



**JSC Akciju komercbanka Baltikums non-
audited Consolidated Financial Statement
as of 31 December, 2007**

Contents

Report of Management	3
Statement of the Management's Responsibilities	5
Consolidated Income Statement	6
Consolidated Balance Sheet	7
Consolidated Statement of Changes in Shareholders Equity	8
Consolidated Cash Flows Statement	9
Notes	11
Contact	20

Report of Management

In 2007 AS Akciju komercbanka Baltikums (thereafter the Bank, Komercbanka Baltikums) continued to develop in accordance with its strategy whose major emphasis was to offer a dynamic, modern and, what is the most important, exclusive service for its clients.

Similarly to the previous years, the Bank developed in two clearly defined directions, namely, trade and shipping finance, as well as financial markets products and wealth management. In 2007 Komercbanka Baltikums put a considerable effort in keeping to satisfy the needs of its existing and potential clients by introducing one the most sought-after services nowadays, that is private banking. As a result, the Bank was able to offer several new products and services to its corporate clients and those clients who were interested in a range of investment and savings products.

Komercbanka Baltikums has managed to secure a rather strong position in its niches due to the fact that, on the one hand, the Bank has substantially strengthened its funding base, and on the other hand, has been successfully competing in its preferred segments of the market. The Bank's goals in the nearest future are primarily related to maintaining and consolidating its advantages within those segments.

In 2007 the Bank's profit amounted to 2.9 million EUR, meeting the estimates made earlier in the year, and exceeding the 2006 profit by 73 %. The Bank's assets have reached 140.3 million EUR (a rise of 64% on an annual basis). The Bank's deposit base doubled during the year and reached 102.million EUR. Komercbanka Baltikum's loan portfolio as of the end of the reporting period amounted to 35.7 million EUR.

In the first half of 2007, Komercbanka Baltikums successfully continued the program of rising long-term funding launched back in 2004. In February the Bank conducted the largest issue of bonds in its history with an issue size of 10 million EUR, an interest rate of 3 month EURIBOR + 3% p.a. and a maturity of three years. The raised funds allow the Bank to increase its loan portfolio and strengthen its position in the market segments it operates in. In the first half of 2007, the Bank continued to optimize its customer base. The subsidiary companies operating in Russia, Ukraine and Kazakhstan substantially contributed to the whole Group's operations by attracting a large number of new customers. Despite this increase in the number of customers, the Bank closely monitors customer operations by implementing the principles of "Know-Your-Client" and "Know-the-Business-of-Your-Client".

2007 also saw the continuing reorganization of the Baltikums Group, in which Komercbanka Baltikums is to have the central place. The shareholders of AS Baltikums Apdrošināšanas Grupa and AS Baltikums Bankas Grupa intend to restructure the

Baltikums Group by consolidating financial and insurance companies within AS Baltikums Bankas Grupa.

AS Akciju komercbanka "Baltikums" divested its 100% stake in AS Pirmais Atklātais Pensiju Fonds. This step resulted from the fact that the Bank remained faithful to its earlier formulated strategy, which did not foresee involvement in retail banking and instead focusing on cost optimization.

We are grateful to all our clients for their cooperation and trust and express deep confidence in the continuing success of our mutually beneficial business relationships.

Chairman of the Board

Aldis Reims

February 29, 2008

STATEMENT OF THE MANAGEMENT'S RESPONSIBILITIES

Riga

The Management of the AS "Akciju Komercbanka "Baltikums"" (Bank) is responsible for the preparation of the consolidated financial statements of the Bank and its subsidiaries (the Group) as well as for the preparation of the financial statements of the Bank.

The consolidated and Bank financial statements are prepared in accordance with International Financial Reporting Standards 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 consolidated and Bank financial statements on pages 6 to 10 are prepared in accordance with the source documents and present fairly the financial position of the Group as at 31 December 2007 and the results of its performance and cash flows for the year ended 31 December 2007 as well as the financial position of the Bank as at 31 December 2007 and the results of its performance and cash flows for the year ended 31 December 2007.

