets designated at fair value through profit or loss	-	-	-	-	-	-	-	-	-
Available-for-sale financial assets	144,103	173,945	103,895	-	-	-	11,832	4,457	438,232
Loans and receivables to customers	154,562	269,416	1,264,527	325	24,251	2,074	5,791	17,385	1,738,330
Held-to-maturity investments	-	43,297	21,069	-	-	-	9,532	-	73,898
Derivatives financial instruments	11,785	-	-	-	-	-	-	-	11,785
Other assets	85,139	4,020	2,822	6	323	7	104	150	92,571
Total assets	**629,033**	**789,670**	**1,588,771**	**6,471**	**26,624**	**4,233**	**49,485**	**62,012**	**3,156,300**
Liabilities									
Financial liabilities held for trading	-	-	-	-	-	-	-	-	-
Financial liabilities designated at fair value through profit or loss	-	-	-	-	-	-	-	-	-
Financial liabilities measured at amortised cost	445,473	836,277	1,509,334	462	24,715	1,064	29,828	53,340	2,900,493
Derivative financial instruments	5,623	1,880	5,783	-	2	-	-	-	13,288
Other liabilities	20,835	1,463	2,378	1	89	28	179	399	25,372
Total liabilities	**471,931**	**839,620**	**1,517,495**	**463**	**24,806**	**1,092**	**30,007**	**53,739**	**2,939,153**
Equity	217,147	-	-	-	-	-	-	-	217,147
Total liabilities and equity	**689,078**	**839,620**	**1,517,495**	**463**	**24,806**	**1,092**	**30,007**	**53,739**	**3,156,300**
Net long/ (short) position for balance sheet items	(60,045)	(49,950)	71,277	6,008	1,819	3,141	19,478	8,273	-
Off-balance sheet claims arising from foreign exchange									
Spot exchange contracts	(95)	(9,608)	9,299	-	(6)	141	(3,819)	3,975	(113)
Forward foreign exchange contracts	44,611	44,659	(79,857)	(14)	-	(1,622)	(6,983)	(306)	488
Swap exchange contracts	1,039	8,496	3,674	-	(135)	(1,614)	(7,044)	(2,485)	1,931
Net long/ (short) positions on foreign exchange	*45,555*	*43,547*	*(66,884)*	*(14)*	*(141)*	*(3,095)*	*(17,846)*	*1,184*	*2,306*
Net long/ (short) position as at 31 December 2007	**(14,490)**	**(6,403)**	**4,392**	**5,994**	**1,678**	**46**	**1,632**	**9,457**	**2,306**
Exchange rates applied as at 31 December 2007 (LVL for 1 foreign currency unit)	-	0.484	0.702804	0.0958	0.0449	0.204	0.0197	-	-

