AS Latvijas Krājbanka

Consolidated Annual Report

for the year ended 31 December 2006

This Consolidated Annual Report reflects the Consolidated annual report dated 20 March 2007 in euro currency.
The report has informative character.

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The Bank has finished an active year, full of positive changes. The winners were both the shareholders of our Bank, as well as the clients and the whole banking market in total. *Latvijas Krājbanka* (Latvian Savings Bank) is the oldest commercial bank in the country, being founded in 1924. The Bank's long history and stable activities is successfully used in taking care of its dynamic development of the modern market conditions. Changes, that have occurred in the Bank's management and personnel, have brought the first yield - Latvijas Krājbanka has spent another successful financial year by showing the highest profit ratio in the history of its existence.

New management and targets

The last year 2006 was the first full financial year after the change of key shareholders and management of the Bank, including material changes in the composition of the Board of the Bank. The Chairman of the Board of Krājbanka became the former head of the Chancellery of the President of the State Mr. Mārtiņš Bondars by bringing in new dimensions in the Bank's targets and attempts to improve in the modern market conditions and on behalf of the Bank's existing and potential clients.

The clear vision about the Bank's targets and directions in the market has already brought the first yield. The Bank has become a more dynamic and more active market player in the Latvian and international financial market. The financial results for 2006 convincingly confirm the correctness of the selected strategy. The initial planned profit ratios have been significantly exceeded. Moreover, if the Bank started the year 2006 with 73 client service centres, then on the last day of the year this number was already 81 confirming the Bank's undertaking to purposefully regain the positions lost in the previous years.

Financial ratios

The auditED profit after taxes of the Krājbanka group in 2006 reached EUR 5 764 thousand, which is by EUR 1 998 thousand or 53% more than in 2005. The amount of the Krājbanka group's assets in 2006 increased by EUR 232.57 million or 67.6% (from EUR 343.89 million to EUR 576.46 million). But, the growth of the balance of deposits in 2006 made up EUR 177.59 million or 62% (from EUR 286.47 million to EUR 464.06 million), but the growth of granted loans – EUR 54.98 million or 25.4% (from EUR 216,67 million to EUR 271.65 million).

Overall the speed of growth of Krājbanka's profit, assets and deposits in 2006 exceeded the respective ratios of growth in the banking sector.

The growth of the Krājbanka group's profit in 2006 promoted the growth of net interest income by EUR 4 412 thousand or 37.1% and the growth of net commission income by EUR 367 thousand or 5.5%. The Bank's financial results for 2006 were positively influenced also by the high credit portfolio quality. Compared to the year 2005, the income from Krājbanka group's reversal of loan loss impairment increased by EUR 249 thousand or 35.6%, but expenses for loan loss impairment decreased by EUR 1 143 thousand or 40.4%. The ratio between special allowances for loan loss imapirment and gross amount of loans in 2006 decreased from 1.81% to 1.47%.

The portfolio of consumption loans has doubled, the total growth is 112%. In the area of mortgage loans, the growth was comparatively lower. At the year-end the amount of the mortgage loan portfolio was EUR 82.5 million. Compared to the beginning of the year, it is a growth of 45%. In the business crediting area the amount of the portfolio reached EUR 107 million.

Irrespective of the existing strong competition in the Latvian commercial banks sector, Krājbanka retains a stable market position. Compared to the status at the year-end of 2005, Krājbanka's market share according to assets grew from 2.2% to 2.6%, but the market share according to deposits – from 3.2% to 4.2%.

Major achievements and decisions in 2006

In 2006, the works on the new administrative building of Latvijas Krājbanka were rapidly moving to a finish. The new building will be fully used for the structural units of the Bank by providing an effective communication and decision-making process in the mutual cooperation among offices.

When improving the Bank's services in the financial instruments market, as well as expanding new products and services in this area, Latvijas Krājbanka from 50% to 100% has increased its partnership in the so far partially owned company AS "*Investment pārvaldes sabiedrība "Astra Krājfondi"*" (Investment management company). Also an asset management company "LKB Asset Management" has been founded.

A decision has been made about involvement in the leasing service market and preliminary works have been carried out for establishment of a company "LKB līzings".

Together with the opening of the first mini client service centre – a minibank in April, a wide scope network expansion project has been started. During the project, in tens of Latvian settlements glass pavilions will be set up – the so-called minibanks. During working hours, all banking services will be provided there, but automatic teller machines will be available 24 hours a day.

In 2006, also the Bank's share capital was increased. It was done on the basis of the subordinated capital – by EUR 5.4 million, as well as by making a decision about an additional share issue (the emission was started at the end of 2006, but finished already in 2007). Thus the Bank's capitalization is increased and it will allow not only strengthening the Bank's positions in the market, but also involving in larger business projects.

In 2006, also preparatory works have been started for the issue of Krājbanka mortgage notes, which with good success was realized already at the beginning of 2007.