The management of the Bank is responsible for the maintenance of a proper accounting system, safeguarding the Group's assets, and prevention and detection of fraud and other irregularities in the Group. The management is also responsible for operating the Bank in compliance with the Law on Credit Institutions, regulations of the Finance and Capital Markets Commission and other legislation of the Republic of Latvia applicable to credit institutions.

On behalf of the Bank's management,

Aldis Reims
Chairman of the Board

Consolidated Income Statement

Position	31.12.2007 LVL'000	31.12.2006 LVL'000	31.12.2007 EUR'000	31.12.2006 EUR'000
Interest income	4 955	2 835	7 050	4 034
Interest expense	-1 680	-965	-2 390	-1 373
Securities income	0	0	0	0
Fees and commission income	2 735	1 293	3 892	1 840
Fees and commission expense	-598	-304	-851	-434
Net profit/loss from financial assets and liabilities valued at fair value	-703	-12	-1 000	-17
Net trading income from foreign exchange	446	311	635	443
Trading income from financial instruments and foreign exchange	189	238	269	339
Other operating income	180	147	256	209
Administrative expenses	-2 727	-1 784	-3 880	-2 538
Depreciation and amortization	-95	-76	-135	-108
Other operating expenses	-91	-53	-129	-75
Provisions for impairment losses	-108	-12	-156	-17
Income from decrease of provisions	9	15	13	21
Income before corporate income tax	2 512	1 633	3 574	2 324
Income tax	-485	-222	-690	-316
Profit for the period	2 027	1 411	2 884	2 008
<i>Attributable to:</i>				
<i>Equity holders of the Bank</i>	<i>2 019</i>	<i>1 393</i>	<i>2 873</i>	<i>1 982</i>
<i>Minority interest</i>	<i>8</i>	<i>18</i>	<i>11</i>	<i>26</i>
Net income	2 027	1 411	2 884	2 008

The fixed exchange rate of the Bank of Latvia is 1 EUR=0.702804 LVL

Consolidated Balance Sheet

Position	31.12.2007 LVL'000	31.12.2006 LVL'000	31.12.2007 EUR'000	31.12.2006 EUR'000
Cash and deposits with the Bank of Latvia	11 816	7 065	16 813	10 053
Due from credit institutions on demand	40 415	21 874	57 505	31 124
Trading assets	13 309	10 270	18 937	14 613
Financial assets at fair value through profit or loss	15	15	21	21
Available-for-sale financial assets	2 126	1 931	3 025	2 748
Loans and receivables	25 076	16 863	35 680	23 994
Held to maturity financial investments	1 329	43	1 891	61
Investments in associated entities and in subsidiaries	3 071	0	4 370	0
Intangible assets	212	237	302	337
Property, Plant and Equipment	359	108	511	154
Investment property	545	1 111	775	1 581
Other assets	280	376	398	535
Prepayments and accrued income	30	140	43	199
Total assets	98 583	60 033	140 271	85 420
Balances due to credit institutions on demand	1 501	6 149	2 136	8 749
Financial liabilities carried at amortized cost	82 735	43 568	117 721	61 992
<i>Balances due to credit institutions on term</i>	<i>0</i>	<i>2 151</i>	<i>0</i>	<i>3 061</i>
<i>Customers deposits</i>	<i>72 142</i>	<i>37 904</i>	<i>102 649</i>	<i>53 932</i>
<i>Notes payable</i>	<i>10 593</i>	<i>3 513</i>	<i>15 072</i>	<i>4 999</i>
Insurance contracts	664	731	945	1 040
Tax liabilities	249	127	355	180
Other liabilities	339	333	482	475
Total liabilities	85 488	50 908	121 639	72 436
Shareholders' equity				
Share capital	10 525	7 450	14 976	10 601
Reserve capital and other reserves	17	17	24	24
Retained earnings	352	91	500	129
Profit of the year	2 027	1 411	2 884	2 008
<i>Attributable to:</i>				
<i>Equity holders of the Bank</i>	<i>2 019</i>	<i>1 393</i>	<i>2 873</i>	<i>1 982</i>
<i>Minority interest</i>	<i>8</i>	<i>18</i>	<i>11</i>	<i>26</i>
Minority interest	174	156	248	222
Total liabilities and shareholders' equity	98 583	60 033	140 271	85 420
Contingent liabilities	12	3	17	4
Financial commitments	2 575	6 881	3 664	9 791
Assets / Liabilities under management	1 494	1 335	2 126	1 900