	Bank as at 31/12/2006, LVL 000's								
	LVL	USD	EUR	UAH	EEK	LTL	RUR	Other	Total
Assets									
Cash and deposits with central banks	230,965	7,682	10,863	2	6,548	229	103	2,202	258,594
Balances due from credit institutions	1,400	91,149	58,965	77	3	3,286	29,529	5,579	189,988
Financial assets held for trading	2,286	40,049	22,351	4,890	320	52	1,933	2,690	74,571
Available-for-sale financial assets	86,396	168,667	91,887	-	-	-	7,337	4,974	359,261
Loans and receivables to customers	200,128	316,428	780,549	-	76	542	7,810	10,631	1,316,164
Held-to-maturity investments	-	66,956	12,683	-	-	-	1,227	-	80,866
Derivatives financial instruments	4,097	-	4,740	-	-	-	-	-	8,837
Other assets	51,849	703	2,038	-	152	-	141	2,445	57,328
Total assets	**577,121**	**691,634**	**984,076**	**4,969**	**7,099**	**4,109**	**48,080**	**28,521**	**2,345,609**
Liabilities									
Financial liabilities held for trading	-	1,242	-	-	-	-	-	-	1,242
Financial liabilities measured at amortised cost	309,267	743,698	996,020	10	7,667	497	31,624	36,431	2,125,214
Derivative financial instruments	3,178	-	4,081	-	-	-	-	-	7,259
Other liabilities	19,223	-	-	-	-	-	-	-	19,223
Total liabilities	**331,668**	**744,940**	**1,000,101**	**10**	**7,667**	**497**	**31,624**	**36,431**	**2,152,938**
Equity	192,671	-	-	-	-	-	-	-	192,671
Total liabilities and equity	**524,339**	**744,940**	**1,000,101**	**10**	**7,667**	**497**	**31,624**	**36,431**	**2,345,609**
Net long/ (short) position for balance sheet items	52,782	(53,306)	(16,025)	4,959	(568)	3,612	16,456	(7,910)	-
Off-balance sheet claims arising from foreign exchange									
Spot exchange contracts	3,264	(19,078)	21,882	-	(7,693)	117	-	1,412	(96)
Forward foreign exchange contracts	(20,539)	9,758	15,399	-	-	(46)	(2,530)	(1,873)	169
Swap exchange contracts	4,657	54,306	(68,022)	-	2	797	(9,987)	18,846	599
Net long/ (short) positions on foreign exchange	*(12,618)*	*44,986*	*(30,741)*	*-*	*(7,691)*	*868*	*(12,517)*	*18,385*	*672*
Net long/ (short) position as at 31 December 2006	**40,164**	**(8,320)**	**(46,766)**	**4,959**	**(8,259)**	**4,480**	**3,939**	**10,475**	**672**
Exchange rates applied as at 31 December 2006 (LVL for 1 foreign currency unit)	-	0.536	0.702804	0.106	0.0449	0.204	0.0203	-	-

NOTE 36. GEOGRAPHICAL PROFILE

The following tables provides an analysis of the Group's and Bank's assets and liabilities, as well as memorandum items outstanding as at 31 December 2007 and 2006 by geographical profile. The grouping by is done based on information about the residence of the respective counterparties.

	Group as at 31/12/2007, LVL 000's					
	Latvia	Lithuania	Other EU countries	CIS countries	Other countries	Total
Assets						
Cash and deposits with central banks	233,237	21,174	2,825	2	42	257,280
Balances due from credit institutions	68,768	587	192,260	51,400	117,853	430,868
Financial assets held for trading	10,973	65	15,494	14,797	4,055	45,384
Financial assets designated at fair value through profit or loss	277	-	-	-	-	277
Available-for-sale financial assets	144,476	17,767	107,541	129,731	76,075	475,590
Loans and receivables to customers	1,139,580	331,272	215,812	222,704	97,274	2,006,642
Held-to-maturity investments	-	-	1,290	32,394	6,540	40,224
Derivatives financial instruments	2,999	43	6,376	1,444	654	11,516
Other assets	67,113	8,108	779	8,780	63	84,843
Total assets	**1,667,423**	**379,016**	**542,377**	**461,252**	**302,556**	**3,352,624**
Liabilities						
Financial liabilities held for trading	-	-	-	-	-	-
Financial liabilities designated at fair value through profit or loss	277	-	-	-	-	277
Financial liabilities measured at amortised cost	1,004,839	132,764	1,177,764	140,669	622,030	3,078,066
Derivative financial instruments	1,779	294	9,397	849	632	12,951
Other liabilities	9,391	1,963	531	4,599	18,900	35,384
Total liabilities	**1,016,286**	**135,021**	**1,187,692**	**146,117**	**641,562**	**3,126,678**
Equity	225,946	-	-	-	-	225,946
Total liabilities and equity	**1,242,232**	**135,021**	**1,187,692**	**146,117**	**641,562**	**3,352,624**
Memorandum items						
Contingent liabilities	10,753	3,478	5,665	2,820	9,004	31,720
Financial commitments	279,166	39,855	35,872	11,426	20,137	386,456