Major news in Bank's products and services
The Bank has good news in the area of the financial instruments market. Since September 8, 2006 Krājbanka offers its clients the *marginal* trade platform "OnlineTrader", which permits to carry out transactions with more than 50 currency pairs, as well as make CFD transactions with shares (agreement on price difference), indexes, bonds and raw materials.
Meanwhile, cooperation has been expanded with the top players in the world financial market. Krājbanka is one of the few Latvian banks, which offer its clients the services of "Franklin Templeton Investments" investment funds manager. The Bank's clients are welcome to use the conservative, balanced and aggressive investment funds of the respected cooperation partner.
Also the number and amount of currency transactions has materially increased in Krājbanka. Clients are also offered beneficial terms for future and swap currency agreements.
Krājbanka group's company "Astra Krājfondi" has received licenses from the Financial and Capital Market Commission for two investment funds: "LKB Obligāciju fonds" and "LKB sabalansētais fonds".
The Bank's major successes during the last year were certainly the good results in the client acquisition area related to the state-funded pension second level management plans. The second level pension management plans at the end of 2006 were one of the most profitable in the market. Therefore "Astra Krājfondi" became the fourth largest private pension second level asset manager in Latvia. But, in reaction to client interest, the number of pension plans offered to the clients was expanded. Two new state-funded pension scheme pension plans were offered in the market – the balanced plan "Komforts" and the active pension plan "Ekstra plus". It was not long to wait before the pension plan "Komforts" reached the best profitability ratios since the start of operations among all balanced plans.
Interbank agreements have been signed on the use of automatic teller machines (ATM) and the ATM networks have been joined with "Snoras Banks" (Lithuania) and "Konversbank-Moskva" (Russia).
During the last year Krājbanka installed 15 new cash machines, thus at the year-end Latvijas Krājbanka had 143 cash machines in the whole country, and it is the third largest ATM network in Latvia.
Last year, considerably increased the growth of transferred gross premiums for insurance services provided by "Latvijas Krājbankas" to the group "Grazer Wechselseitige Versicherandg Aktiengellschaft" (GRAWE), which is one of the largest insurance groups in Europe. The amount of gross premiums by 3.7 times exceeded the results of 2005, but the number of insurance policies issued increased by 2.6 times.

Future vision
The Bank has announced ambitious plans – to continue increasing the profit and regain its positions in the market of Latvian banking services.
In 2007, the Bank will purposefully strengthen its positions in the market, especially in the corporate clients sector. Meanwhile, to support the Bank's motto "Tava tuvākā banka" (Your closest bank), the Bank will expand its network both by means of minibanks, as well as full scope client service centres.
Latvijas Krājbanka will continue to develop remote service areas by ensuring more convenient and faster services on the telephone, as well as diversifying the options of the Bank's electronic settlement system. The Bank has started preliminary work to ensure that a client has a possibility to apply to the second level pension plan, as well as other Bank's services by means of the Internet bank.
The Bank will actively continue to grow the amount of credit portfolios. Following market tendencies and given the Bank's plans, the major growth is expected exactly in the scope of business crediting. This complies with the growth of Krājbanka's planned activities in the corporate clients segment.
The Bank actively takes part also in public activities, especially in the supporting of sport and cultural events. In 2006, Krājbanka supported both the Valmiera basketball club, as well as the "Speedway" cup in Daugavpils, as well as the winners of the prestigious international competitions – the choir "Kamēr". Thanks to this cooperation, at the end of the year the public received a music disc of the choir "Kamēr" and jazz singer Intars Busulis who sings popular songs of the composer Maestro Raimonds Pauls under the name "Ērģeles naktī" (Organ in the Night). Dynamic Bank activities in the public arena are expected also in 2007.

Yours faithfully,

Raimondas Baranauskas Chairman of the Council	Mārtiņš Bondars Chairman of the Board/ President

Riga,
20 March 2007

SUPERVISORY COUNCIL AND MANAGEMENT BOARD OF THE BANK

As at the date of signing these financial statements, the members of the Supervisory Council of the Bank were as follows:

Supervisory Council

Name, surname	***Position***	***Date of appointment/ Reappointment***
Raimondas Baranauskas	Chairman of the Council	28/10/2005/ 29/09/2006
Aleksandrs Antonovs	Deputy Chairman of the Council	28/10/2005/ 29/09/2006
Naglis Stancikas	Member of the Council	28/10/2005/ 29/09/2006
Oļegs Suhorukovs	Member of the Council	28/10/2005/ 29/09/2006
Veronika Doļenko	Member of the Council	28/10/2005/ 29/09/2006

Based on the shareholder meeting minute dated 29/09/2006 the number of Council members were reduced from 6 to 5 and Vilis Dambiņš were not reappointed.

There have been no other changes in the composition of the Supervisory Council from 31 December 2006 until the date of signing these financial statements.

SUPERVISORY COUNCIL AND MANAGEMENT BOARD OF THE BANK

As at the date of signing these financial statements, the members of the Management Board of the Bank were as follows:

Management Board

Name, surname	***Position***	***Date of appointment***
Mārtiņš Bondars	Chairman of the Board / President	03/07/2006
Dzintars Pelcbergs	First Deputy Chairman of the Board / First Vice President	02/01/2006
Svetlana Ovčiņņikova	Member of the Board	19/06/2006
Andrejs Surmačs	Member of the Board	28/10/2005
Ēvalds Trukšāns	Member of the Board	27/12/2005
Jānis Tukāns	Member of the Board	13/04/2006

Changes in the composition of the Management Board of the Bank from 1 January 2006 until the date of signing these financial statements

During the reporting period the following members of the board receded

Name, surname	***Position***	***Date of recede***
Andris Nātriņš	Chairman of the Board / First Vice President	26/06/2006
Valts Vīgants	Member of the Board	15/03/2006
Gints Bukovskis	Member of the Board	16/06/2006

There have been no other changes in the composition of the Management Board from 31 December 2006 until the date of signing these financial statements.