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Consolidated Statement of Changes in Shareholders' Equity

	Share capital, LVL'000	Reserve capital and other reserves, LVL'000	Retained earnings, LVL'000	Profit for the year, LVL'000	Minority interest, LVL'000	Total, LVL'000
Balance as at 31 December 2005	5 100	17	524	72	0	5 713
Profit for the year	0	0	0	1 393	18	1 411
Minority interest	0	0	0	0	156	156
The profit for 2005 was transferred to the profit for the previous periods	0	0	72	-72	0	0
Issue of shares	2 350	-	-	-	-	2 350
Dividends paid	0	0	-505	0	0	-505
Balance as at 31 December 2005	7 450	17	91	1 393	174	9 125
Profit for the year	0	0	0	2 019	8	2 027
Issue of shares	3 075	0	0	0	0	3 075
The profit for 2006 was transferred to the profit for the previous periods	0	0	261	-261	0	0
Dividends paid	-	0	0	-1 132	-	-1 132
Balance as at 31 December 2006	10 525	17	352	2 019	182	13 095

	Share capital, EUR'000	Reserve capital and other reserves, EUR'000	Retained earnings, EUR'000	Profit for the year, EUR'000	Minority interest, EUR'000	Total, EUR'000
Balance as at 31 December 2004	7 257	24	746	102	0	8 129
Profit for the year	0	0	0	1 982	26	2 008
Minority interest	0	0	0	0	222	222
The profit for 2005 was transferred to the profit for the previous periods	0	0	102	-102	0	0
Issue of shares	3 344	0	0	0	0	3 344
Dividends paid	-	-	-719	0	-	-719
Balance as at 31 December 2006	10 601	24	129	1 982	248	12 984
Profit for the year	0	0	0	2 873	11	2 884
Issue of shares	4 375	0	0	0	0	4 375
The profit for 2006 was transferred to the profit for the previous periods	0	0	371	-371	0	0
Dividends paid	-	-	0	-1 611	-	-1 611
Balance as at 31 December 2007	14 976	24	500	2 873	259	18 632

The fixed exchange rate of the Bank of Latvia is 1 EUR=0.702804 LVL

Consolidated Cash Flows Statement

	31.12.2007 LVL'000	31.12.2006 LVL'000	31.12.2007 EUR'000	31.12.2006 EUR'000
Cash flow from operating activities				
Profit before income tax	2 512	1 633	3 574	2 324
Depreciation and amortization	95	76	135	108
Impairment of financial assets, net	99	-3	141	-4
Unrealized loss from foreign exchange	272	328	387	467
Profit from the sale of PPE	-52	-2	-74	-3
Investment property and other revaluation	-170	-191	-242	-272
Profit from the sale of subsidiaries	-1	0	-1	0
<i>Increase in cash and cash equivalents from operating activities before changes in assets and liabilities</i>	2 755	1 841	3 920	2 620
Changes in loans and receivables	-8 319	-2 784	-11 837	-3 961
Changes in financial assets classified as available-for-sale	-212	617	-302	878
Changes in financial assets classified as trading assets	-3 039	-3 802	-4 324	-5 410
Changes in financial assets classified at fair value through profit or loss	0	83	0	118
Changes in financial assets classified as held-to-maturity financial assets	-78	-43	-111	-61
Changes in prepayments and accrued income	109	-84	155	-120
Changes in other assets	88	-83	125	-118
Changes in other customer deposits	34 239	15 178	48 718	21 596
Changes in financial liabilities held for trading	0	-1	0	-1
Changes in other and tax liabilities	-165	81	-235	115
Changes in deferred income and accrued expense	-24	97	-34	138
<i>Net cash from operating activities before income tax</i>	25 354	11 100	36 075	15 794
Income taxes paid	-220	-124	-312	-175
<i>Increase in cash and cash equivalents from operating activities</i>	25 134	10 976	35 763	15 619
Cash flow from investing activities				
Acquisition of fixed and intangible assets	-351	-130	-499	-185
Proceeds from disposals of fixed and intangible assets	4	7	6	10
Cash flow from other investing activities	191	0	271	0
Acquisition of investments in subsidiaries, net of cash acquired	-3 077	-2 331	-4 378	-3 317
Net value of subsidiaries sale	232	0	330	0
<i>Cash and cash equivalents used in investing activities</i>	-3 001	-2 454	-4 270	-3 492