	Group as at 31/12/2006, LVL 000's					
	Latvia	Lithuania	Other EU countries	CIS countries	Other countries	Total
Assets						
Cash and deposits with central banks	251,196	8,587	7,398	1	31	267,213
Balances due from credit institutions	14,721	10,496	31,506	66,727	50,724	174,174
Financial assets held for trading	12,946	78	29,039	34,219	4,896	81,178
Available-for-sale financial assets	96,761	76	103,876	73,595	108,514	382,822
Loans and receivables to customers	821,716	166,399	208,513	156,299	79,052	1,431,979
Held-to-maturity investments	-	-	1,382	57,572	8,978	67,932
Derivatives financial instruments	1,355	54	7,195	79	117	8,800
Other assets	42,277	6,871	1,218	3,543	460	54,369
Total assets	**1,240,972**	**192,561**	**390,127**	**392,035**	**252,772**	**2,468,467**
Liabilities						
Financial liabilities held for trading	1,242	-	-	-	-	1,242
Financial liabilities measured at amortised cost	780,698	80,049	594,329	106,915	672,764	2,234,755
Derivative financial instruments	2,900	-	367	203	3,781	7,251
Other liabilities	20,601	1,144	720	1,818	308	24,591
Total liabilities	**805,441**	**81,193**	**595,416**	**108,936**	**676,853**	**2,267,839**
Equity	200,628	-	-	-	-	200,628
Total liabilities and equity	**1,006,069**	**81,193**	**595,416**	**108,936**	**676,853**	**2,468,467**
Memorandum items						
Contingent liabilities	16,703	1,980	6,659	1,906	3,275	30,523
Financial commitments	230,514	14,878	19,684	30,223	50,861	346,160

	Bank as at 31/12/2007, LVL 000's					
	Latvia	Lithuania	Other EU countries	CIS countries	Other countries	Total
Assets						
Cash and deposits with central banks	233,237	-	2,825	-	-	236,062
Balances due from credit institutions	68,331	131,193	187,876	42,610	92,623	522,633
Financial assets held for trading	10,042	-	15,217	14,178	3,352	42,789
Financial assets designated at fair value through profit or loss	-	-	-	-	-	-
Available-for-sale financial assets	144,079	-	105,682	126,670	61,801	438,232
Loans and receivables to customers	1,167,742	75,172	209,617	188,924	96,875	1,738,330
Held-to-maturity investments	-	-	1,290	66,068	6,540	73,898
Derivatives financial instruments	3,181	46	6,376	1,444	738	11,785
Other assets	91,995	179	379	8	10	92,571
Total assets	**1,718,607**	**206,590**	**529,262**	**439,902**	**261,939**	**3,156,300**
Liabilities						
Financial liabilities held for trading	-	-	-	-	-	-
Financial liabilities designated at fair value through profit or loss	-	-	-	-	-	-
Financial liabilities measured at amortised cost	1,004,543	7,277	1,173,774	137,883	577,016	2,900,493
Derivative financial instruments	1,961	449	9,397	849	632	13,288
Other liabilities	6,492	-	405	-	18,475	25,372
Total liabilities	**1,012,996**	**7,726**	**1,183,576**	**138,732**	**596,123**	**2,939,153**
Equity	217,147	-	-	-	-	217,147
Total liabilities and equity	**1,230,143**	**7,726**	**1,183,576**	**138,732**	**596,123**	**3,156,300**
Memorandum items						
Contingent liabilities	10,710	994	5,236	2,565	6,530	26,035
Financial commitments	250,184	1,292	42,294	41,813	20,138	355,721