Appointment and dismissal of the Board members can be made in accordance with Commercial law and statutes of the Bank. The Council has right to appoint and dismiss the Board members. Board members are elected to the 3 year period and the Council elects the chairman and the first deputy chairman of the Board from Board members.

The Board manages the Bank in accordance with laws, statutes and decisions of the shareholders. The Council approval is necessary for certain Board decisions. They refer to approval of policies, budget, operation with real estate, opening of the branch and representative offices, acquisition and disposal fully or partly of investment in associates and making decisions that is in the scope of the associate's shareholders, loan policy for employees, appointment and dismissal of the Board members in associates, remuneration of the employees in internal audit.

The Board do not have rights to make the decisions regarding any issuance or buy back of Bank's shares. This is the scope of the shareholder's meeting.

STATEMENT OF RESPONSIBILITY OF THE MANAGEMENT

The Management of AS Latvijas Krājbanka (hereinafter - the Bank) is responsible for the preparation of the financial statements of the Bank.

The financial statements on pages 8 to 45 are prepared in accordance with the source documents and present fairly the financial position of the Bank as at 31 December 2006, the results of its operations, changes in shareholders' equity and cash flows for the year then ended.

The financial statements are prepared in accordance with International Financial Reporting Standards as adopted by European Union on the going concern basis. Appropriate accounting policies have been applied on a consistent basis. Prudent and reasonable judgment and estimates have been made by the Management in the preparation of the financial statements.

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

Raimondas Baranauskas
Chairman of the Council

Mārtiņš Bondars
Chairman of the Board/ President

Riga,
20 March 2007

EUR '000 0.702804	Notes	Group 2006	Group 2005 (restated)	Bank 2006	Bank 2005 (restated)
Interest income	4	25,952	18,265	25,952	18,254
Interest expense	4	(9,650)	(6,376)	(9,661)	(6,380)
Net interest income		16,302	11,889	16,291	11,874
Commission and fee income	6	9,442	8,769	9,390	8,747
Commission and fee expense	6	(2,429)	(2,121)	(2,426)	(2,114)
Net commission and fee income		7,013	6,648	6,964	6,633
Dividend income		-	-	9	-
Profit on sale of securities and foreign exchange trading	7	3,096	3,715	3,102	3,701
Other operating income	8	1,448	1,101	1,448	1,101
Operating income		27,859	23,353	27,814	23,309
Personnel expense	9	(10,341)	(8,273)	(10,292)	(8,251)
Depreciation and amortisation expense	22, 23	(2,436)	(2,336)	(2,429)	(2,332)
Other operating expenses	10	(7,664)	(6,319)	(7,582)	(6,308)
Total operating expenses		(20,441)	(16,928)	(20,303)	(16,891)
Impairment losses	11	(1,687)	(2,830)	(1,688)	(2,830)
Reversal of impairment losses	11	949	700	949	700
Profit before corporate income tax		6,680	4,295	6,772	4,288
Corporate income tax	12	(930)	(529)	(930)	(529)
Profit for the reporting year		5,750	3,766	5,842	3,759
Attributable to:					
Shareholders of the Bank		**5,750**	**3,761**	**5,842**	**3,759**
Minority		**-**	**5**	**-**	**-**
Basic earnings per share (in euro per share)	13	0,631	0,414	0,642	0,413
Diluted earnings per share (in euro per share)	13	0,488	0,323	0,495	0,323

The accompanying notes on pages 12 to 45 form an integral part of these financial statements.

EUR '000 0.702804	Notes	Group 31.12.2006	Group 31.12.2005 (restated)	Bank 31.12.2006	Bank 31.12.2005 (restated)
Assets					
Cash and deposits with the central bank	14	99,116	40,573	99,116	40,570
Balances due from credit institutions and the central bank	15	141,709	24,024	141,709	24,022
Loans and advances to customers	16	271,653	216,679	271,852	216,679
Financial assets at fair value through profit or loss	17	25,010	22,827	25,010	22,620
Held-to-maturity investments	19	20,625	23,897	20,625	23,897
Investment in associate	20	-	-	-	172
Investment in subsidiary	20	-	-	691	7
Intangible assets	22	1,289	1,181	1,118	1,178
Fixed assets	23	14,782	13,376	14,740	13,367
Prepayments and accrued income		578	487	578	487
Other assets	24	1,692	850	1,645	845
Total assets		576,454	343,894	577,084	343,844
Liabilities					
Balances due to the central bank and credit institutions	25	66,007	23,179	66,007	23,179
Deposits from the customers	26	464,061	286,465	464,633	286,603
Derivative liabilities	18	361	121	361	121
Deferred income and accrued expenses	27	1,817	1,234	1,817	1,232
Deferred tax liability	12	1,074	1,195	1,074	1,195
Corporate income tax liability	28	1,022	662	1,022	662
Other liabilities	28	592	532	566	525
Subordinated debt	29	10,921	5,499	10,921	5,499
Total liabilities		545,855	318,887	546,401	319,016
Shareholders' equity					
Paid-in share capital	30	12,957	12,957	12,957	12,957
Share premium	30	1,882	1,882	1,882	1,882
Reserve capital and other reserves	30	891	891	891	891
Revaluation reserve	30	4,040	4,027	4,040	4,027
Retained earnings		5,079	1,312	5,071	1,312
Net income		5,750	3,761	5,842	3,759
Total issued capital and reserves attributable to equity holders of the parent		30,599	24,830	30,683	24,828
Minority interest		-	177	-	-
Total shareholders' equity and minority interest		30,599	25,007	30,683	24,828
Total liabilities and shareholders' equity		576,454	343,894	577,084	343,844

The accompanying notes on pages 12 to 45 form an integral part of these financial statements.