Cash flow from financing activities				
Issue of shares	3 075	2 350	4 375	3 344
Proceeds from issue of debt securities	7 114	3 513	10 122	4 999
Redemption of notes	0	-2 710	0	-3 856
Dividends paid	-1 132	-505	-1 611	-719
<i>Cash and cash equivalents provided by financing activities</i>	9 057	2 648	12 886	3 768
Net increase in cash and cash equivalents	31 190	11 170	44 379	15 895

The fixed exchange rate of the Bank of Latvia is 1 EUR=0.702804 LVL

1. GENERAL INFORMATION

The Bank was established on 22nd June 2001, when it was incorporated in the Republic of Latvia as a joint stock company. The address of the Bank is Maza Pils iela 13, Riga, LV-1050. The Bank is a commercial bank specialising in the servicing of export and import operations, trade finance and investment management. The Bank operates in accordance with Latvian legislation and the licence issued by the Bank of Latvia.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(1) Statement of compliance

The Bank's financial statements have been prepared in compliance with the EU-endorsed International Financial Standards (IFS) and the Permanent Interpretation Committee's interpretations as well as the Financial and Capital Market Commission's regulations that were in effect at the time of the preparation of the financial statements.

(2) Basis for preparation of the financial statements

The Bank maintains its accounting records in accordance with the legislation of the Republic of Latvia. The Bank's financial year corresponds to the calendar year.

The financial statements are based on the accounting records prepared in accordance with the cost accounting principle or fair value, as appropriate. The financial statements are prepared on a fair value basis for derivative financial instruments, financial assets and liabilities held for trading and available-for-sale assets except those for which a reliable measure of fair value is not available. Other financial assets and liabilities and non-financial assets and liabilities are stated at amortised cost or historical cost.

The accounting policies used in the preparation of the financial statements are consistent with those used in the financial statements for the period ending 31 December 2006.

(3) Foreign currency translation

The currency of the Republic of Latvia – lat (LVL) – is used in the financial statements. All assets and liabilities and off-balance sheet claims and liabilities in foreign currencies are revalued in lats using the end of period exchange rates determined by the Bank of Latvia. Gains and losses arising from revaluation are included in the profit and loss statement for the period, except for differences which arise from the revaluation of available-for-sale elements of the shareholders' equity.

The foreign currency exchange rates for the principal currencies that were used as of the end of the period were as follows:

	As of 31 December 2007	As of 31 December 2006
EUR	0.702804	0.702804
GBP	0.963000	1.048000
LTL	0.204000	0.204000

RUB	0.019700	0.020300
UAH	0.095800	0.106000
USD	0.484000	0.536000

Transactions in foreign currencies are revalued in lats according to the date of the transaction using exchange rates set by the Bank of Latvia.

(4) Going concern

The consolidated and Bank's financial statements have been prepared on a going concern basis, which contemplates the realisation of assets and the satisfaction of liabilities in the normal course of business.