	Bank as at 31/12/2006, LVL 000's					
	Latvia	Lithuania	Other EU countries	CIS countries	Other countries	Total
Assets						
Cash and deposits with central banks	251,196	-	7,398	-	-	258,594
Balances due from credit institutions	14,661	38,527	28,612	59,175	49,013	189,988
Financial assets held for trading	8,347	-	27,413	33,915	4,896	74,571
Available-for-sale financial assets	96,409	-	103,077	69,829	89,946	359,261
Loans and receivables to customers	838,336	54,235	201,723	142,817	79,053	1,316,164
Held-to-maturity investments	-	-	1,382	70,506	8,978	80,866
Derivatives financial instruments	1,339	54	7,195	79	170	8,837
Other assets	55,910	77	1,051	56	234	57,328
Total assets	**1,266,198**	**92,893**	**377,851**	**376,377**	**232,290**	**2,345,609**
Liabilities						
Financial liabilities held for trading	1,242	-	-	-	-	1,242
Financial liabilities measured at amortised cost	784,425	12,823	591,526	101,513	634,927	2,125,214
Derivative financial instruments	2,884	20	367	203	3,785	7,259
Other liabilities	18,111	55	688	213	156	19,223
Total liabilities	**806,662**	**12,898**	**592,581**	**101,929**	**638,868**	**2,152,938**
Equity	192,671	-	-	-	-	192,671
Total liabilities and equity	**999,333**	**12,898**	**592,581**	**101,929**	**638,868**	**2,345,609**
Memorandum items						
Contingent liabilities	17,729	-	5,241	1,639	2,230	26,839
Financial commitments	260,505	3,783	20,090	51,068	24,393	359,839

NOTE 37. LITIGATION AND CLAIMS

In the ordinary course of business, the Bank has been involved in a number of legal proceedings to recover collateral or outstanding credit balances, as well as related interest and expenses from defaulted credit customers and interbank counterparties. The Group is also involved in the number of legal proceedings related to its customers in Latvia and abroad.

The Management of the Bank believes that any legal proceedings pending as at 31 December 2007 will not result in material losses for the Group.

NOTE 38. RELATED PARTIES

Related parties are defined as shareholders who have significant influence over the Group, members of the Council and Management Board, key Management personnel, their close relatives and companies in which they have a controlling interest as well as associated companies of the Group. For the purpose of this disclosure, the shareholders and their companies, as well as the key management of the Group's companies/ Bank (excluding the shareholders) and their related companies are stated in one line, accordingly.

The following table present the outstanding balances and terms of the Group's transactions with related parties.

	Amount in LVL 000's 31/12/2007	Average rate in 2007	Amount in LVL 000's 31/12/2006	Average rate in 2006
Credit exposure to related parties:				
Loans and receivables	23,465		16,522	
Shareholders	21,403	2.0%	15,623	2.0%
Management	2,062	5.8%	899	7.0%
Financial commitments and outstanding guarantees	7,070		1,285	
Shareholders	6,916	-	953	-
Management	154	-	332	-
Total credit exposure to related parties	**30,535**		**17,807**	
Deposits from shareholders	42,339	17.6%	47,615	18.0%
Subordinated loans from shareholders	15,000	12.6%	-	-
Deposits from management	2,001	3.6%	768	1.6%
Total funding from related parties	**59,340**		**48,383**	

The following table presents the outstanding balances and terms of the Bank's transactions with related parties.

	Amount in LVL 000's 31/12/2007	Average rate in 2007	Amount in LVL 000's 31/12/2006	Average rate in 2006
Credit exposure to related parties:				
Loans and receivables	246,556		197,286	
Shareholders	21,403	2.0%	15,623	2.0%
Management	794	4.2%	898	7.0%
Subsidiaries	224,359	6.8%	180,765	4.6%
Financial commitments and outstanding guarantees	53,209		40,922	
Shareholders	6,916	-	953	-
Management	154	-	158	-
Subsidiaries	46,139	-	39,811	-
Total credit exposure to related parties	**299,765**		**238,208**	
Due to related parties	64,091		53,250	
Shareholders	42,339	17.6%	47,615	18.0%
Subordinated loans from shareholders	15,000	12.6%	-	-
Management	1,626	3.8%	768	1.6%
Subsidiaries	5,126	6.9%	4,867	0.8%
Total amounts due to related parties	**64,091**		**53,250**	

As at 31 December 2007, LVL 31,130 thousand of the above deposits have a contractual maturity in 2032. They have been placed with the Bank at rates significantly below the market interest rates at the time of their placement.