Group **EUR '000** **0.702804**	**Notes**	**Paid-in share capital**	**Share premium**	**Reserve capital and other reserves**	**Revaluation reserve**	**Retained earnings**	**Minority interest**	**Total shareholders' equity and minority interest**
Balance as at 31 December 2004		**12,957**	**1,882**	**891**	**545**	**2,183**	**172**	**18,630**
Adjustment in the result of changes in accounting policies*		-	-	-	-	(871)	-	(871)
Balance as at 31 December 2004 (restated)		**12.957**	**1,882**	**891**	**545**	**1,312**	**172**	**17,759**
Revaluation charged**		-	-	-	3,482	-	-	3,482
Net profit for the year		-	-	-	-	3,761	5	3,766
Balance as at 31 December 2005	30	**12,957**	**1,882**	**891**	**4,027**	**5,073**	**177**	**25,007**
Adjustment in the result of minority interest elimination (Note 21)		-	-	-	-	6	(177)	(171)
Reversal of deferred tax from revaluation reserve		-	-	-	13	-	-	13
Net profit for the year		-	-	-	-	5,750	-	5,750
Balance as at 31 December 2006	30	**12,957**	**1,882**	**891**	**4,040**	**10,829**	**-**	**30,599**

Bank **EUR '000** **0.702804**	**Notes**	**Paid-in share capital**	**Share premium**	**Reserve capital and other reserves**	**Revaluation reserve**	**Retained earnings**	**Total shareholders' equity**
Balance as at 31 December 2004 (reported)		12,957	1,882	891	545	2,183	18,458
Adjustment in the result of changes in accounting policies*		-	-	-	-	(871)	(871)
Balance as at 31 December 2004 (restated)		12,957	1,882	891	545	1,312	17,587
Revaluation charged**		-	-	-	3,482	-	3,482
Net profit for the year						3,759	3,759
Balance as at 31 December 2005	30	12,957	1,882	891	4,027	**5,071**	**24,828**
Reversal of deferred tax from revaluation reserve		-	-	-	13	-	13
Net profit for the year		-	-	-	-	5,842	5,842
Balance as at 31 December 2006	30	12,957	1,882	891	4,040	**10,913**	**30,683**

*See also Note 2 (aa).

** The bank Revaluated all of its property under "Land and Buildings" As the result the revaluation reserve was increased by the revaluated amount with deduction of deferred tax effect. In subsequent years due to amortization of fixed assets the revaluation reserve was increased by the amortization of deferred tax effect.

The accompanying notes on pages 12 to 45 form an integral part of these financial statements.

EUR'000 0.702804	Notes	Group 2006	Group 2005 (restated)	Bank 2006	Bank 2005 (restated)
Operating activities					
Result before corporate income tax		6,680	4,295	6,772	4,289
Depreciation and amortisation	22, 23	2,436	2,336	2,429	2,332
Increase in provisions for liabilities and charges		43	758	43	758
Gain on revaluation of foreign currency		390	(212)	390	(212)
Gain on revaluation of investments		322	(1,171)	322	(1,171)
Minority interest		(6)	-	-	-
Loss / (gain) from disposal of fixed assets, net	8, 10	48	(14)	48	(13)
Increase in cash and cash equivalents before changes in assets and liabilities, as a result of ordinary operations		**9,913**	**5,992**	**10,004**	**5,983**
Increase/(decrease) in deferred income and accrued expenses		583	(1,784)	585	(1,784)
(Increase) / decrease in prepayments and accrued income		(91)	2,127	(91)	2,133
Net decrease in derivative instruments	18	182	81	182	81
(Increase) / decrease in other assets		(81)	2,832	(39)	2,833
(Decrease) in other liabilities		(407)	(4,805)	(259)	(4,988)
(Decrease) / increase in financial assets fair value though profit or loss		(2,446)	26,872	(2,654)	26,912
Increase / (decrease) in financial assets held to maturity		3,273	(23,897)	3,273	(23,897)
(Increase) in balances due from the central bank and credit institutions		(6)	(4,207)	(6)	(4,215)
(Increase) in loans and advances to non-banking customers	16	(55,025)	(44,876)	(55,225)	(44,872)
(Decrease) in balances due to the central bank and credit institutions		-	(620)	-	(620)
Increase in deposits from the public		177,596	61,670	178,030	61,802
Net increase in cash and cash equivalents from operating activities		**133.491**	**19,385**	**133,800**	**19,368**
Paid income tax		(1,282)	(249)	(1,282)	(249)
Net increase in cash and cash equivalents		132,209	19,136	132,518	19,119
Cash inflow/ outflow from investing activities					
(Purchase) of fixed and intangible assets	22, 23	(4,427)	(1,330)	(4,217)	(1,317)
Proceeds from disposal of fixed and intangible assets		582	236	427	236
Investment in associate and subsidiary, net	21	-	-	(360)	-
Increase in cash and cash equivalents from investing activities		**(3,845)**	**(1,094)**	**(4,150)**	**(1,081)**
Cash inflow from financing activities					
Proceeds from issue of subordinated debt		5,421	5,499	5,421	5,499
Repayment of subordinated debt		-	(4,842)	-	(4,842)
Increase in cash and cash equivalents from financing activities		**5,421**	**657**	**5,421**	**657**
Net increase in cash and cash equivalents		**133,785**	**18.699**	**133,789**	**18.695**
Cash and cash equivalents at the beginning of the year	**33**	**37,219**	**18,308**	**37,215**	**18,308**
Profit/(loss) from revaluation of foreign currency positions		(390)	212	(390)	212
Cash and cash equivalents at the end of the year	**33**	**170,614**	**37,219**	**170,614**	**37,215**