(5) Basis of consolidation

Consolidated financial statements as of 31 December 2006 include financial statements of the Bank and financial statements of the following companies:

Company	State of origin	Company's profile	Share of capital, %
IPAS Baltikums Asset Management	Latvia	Financial services	100.00
SIA Baltikums Līzings	Latvia	Financial services	100.00
AS Pirmais atklātais pensiju fonds	Latvia	Pension fund	99.24

Consolidated financial statements as of 31 December 2007 include financial statements of the Bank and financial statements of the following companies:

Company	State of origin	Company's profile	Share of capital, %
IPAS Baltikums Asset Management	Latvia	Financial services	100.00
SIA Baltikums Līzings	Latvia	Financial services	100.00
AAS Baltikums Dzīvība	Latvia	Insurance services	93.46
SIA "Baltikums Direct"	Latvija	Other services	100.00

Consolidated balance sheet is composed of balance sheets of all subsidiaries, which are controlled by the Group and in where Group has more than half voting rights. Control exists when the company has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. Subsidiaries are consolidated from the date on which effective control is transferred to the Group and are no longer consolidated from the date of disposal.

During consolidation all significant transactions between Group's companies are cancelled.

While consolidating subsidiaries assets and liabilities are revaluated using exchange rates of The Bank of Latvia on balance day. Incomes and losses are recalculated in Latvian lats using average for the year exchange rate on balance date.

(6) Financial instruments

a) Classification:

Financial assets and liabilities at fair value through profit and loss are those that have been designated by the Bank at inception as at fair value through profit and loss and those classified as held for trading. Trading instruments are those that the Bank principally holds for the purpose of generating a profit from short-term fluctuations in the price of the instruments.

Originated loans and receivables are loans and receivables that the Bank has created by providing funds to customers other than those created with the intent to be sold immediately or in the short-term. Originated loans and receivables include loans and advances to banks and customers other than purchased loans.

Held-to-maturity assets are financial assets with fixed or determinable payments and fixed maturity that the Bank has the intent and ability to hold to maturity. These include certain debt instruments.

Available-for-sale assets are financial assets that are not held for trading purposes, originated loans and receivables, or held to maturity.

b) Recognition

Financial instruments are recognized in the balance sheet on a settlement date basis. Originated loans and receivables are recognised on the day they are transferred to or originated by the Bank.

c) Measurement

Financial instruments are measured initially at fair value plus transaction costs if the financial instruments are not at fair value through profit and loss account.

Subsequent to initial recognition, all financial assets and liabilities at fair value through profit and loss and all available-for-sale assets are measured at fair value, except for any instrument that does not have a quoted market price in an active market and whose fair value cannot be reliably measured. These are stated at cost, including transaction costs, less impairment losses. The fair value is assessed based on quoted market prices.

All non-trading financial assets and liabilities, originated loans and receivables and held-to-maturity assets are measured at amortised cost using the effective interest rate method. All such financial instruments are subject to revaluation for impairment.

d) Fair value measurement principles

The fair value of financial instruments is based on their quoted market price at the balance sheet date without any deduction for transaction costs. If a quoted market price is not available, the fair value of the instrument is estimated using pricing models or discounted cash flow techniques.

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate is a market related rate at the balance sheet date for an instrument with similar terms and conditions. Where pricing models are used, inputs are based on market related measures at the balance sheet date.

The fair value of derivatives that are not exchange-traded is estimated at the amount that the Bank/(Group) would receive or pay to terminate the contract at the balance sheet date taking into account current market conditions and the current creditworthiness of the counterparties.

e) Gains and losses on subsequent measurement

Gains and losses arising from a change in the fair value of all financial assets and liabilities at fair value through profit and loss are recognised in the income statement. Gains and losses arising from a change in the fair value of available-for-sale securities are recognised directly in equity. The Bank does not apply hedge accounting.

f) Derecognition

A financial asset is derecognised when the Bank loses control over contractual rights that comprise that asset. This occurs when the rights are realised, expire or are surrendered. A financial liability is derecognised when it is extinguished.