Interest income and expense on the balances due from/ to related parties:

	LVL 000's			
	2007 Group	2006 Group	2007 Bank	2006 Bank
Interest income	551	469	14,416	5,760
Interest expense	(8,070)	(8,290)	(8,414)	(8,437)

NOTE 39. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

The Group uses valuation models to calculate derivatives' fair values. The models employ interest rates that are quoted through well-known market platforms.
In cases where there are no market quotes available for the securities, the Group might use private quotes from other significant market participants, quotes of similar financial instruments or employ a valuation model.
For the purposes of this disclosure:
- the benchmark interest rates (e.g. LIBOR), foreign exchange rates used in valuation models are considered as observable market inputs.
- the discount rates from transactions essentially with the same characteristics (amount, maturity, customer type) as the financial instruments under the fair value assessment are considered to be non-observable market inputs.

The following table presents fair values of Group's financial assets and liabilities as at 31 December 2007.

			Fair value		
	Carrying value	**Adjustment to (arrive at) fair value**	Quoted market prices	Valuation technique - observable market inputs	Valuation technique - non-market observable inputs
Cash and demand deposits with National Bank	257,280	-	-	257,280	-
Balances due from credit institution	430,868	-	-	430,868	-
Held-for-trading financial assets:					
Non-fixed income securities	39,809	-	39,809	-	-
Fixed income securities	5,575	-	5,575	-	-
Financial assets designated at fair value through profit or loss	277	-	277	-	-
Derivatives	11,516	-	-	11,516	-
Available-for-sale securities	475,590	-	475,272	318	-
Loans and receivables to customers	2,006,642	(1,628)	-	1,849,025	155,989
Held to maturity investments	40,224	(8,661)	4,247	27,316	-
Total financial assets	**3,267,781**	**(10,289)**	**525,180**	**2,576,323**	**155,989**
Derivatives	12,951	-	-	12,868	83
Financial assets designated at fair value through profit or loss	277	-	277	-	-
Financial liabilities measured at amortised cost					
Balances due to credit institution	777,111	-	-	739,561	37,550
Customer deposits	2,081,965	17,907	-	170,857	1,929,015
Issued debt	187,907	(14,672)	173,235	-	-
Subordinated liabilities	28,113	-	-	28,113	-
Other financial liabilities	2,970	-	-	2,970	-
Total financial liabilities	**3,091,294**	**3,235**	**173,512**	**954,369**	**1,966,648**

The following table presents fair values of Group's financial assets and liabilities as at 31 December 2006.

	Carrying value	Adjustment to (arrive at) fair value	Fair value		
			Quoted market prices	Valuation technique - observable market inputs	Valuation technique - non-market observable inputs
Cash and demand deposits with National Bank	267,213	-	-	267,213	-
Balances due from credit institution	174,174	-	-	174,174	-
Held-for-trading financial assets:					
Non-fixed income securities	49,713	-	49,713	-	-
Fixed income securities	31,465	-	31,465	-	-
Derivatives	8,800	-	-	8,800	-
Available-for-sale securities	382,822	-	382,822	-	-
Loans and receivables to customers	1,431,979	(366)	-	1,357,030	74,583
Held to maturity investments	67,932	(899)	-	67,033	-
Total financial assets	**2,414,098**	**(1,265)**	**464,000**	**1,874,250**	**74,583**
Held-for-trading financial liabilities	1,242	-	1,242	-	-
Derivatives	7,251	-	-	7,251	-
Financial liabilities measured at amortised cost:					
Balances due to credit institution	463,198	-	-	463,198	-
Customer deposits	1,561,484	4,350	-	-	1,565,834
Issued debt	210,073	1,485	211,558	-	-
Total financial liabilities	**2,243,248**	**5,835**	**212,800**	**470,449**	**1,565,834**

The following table presents fair values of Bank's financial assets and liabilities as at 31 December 2007.