The accompanying notes on pages 12 to 45 form an integral part of these financial statements.

1. INCORPORATION AND PRINCIPAL ACTIVITIES

JSC Latvijas Krājbanka (hereinafter – the Bank) and its subsidiaries provides retail and corporate banking services. The Bank was founded in 1924 as Latvijas Pasta Krājbanka (*Latvian Post Savings Bank*). In June 1940 it was reorganized and included into the structure of the USSR Savings Bank. Until 1991 the main task of the Bank was to attract financial resources and service them within the framework of the Soviet banking system.

On 3 September 1991 the Supreme Council of the Republic of Latvia decided to re-establish AS Latvijas Krājbanka. AS Latvijas Krājbanka took over all rights of the former USSR National Savings Bank and on 15 October 1992 received a license to perform banking operations. The Bank was registered in the Enterprise Register of the Republic of Latvia on 16 October 1992, as a state owned commercial bank. On 29 March 1994 the Bank was re-registered as a state joint-stock company Latvijas Krājbanka. In accordance with the Order of the Cabinet dated 18 January 1996, the state joint stock company Latvijas Krājbanka was included into the list of entities to be privatized. During the first phase of the privatization process in 1997, the Bank was merged with Rīgas Apvienotā Baltijas banka (Union Baltic Bank in Riga). During the subsequent public offering the shares of the Bank were purchased by residents of Latvia using privatization certificates. On 20 September 2005, Snoras, one of the largest commercial banks in Lithuania, purchased an 83.01% shareholding and became the major shareholder of the Bank. Since Snoras belongs to the Conversbank Group, the Bank's financial statements are consolidated in the financial statements of the Conversbank Group.

As at 31 December 2006, the Bank had customers' service centers in all regions of Latvia:

Region	*Customer service centers*	
Riga	38	(34)
Vidzeme, except Riga	13	(12)
Latgale	12	(11)
Kurzeme	11	(10)
Zemgale	7	(6)
Total	**81**	**(73)**

The comparatives for 2005 are disclosed in brackets.

The financial statements of the Bank for the year ended 31 December 2006 were approved by a resolution of the Bank's Board on 20 March 2007. The Bank's shareholders have the power to amend the financial statements after issue.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A summary of the principal accounting policies consistently applied (unless otherwise stated) throughout the years ended 31 December 2006 and 2005, is set out below:

a) Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as endorsed by the European Union and the Latvian Financial and Capital Market Commission's "Regulations on the preparation of annual reports and annual consolidated accounts for banks, investment brokerage firms and investment management companies".

b) Basis of preparation

The consolidated financial statements have been prepared on a historical cost basis, except for land and buildings that are presented in revalued amounts and derivative financial instruments and financial assets and financial liabilities held at fair value through profit or loss, that have been measure at fair value.

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 2005, except for the adoption of the following amendments mandatory for annual periods beginning on or after 1 January 2006:

- IAS 39 - *Financial Instruments: Recognition and Measurement* ("IAS 39") - Amendment for financial guarantee contracts - which amended the scope of IAS 39 to include financial guarantee contracts issued. The amendment addresses the treatment of financial guarantee contracts by the issuer. Under IAS 39 as amended, financial guarantee contracts are recognised initially at fair value and generally remeasured at the higher of the amount determined in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* and the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with IAS 18 *Revenue*;
- IAS 39 - Amendment for hedges of forecast intragroup transactions - which amended IAS 39 to permit the foreign currency risk of a highly probable intragroup forecast transaction to qualify as the hedged item in a cash flow hedge, provided that the transaction is denominated in a currency other than the functional currency of the entity entering into that transaction and that the foreign currency risk will affect the financial

statements;

- IAS 39 - Amendment for the fair value option - which restricted the use of the option to designate any financial asset or any financial liability to be measured at fair value through profit and loss;
- IAS 19 - Amendment regarding employee benefits (actuarial gains and losses, group plans and disclosures);
- IFRIC 4 *Determining Whether an Arrangement Contains a Lease*;
- IFRIC 5 Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds.

The accompanying financial statements are reported in thousands of Euro (EUR' 000), unless stated otherwise.

c) Basis of consolidation

The consolidated financial statements comprise the financial statements of the Bank as at and for the year ended 31 December 2006 and 2005. The Bank has consolidated its subsidiaries as disclosed in Note 20. Subsidiaries are consolidated from the date on which the control is transferred to the Bank. Control is achieved when the Bank has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

In preparing the consolidated financial statements, respective items have been evaluated in accordance with the uniform accounting policies and valuation principles applied by the Bank in conformity with the requirements of the Financial and Capital Market Commission and International Financial Reporting Standards. The subsidiaries' financial statements are included in the Group's consolidated financial statements based on the full consolidation method.