Available-for-sale assets, financial assets and liabilities at fair value through profit and loss, held-to-maturity instruments and originated loans and receivables are derecognised on the day they are transferred by the Bank.

(7) Interest income and expenses

Interest income and expense are recognised in the income statement as they accrue, taking into account the effective yield of the asset/liability or an applicable floating rate. Interest income and expense include the amortisation of any discount or premium or other differences between the initial carrying amount of an interest bearing instrument and its amount at maturity calculated on an effective interest rate basis.

Recognition of interest income is discontinued when there is uncertainty regarding the repayment of interest or principal.

(8) Fee and commission income

Fee and commission income is recognised when earned or incurred.

(9) Investments

Subsidiaries

Subsidiaries are entities in which the Group, directly or indirectly, has power to control or exercise control over financial and operating policies.

Investments in subsidiaries are carried at cost in the Bank's financial statements. The Bank recognizes income from the investment only to the extent that the Bank receives distributions from accumulated profits of the subsidiary arising after the date of acquisition. Distributions received in excess of such profits are regarded as a recovery of investment and are recognized as a reduction of the cost of the investment.

Investments in associates

Associates are those enterprises in which the Bank has significant influence, but not control, over the financial and operational policies. The consolidated financial statements include the Bank's share of the total recognized gains and losses of associates on an equity accounted basis, from the date that significant influence effectively commences until the date that significant influence effectively ceases. When the Bank's share of losses exceeds cost, the carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Bank has incurred obligations in respect of the associate.

(10) Loans

Loans and advances are classified as originated loans and receivables and carried at amortised cost, where cost is defined as the fair value of cash consideration given to originate those loans. Loans are recognized in the balance sheet at the amount of the outstanding value, less impairment for doubtful debts.

The Bank mainly grants commercial and industrial loans to customers.

(11) Impairment

The carrying amounts of the Bank's assets, other than deferred tax assets, are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the assets' recoverable amounts are estimated.

Calculation of recoverable amount

The recoverable amount of the Bank's loans and receivables is calculated as the present value of expected future cash flows, discounted at the original effective interest rate inherent in the asset. The recoverable amount of the Bank's available-for-sale investments is their fair value.

Reversals of impairment

An impairment loss in respect of loans and receivables is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

(12) Interest bearing borrowings

Interest-bearing borrowings are recognised initially at fair value, net of any transaction costs incurred. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings.

When borrowings are repurchased or settled before maturity, any difference between the amount repaid and the carrying amount is recognised immediately in the income statement.

(13) Depreciation and amortisation of fixed and intangible assets

Fixed assets and intangible assets are recorded at cost, less accumulated depreciation. Depreciation is calculated on a straight-line basis. Based on the useful lives of fixed assets, the following rates are applied:

Intangible assets	20%
Furniture and equipment	20%
Computers	25%
Other	20%

Gains and losses on disposals of fixed assets are recognised in the profit and loss statement in the period of disposal.

Useful lives, residual values and depreciation methods are reviewed annually.

(14) Cash and cash equivalents

Cash and cash equivalents are composed of cash and amounts due from the Bank of Latvia and other credit institutions on demand, and deposits in other credit institutions with a maturity less than 3 months less balances due to other credit institutions with a maturity less than 3 months.

(15) Off-balance-sheet items

Off-balance-sheet items include guarantees, letters of credit and unused credit lines provided to customers as well as unused limits of credit cards.

(16) Corporate income tax

Corporate income tax at the rate of 15% is calculated by the Bank in accordance with the Latvian tax regulations.

Deferred tax is recognized using the balance sheet liability method, taking into account temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax calculated is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates applied or substantially applied at the balance sheet date.

The deferred tax asset is acknowledged only in those cases when the expected taxable profit is likely to be reduced through the usage of temporary differences.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. Deferred tax assets are reduced by the amount that is not probable that the related tax benefit will be realized.