	Carrying value	Adjustment to (arrive at) fair value	Fair value		
			Quoted market prices	Valuation technique - observable market inputs	Valuation technique - non-market observable inputs
Cash and demand deposits with National Bank	236,062	-	-	236,062	-
Balances due from credit institution	522,633	-	-	522,633	-
Held-for-trading financial assets:					
Non-fixed income securities	38,466	-	38,466	-	-
Fixed income securities	4,323	-	4,323	-	-
Derivatives	11,785	-	-	11,785	-
Available-for-sale securities	438,232	-	438,232	-	-
Loans and receivables to customers	1,738,330	(1,628)	-	1,652,273	84,429
Held to maturity investments	73,898	(8,437)	-	65,461	-
Total financial assets	**3,063,729**	**(10,065)**	**481,021**	**2,488,214**	**84,429**
Derivatives	13,288	-	-	13,288	-
Financial liabilities measured at amortised cost:					
Balances due to credit institution	775,345	-	-	775,345	-
Customer deposits	1,909,128	17,907	-	-	1,927,035
Issued debt	187,907	(14,672)	173,235	-	-
Subordinated liabilities	28,113	-	-	28,113	-
Total financial liabilities	**2,913,781**	**3,235**	**173,235**	**816,746**	**1,927,035**

The following table presents fair values of Bank's financial assets and liabilities as at 31 December 2006.

			Fair value		
	Carrying value	**Adjustment to (arrive at) fair value**	Quoted market prices	Valuation technique - observable market inputs	Valuation technique - non-market observable inputs
Cash and demand deposits with National Bank	258,594	-	-	258,594	-
Balances due from credit institution	189,988	-	-	189,988	-
Held-for-trading financial assets					
Non-fixed income securities	47,207	-	47,207	-	-
Fixed income securities	27,364	-	27,364	-	-
Derivatives	8,837	-	-	8,837	-
Available-for-sale securities	359,261	-	359,261	-	-
Loans and receivables to customers	1,316,164	(336)	-	1,247,277	68,551
Held to maturity investments	80,866	(899)	-	79,967	-
Total financial assets	**2,288,281**	(1,235)	**433,832**	**1,784,663**	**68,551**
Held-for-trading financial liabilities	1,242	-	1,242	-	-
Derivatives	7,259	-	-	7,259	-
Financial liabilities measured at amortised cost					
Balances due to credit institution	453,354	-	-	453,354	-
Customer deposits	1,461,787	4,072	-	-	1,465,859
Issued debt	210,073	1,485	211,558	-	-
Total financial liabilities	**2,133,715**	5,557	**212,800**	**460,613**	**1,465,859**

NOTE 40. SEGMENT REPORTING

For the purposes of segment analysis, the Group's activities are divided into two main geographical segments, based on the location of the entity: Latvia (the Bank and its subsidiaries in Latvia) and other countries (other subsidiaries). The type of products and services included in each reported segment are essentially the same. Transactions between the business segments are generally made on commercial terms and conditions. General corporate overheads have not been reallocated to geographical segments.