All items in the Bank's and Group's financial statements have prior year comparatives. Should the difference between information on the Group and that on the Bank be insignificant, such information on the Group is not separately presented.

d) Income and expense recognition

Interest income and expenses are recognized in the income statement on an accrual basis using the effective interest rate. Interest income includes various fixed payments, coupons earned on fixed income investments and trading securities and accrued discount and premium on treasury bills and other discounted investments. Fees and commissions and other income are credited to income when related transactions are completed. Non-interest expenses are recognized at the time the transaction occurs.

e) *Foreign currency translation*

Transactions denominated in foreign currencies are recorded in lats at the actual rates of exchange published by the Bank of Latvia at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into lats at the rate of exchange prevailing at the year-end. Any gain or loss resulting from a currency rate fluctuations subsequent to the date of the transaction is included in the income statement as a profit or loss from revaluation of foreign currency positions.

The principal foreign exchange rates (LVL to 1 foreign currency unit) published by the Bank of Latvia and used in the preparation of the Bank's balance sheet were as follows:

Reporting date	USD	EUR
As of 31 December 2006	0.536000	0.702804
As of 31 December 2005	0.593000	0.702804

f) Corporate income tax

Corporate income tax at the rate of 15% (2005:15%) is calculated in accordance with Latvian tax regulations and is based on the taxable profit reported for the taxation period.

Deferred taxes are provided for all temporary differences between the tax base of an asset or liability and its carrying amount in the balance sheet. The tax base of an asset or liability is the amount attributed to that asset or liability for tax purposes. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using future tax rates enacted at the balance sheet date. Deferred tax liabilities arising from revaluation of fixed assets are disclosed in fixed assets revaluation reserve.

Deferred tax assets are 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 to the extent that it is no longer probable that the related tax benefit will be realized.

g) Earnings per share

Earnings per share are calculated by dividing the attributable profit for the year by the weighted average number of shares in issue during the year.

For the purpose of calculating diluted earnings per share, the net profit attributable to ordinary shareholders and the weighted average number of shares outstanding are adjusted for the effects of all dilutive potential ordinary shares (subordinated debt).

h) Impairment of financial assets

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount. The recoverable amount is the greater of the following amounts: the market value which can be recovered from the sale of an asset under normal conditions, net of selling costs, or the estimated future economic benefits arising from the use of the asset. The largest components of the Group's assets are periodically tested for impairment and temporary impairments are provisioned through the profit and loss account "Impairment loss".

i) Originated loans and provisions for loan impairment

The loans originated by the Bank are categorized as loans and receivables, and are carried at amortized cost. All loans and receivables are recognized when cash is advanced to borrowers. Loans and receivables to non-banking customers represent the outstanding principal and accrued income balances less allowances for impaired loans and recievables.

If there is any objective evidence that a loan may be impaired (deterioration of a debtor's financial health, payment default, etc), the amortised cost of the loan is reduced through a provision to its estimated recoverable value.

When according to Management loans and advances cannot be recovered, they are written off and charged against the impairment allowance for possible credit losses. They are not written off until all the necessary legal procedures have been completed, and the Bank gains sufficient assurance about the unrecoverability of the loan, and the final amount of the loss is determined.

j) Leases

For the purposes of these financial statements, finance lease receivables are classified as *Loans and advances to non-banking customers*.

Finance leases, which confer rights and obligations similar to those attached to owned assets, are recognized as assets and liabilities at amounts equal at the inception of the lease to the fair value of the leased property or, if lower, at the present value of the minimum lease payments. 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.

k) Financial instruments

Classification

Held-to-maturity investments are financial assets with fixed or determinable payments and fixed maturity that the Group has the intent and the ability to hold to maturity.

Financial instruments at fair value through profit or loss: the Bank at inception has designated these financial assets or liabilities as at fair value through profit or loss and trading investments. The sub category financial assets designated through profit and loss, is classified due to management way of analyse these assets that is compliant with documented risk management accepted by Asset and liability management committee (ALMCo) Assets are classified as designated through profit and loss when the ALMCo makes the decision about financial assets and liabilities or class of them before transaction is initialized.

Available-for-sale assets are financial assets that are not classified in one of the above mentioned groups.

Recognition

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

Purchase of securities is accounted for using settlement date.

Measurement

Held-to-maturity investments are recognized at cost (including transaction costs) and subsequently remeasured at amortised cost less impairment losses. Amortised cost is calculated using the effective interest rate method. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortised based on the effective interest rate of the instrument.

Revaluation of financial assets at fair value through profit or loss, trading investments and available-for-sale assets are based on quoted market price. If quoted prices are not readily available the Bank uses alternative methods to determine fair value, for example, using pricing models or discounted cash flow techniques.

Where discounted cash flow techniques are used, estimated future cash flows are based on the 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, the information is based on market related measures at the balance sheet date. There are no assets where quoted prices are not available.

Revaluation of financial assets at fair value through profit or loss and trading investments is directly recognized in the income statement.

Derecognition

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

Held-to-maturity instruments and originated loans and receivables are derecognised on the day they are transferred by the Bank.

l) Investments in privatization certificates

Investments in privatization certificates are stated at their market value determined in accordance with instructions of the Bank of Latvia.