(17) Provisions

A provision is recognised in the balance sheet when the Bank has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

(18) Assets under management

Assets managed by the Bank on behalf of customers are not treated as assets of the Bank. The Bank assumes no risk on the assets.

A significant amount of managed assets are involved in repurchase (repo) transactions with other commercial banks. The Bank discloses on the balance sheet amounts due to credit institutions for cash received in repo transactions and the amounts due from the providers of liabilities under management as loans granted.

(19) Repo transactions

Repo transactions are recognized as financing transactions.

When the Bank is the seller of securities, securities are continued to be recognized on the balance sheet. Proceeds from the sale are recognized as a liability to the purchaser of the securities.

When the Bank is the purchaser of securities, the purchased securities are not recognized on the balance sheet. The amount paid for securities is recognized as a loan provided to the seller. The Bank is involved in two types of such transactions – classic repo and buy/sell back transactions.

The result of repo and buy/sellback transactions is recognized in the profit and loss statement as interest income or expense according to the accrual principle.

(20) Net profit from insurance

Net profit from insurance (is included in another operating income) includes earned insurance premiums, changes in life insurance reserves less reinsurer's part in such changes in life insurance reserves, and insurance claims paid less reinsurer's part in such insurance claims paid.

Net earned premiums are obtained from subscribed premiums less amounts transferred to reinsurers and changes in unearned premium reserves. Subscribed premiums under life insurance contracts with regular payments are equal to the total premium for the current insurance year regardless of their payment dates. Subscribed premiums are decreased by the premiums cancelled and terminated over the accounting year. Insurance receivables, which result from the difference between subscribed and received premiums, are included in loans. Subscribed premiums under life insurance contracts with non-regular payments are recognized as of the moment of their receipt and are equal to the received premiums.

Insurance claims paid are calculated as claims paid less gross reinsurer's share.

The concern maintains investment assets on a continuous basis in order to cover its insurance liabilities under insurance contracts. Such investment assets include investment securities at their fair value with revaluation result included in the profit and loss account, and investment properties. Income from such investment assets is disclosed in the relevant items of the consolidated profit and loss account. Insurance sales commissions paid out to sales agents and brokers are included in expenses for the period when the same are incurred. They are included in the fees and commissions expenses. Administrative expenses, including payments to the Financial and Capital Market Commission and the Insured Protection Fund, as well as depreciation are disclosed in the relevant items of the consolidated profit and loss account.

(21) Insurance liabilities

Insurance liabilities that result from life and accident insurance contracts are composed of life insurance reserves, reserves for unearned premiums and unpredictable risks, and reserves for deferred insurance claims.

Life insurance reserves reflect existing liabilities against insureds under life insurance contracts. Life insurance reserves are determined for each life insurance contract according to calculations made by actuaries. Prospective method is applied to contracts with regular payment schedule (the reserve equals the difference between the present value of the insurer's liabilities and the present value of future premium income). Retrospective method is applied to contracts with non-regular payment schedule (reserves equal the amount of paid-in accrued premiums less deductions set out in contracts and plus accrued guaranteed interest pursuant to the contract). Life insurance reserves also include reserves for deferred life insurance claims.

Reserves for unearned premiums and unpredictable risks reflect deferred income from non-life insurance contracts according to the share of gross subscribed premiums that refers to the period from the balance sheet date to the end date of insurance contracts, in order to cover all claims and expenses related to existing insurance contracts.

Reserves for deferred claims reflect the amount of claims that have been filled but have not been paid out, as well as the amount of claims that have been assessed and have occurred but have not

been filled. Claims reserves are also formed for direct expenses for claims settlement that will be required for settlement of insurance events that have occurred over the accounting and earlier years.

(22) Basis for comparison

When necessary the previous financial year's indicators have been reclassified to be comparable with those for the reporting year.

3. RISK MANAGEMENT

The Bank pays significant attention to risk identification and management. The most significant risks to which the Bank is exposed to are credit risk, interest rate risk, liquidity risk, foreign exchange risk, operational and reputational risk.