	LVL 000's							
	Latvia		*Other*		*Eliminations*		*Consolidated*	
	2007	***2006***	***2007***	***2006***	***2007***	***2006***	***2007***	***2006***
Total income * from external customers	203,687	150,615	37,252	12,758	-	-	240,939	163,373
Total income * from internal customers	22,411	1,862	539	5,921	(22,950)	(7,783)	-	-
Total segment revenue	*226,098*	*152,477*	*37,791*	*18,679*				
Segment result	**47,610**	**56,339**	**3,966**	**3,921**	**(2,257)**	**507**	**49,319**	**60,767**
Segment assets **	3,285,360	2,411,551	534,809	274,324	(467,545)	(217,408)	3,352,624	2,468,467
Segment liabilities **	3,059,376	2,206,721	477,614	279,972	(410,312)	(218,854)	3,126,678	2,267,839
Capital expenditure (including intangible assets)	17,642	11,191	2,474	3,485	-	-	20,116	14,676
Depreciation and amortisation	6,302	5,955	1,327	682	-	-	7,629	6,637
Impairment charge	5,713	623	1,994	449	73	-	7,780	1,072
No of employees at the end of the period	2,752	2,529	855	590	-	-	3,607	3,119

** Income is defined as total of gross interest and commission and fee income*
*** Segment assets and liabilities are presented according to the companies' geographical location.*

Secondary segment report

LVL 000's

	Banking		*Asset management ****		*Leasing*		*Other*		*Eliminations*		*Group*	
	2007	*2006*	*2007*	*2006*	*2007*	*2006*	*2007*	*2006*	*2007*	*2006*	*2007*	*2006*
Total income * from external customers	212,513	147,359	5,440	3,046	22,968	12,968	18	-	-	-	240,939	163,373
Total income * from internal customers	22,659	7,783	21	-	270	-	-	-	(22,950)	(7,783)	-	-
Total segment revenue	*235,172*	*155,142*	*5,461*	*3,046*	*23,238*	*12,968*	*18*	-				
Segment result	**48,428**	**56,902**	**1,041**	**848**	**2,279**	**2,574**	**(172)**	**(64)**	**(2,257)**	**507**	**49,319**	**60,767**
Segment assets **	3,523,442	2,493,562	15,878	11,935	259,458	171,247	21,391	9,131	(467,545)	(217,408)	3,352,624	2,468,467
Segment liabilities **	3,258,124	2,309,925	3,938	1,035	252,977	166,512	21,951	9,221	(410,312)	(218,854)	3,126,678	2,267,839
Capital expenditure (including intangible assets)	10,395	9,661	178	102	1,902	3,268	7,641	1,645	-	-	20,116	14,676
Depreciation and amortisation	6,610	6,224	65	64	897	336	57	13	-	-	7,629	6,637
Impairment charge	6,205	905	-	-	1,502	167	-	-	73	-	7,780	1,072
No of employees at the end of the period	3,088	2,742	147	114	372	245	-	18	-	-	3,607	3,119

** Income is defined as total of gross interest and commission and fee income*
*** Segment assets and liabilities are presented according to the companies' business profile.*
**** Included in the asset management segment are companies engaged in asset management, insurance, provision of custody and securities brokerage services.*

NOTE 41. SUBSEQUENT EVENTS

On 29 February 2008, the Bank received a syndicated loan in the amount of EUR 275 million, which partly refinanced previous syndicated loan of EUR 385 million. The loan has been issued for 1 year and it bears an interest rate of EURIBOR + 0.55%.

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INDEPENDENT AUDITORS' REPORT

To the shareholders of AS Parex banka

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of AS Parex banka and its subsidiaries (hereinafter – the Group) and the accompanying financial statements of AS Parex banka (hereinafter – the Bank) for the year ended 31 December 2007 (jointly "financial statements"), set out on pages 9 through 73 which comprise the balance sheet as at 31 December 2007, the statements of income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

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

Report on Compliance of the Management Report

Furthermore, we have read the Management Report for the year ended 31 December 2007 (included on pages 3 through 4 of the accompanying 2007 annual report) and have not noted any material inconsistencies between the financial information included in it and the financial statements for the year ended 31 December 2007.

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Certificate No. 124

Per Møller
Personal ID code: 060567-14676
Member of the Board

Riga, 29 February 2008