Unrealized profits or losses arising as a result of stating privatization certificates at market value are respectively credited or charged to the statement of income as profit or loss from the revaluation of securities.

m) Derivatives

In the normal course of business, the Bank is a party to contracts for forward foreign exchange rate and currency swap instruments. Receivables and payables arising from recognizing derivatives at their fair value are recognized in the balance sheet as the assets or liabilities of these agreements. Foreign exchange instruments are valued according to the forward rate that is determined based on differences arising between the exchange rates and interest rates of the respective currencies as at the date of the financial statements, as set by the Bank of Latvia. The revaluation result is disclosed as profit or loss from currency exchange trading.

n) Intangible assets

Intangible assets are recognized when it is probable that the asset will generate future economic benefits and their cost can be measured reliably. Intangible assets are amortized over the period of their useful economic life on a straight-line basis. Computer software is treated as an intangible asset only when it is not an integral part of the related hardware. The depreciation rates in rage of 12.5% till 20% is applied to intangible assets.

o) Business combinations and goodwill

Upon acquisition, subsidiaries are accounted for under the fair value method of accounting. Any goodwill arising on acquisition is recognised in the balance sheet, any negative goodwill is immediately charged to the income statement.

Goodwill represents the excess of the acquisition cost over the fair value of the Group's share of the net assets of the acquired subsidiary/associated undertaking at the date of acquisition. Goodwill is reported in the balance sheet as a component of "Intangible fixed assets". Goodwill is not amortized and is tested for impairment at least on an annual basis.

p) Fixed assets

Fixed assets are recorded at historical cost, except for buildings that are carried at their revalued amount, less accumulated depreciation. If the recoverable amount of a fixed asset is lower than its carrying amount due to circumstances not considered to be temporary, the fixed asset is written down to its recoverable amount.

Depreciation is provided using the straight-line method over the estimated useful life of the asset. Assets under construction and preparation are not depreciated. The following depreciation rates have been applied:

Type of fixed assets	*Annual Rate*
Buildings	2%
EDP equipment	25%
Equipment and fixtures	10%-33.33%
Transport vehicles	10%

Fixed assets maintenance and running repair costs are charged to the statement of income as incurred.

Leasehold improvements and capital repair costs are capitalized and depreciated over the shorter of the useful economic life and the remaining lease contract period on a straight-line basis.

Land and buildings are revalued periodically.

Depreciation methods, useful lives and residual values are reassessed annually.

r) Sale and repurchase agreements

Sale and repurchase 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 stated as a liability to the transferee.

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

s) Investments in associates

Associates are enterprises in which the Bank has significant influence, but not control, over the financial and operation policies. The 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 shares of losses exceed the carrying amount recognition of further losses is discontinued except to the extent that the Bank has incurred obligations in respect of the associate.

t) Cash and cash equivalents

Cash and cash equivalents comprise cash and deposits with the Bank of Latvia and other credit institutions with a remaining maturity of three months or less.

u) Provisions

A provision is recognized in the balance sheet when the Group 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.

v) Accruals for employee holiday pay

The accruals for vacations is estimated for the Group's personnel based on the total number of holidays earned but not taken, multiplied by the average daily remuneration expense for the preceding six months including social security contributions.

w) Other off-balance sheet instruments

In the ordinary course of business the Group is involved with commitments to extend loans and advances, set limits for credit cards accounts, issue overdrafts and financial guarantees, as well as commercial letters of credit. Such financial instruments are recorded in the financial statements when the respective contracts are concluded. The impairment on these instruments is recognized based on the accounting policy referred to in section u).

x) Assets and liabilities under management

Assets and liabilities managed by the Group on behalf of its customers, trusts and other institutions are not regarded as assets or liabilities of the Group and, therefore, are not included in its balance sheet. The Group assumes no risk for asset and liability under management.

y) The fair value of financial assets and liabilities

The fair value of financial assets and liabilities represent the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transactions. If according to Management of the Group the fair value of financial assets and liabilities is different than the balance sheet value, then the fair value of financial assets and liabilities is disclosed in the notes to the financial statements.

z) Segment reporting

A segment is distinguishable component of the Bank that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risk and rewards that are different from those of other segment. Considering these factors for the reporting purposes the Bank is treated as one segment.

aa) Accounting errors and changes in accounting policies

In preparing the 2006 consolidated financial statements, respective items have been evaluated in accordance with the same accounting policies and valuation principles as applied by the Bank in 2005, except for the effective interest rate method applied starting from 1 January 2006. Previously the Bank`s information systems did not provide the necessary resources for these calculations to be performed thereby causing the Bank not to be able to fully comply with the IFRS. The changes are applied retrospectively, i.e. the new method is applied to prior events and transactions as if it had always been in use. Therefore the Bank has adjusted the retained earnings and income statement of prior periods.

Last year the Bank presented a disclosure regarding the split of its interest income and commission income from retail and corporate sector clients and incorrectly named it as segment disclosure. In these financial statements the aforementioned disclosure is not called so since the Bank is considered to be one business segment in accordance with IAS 14.

Where necessary, comparative figures are adjusted to comply with the changes in the current year's financial statements. The Bank has performed following reclassification to achieve comparability with the current year's financial statements: accumulated interest, deferred income, and other items related to particular financial instruments have been included in each respective instrument's value, instead of being disclosed under other assets/ liabilities as previously.