Risk management principles are set forth in the Bank's risk management policies which are approved by the Council. Financial Analysis and Risk Management Department, the Asset and Liability committee, Credit committee and Anti Money Laundering committee are responsible for ensuring the implementation of the risk management policies.

(1) Credit risk

Credit risk is the risk of potential losses resulting from non-fulfilment of contractual obligations by the Bank's debtor or counterparty.

Credit risk is managed in accordance with the Credit risk management policy approved by the Council. This policy details the basic principles of credit risk management, identification, assessment, restriction and control.

The management of risks related to ordinary loans involves assessment of the potential borrower's credit standing that is performed by the Financial Analysis and Risk Management Department. Decisions on granting loans are made by the Credit Committee based on the above analysis and evaluation of collateral. Subsequent to loan granting, the Financial Analysis and Risk Management Department performs a regular analysis of the borrower's financial position, which enables the Bank to take prompt action in the case of deterioration of the borrower's financial position.

Credit risk that is related to inter-bank operations (or operations with financial institutions), including the credit risk related to inter-bank settlements, is controlled by the Asset and Liability Committee that sets limits for transactions with each counter party.

The Bank monitors the concentration of significant balance sheet and off balance items' credit risk by geographical regions (i.e., countries, groups of countries, specific regions within the countries etc), client groups (i.e., central governments, local authorities, state enterprises, private enterprises, private individuals, etc) and industries.

(2) Foreign exchange risk

Foreign exchange risk is the risk of potential losses as a result of the revaluation of balance sheet and off-balance sheet items denominated in foreign currencies.

The Bank continuously monitors the open positions of foreign currencies and regularly assesses the structure of assets and liabilities by currency. In order to improve the currency structure of its

balance sheet, the Bank issued bonds in EUR currency, taking into account the increasing share of EUR denominated assets.

The Asset and Liability Committee sets limits for the open position in each currency providing an acceptable overall level of foreign currency risk.

(3) Interest rate risk

Interest rate risk is the risk of potential losses the Bank may incur as a result of interest rate fluctuations.

For the purpose of controlling the interest rate risk, the Asset and Liability Committee performs regular analysis of assets and liabilities by maturity and type of interest.

(4) Liquidity risk

Liquidity risk is the risk of potential losses as a result of sales of assets or acquisition of resources at unfavourable prices in order for the Bank to fulfil its liabilities to creditors.

Liquidity risk management is based on the analysis of the structure of assets and liabilities performed by the Bank's Financial Analysis and Risk Management Department. That includes the analysis of dynamics in customer funds by customer group and assessment of the possibilities of external borrowing. Based on this information, the Asset and Liability Committee monitors the Bank's ability to fulfil all its commitments. Operating short-term liquidity management, i.e. attraction and placement of resources, in the Bank is performed by the Resources Department of the Bank based on the short-term liquidity forecast.

(5) Country risk

Country risk is the risk of potential losses arising from transactions with residents of foreign countries (or their securities) due to changes in the economic, political, and legal environment of the respective countries.

Before entering into transactions with residents of foreign countries, the Bank performs an assessment of the influence of economic, social, political and legal circumstances on the residents' ability to fulfil their obligations.

(6) Operational risks

The Bank's organizational structure, precise job specifications, clear division of responsibilities as well as control procedures allow the Bank to monitor operational risks. The Bank has also developed an action plan for various crisis situations.

The Bank has set up an independent "Internal audit service" (IAS) with its main functions to ensure that the Bank's activities comply with existing legislation, approved plans, policies and other internal Bank documents and to monitor the compliance of the Bank's department activities with internal control procedures.

(7) Reputational risk

The Bank recognizes the importance of preventing of money laundering and preventing of terrorism financing. Reputation risk management department was set up in the Bank to implement an internal control system, which monitors the timely control of clients and

their business partners. IAS regularly monitors execution of money laundering and terrorism financing prevention policy and procedures.

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