Bank

	Comparative figures as at 31December 2005		
EUR '000 **0.702804**	**Reported**	**Adjustment**	**Restated**
Assets			
Cash and deposits with the central bank	40,570	-	40,570
Balances due from credit institutions and the central bank	19,819	4,203	24,022
Loans and advances to non-banking customers, net	217,107	(428)	216,679
Debt and other fixed income securities	45,337	(45,337)	-
Shares and other non-fixed income securities	249	(249)	-
Derivatives	1	(1)	-
Financial assets designated at fair value through profit or loss		22,620	22,620
Held-to-maturity investments		23,897	23,897
Investment in associate	172		172
Investment in subsidiary	7		7
Intangible assets	1,178		1,178
Fixed assets	13,367		13,367
Prepayments and accrued income	2,118	(1,631)	487
Other assets	6,107	(5,262)	845
Total assets	346,032	(2,188)	343,844
Liabilities			
Balances due to the central bank and credit institutions	23,173	6	23,179
Deposits from the public	281,950	4,653	286,603
Derivative liabilities	121	-	121
Deferred income and accrued expenses	3,530	(2,298)	1,232
Provisions	912	(912)	-
Deferred tax liability	1,364	(169)	1,195
Corporate tax liability	-	662	662
Other liabilities	3,698	(3,173)	525
Subordinated debt	5,499	-	5,499
Total liabilities	320,247	(1,231)	319,016
Shareholders' equity			
Paid-in share capital	12,957	-	12,957
Share premium	1,882	-	1,882
Reserve capital and other reserves	891	-	891
Revaluation reserve	4,027	-	4,027
Retained earnings	2,183	(871)	1,312
Net income	3,845	(86)	3,759
Total shareholders' equity and minority interest	25,785	(957)	24,828
Total liabilities and shareholders' equity	346,032	(2,188)	343,844

Bank

	Comparative figures as at 31December 2005		
EUR '000	**Reported**	**Adjustment**	**Restated**
0.702804			
Income statement			
Interest income	17,395	859	18,254
Interest expense	(6,380)	-	(6,380)
Net interest income	11,015	859	11,874
Commission and fee income	9,872	(1,125)	8,747
Commission and fee expense	(2,114)	-	(2,114)
Net commission and fee income	7,758	(1,125)	6,633
Profit on sale of securities and foreign exchange trading	3,701	-	3,701
Other operating income	1,101	-	1,101
Operating income	23,575	(266)	23,309
Administrative expense	(14,165)	14,165	-
Remuneration	-	(8,251)	(8,251)
Depreciation and amortisation expense	(2,332)	-	(2,332)
Impairment losses	(3,044)	3,044	-
Reversal of impairment losses	700	(700)	-
Other operating expenses	(393)	(5,915)	(6,308)
Total operating expenses	**(19,234)**	2,343	(16,891)
Impairment losses	-	(2,830)	(2,830)
Reversal of impairment losses	-	700	700
Profit before corporate income tax	4,341	(53)	4,288
Corporate income tax	(496)	(33)	(529)
Profit for the reporting year	3,845	(86)	3,759

bb) Adoption of new and revised International Financial Reporting Standards

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

- IFRS 7 Financial Instruments: Disclosures (effective for annual periods beginning on or after 1 January 2007). IFRS 7 requires disclosures that enable users to evaluate the significance of the Group's financial instruments and the nature and extent of risks arising from those financial instruments.
- IFRS 8 Operating Segments (effective once adopted by EU, but not earlier than for annual periods beginning on or after 1 January 2009). The standard sets out requirements for disclosure of information about an entity's operating segments 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.
- Amendments to IAS 1 ("Capital Disclosures") (effective for annual periods beginning on or after 1 January 2007). This amendment requires the Company to make new disclosures to enable users of the financial statements to evaluate the Company's objectives, policies and processes of managing capital.
- IFRIC 7 Applying the Restatement Approach under IAS 29 "Financial Reporting in Hyperinflationary Economies" (effective for annual periods beginning on or after 1 March 2006). 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.
- IFRIC 8 Scope of IFRS 2 (effective for annual periods beginning on or after 1 May 2006). This interpretation requires IFRS 2 to be applied to any arrangements where equity instruments are issued for consideration which appears to be less than fair value.
- IFRIC 9 Reassessment of Embedded Derivatives (effective for annual periods beginning on or after 1 June 2006). This interpretation establishes that the date to assess the existence of an embedded derivative is the date 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.
- IFRIC 10 Interim Financial Reporting and Impairment (effective once adopted by EU, but not earlier than for annual periods beginning on or after 1 November 2006). This interpretation establishes that entity shall 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.

- IFRIC 11 IFRS 2 – Group and Treasury Share Transactions (effective once adopted by European Union, but not earlier than 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 once adopted by European Union, but not earlier than for annual periods beginning on or after 1 January 2008). 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.

The Group expects that the adoption of the pronouncements listed above will have no significant impact on the Group's financial statements in the period of initial application, except for IFRS 7 "Financial Instruments: Disclosures"; IAS 1 amendment Capital Disclosures and IFRS 8 "Operating Segments". The Group is still estimating the impact of adoption of these pronouncements on the disclosures of the financial statements

3. RISK MANAGEMENT

The Bank has developed a system for the identification, supervision and management of its main financial risks, which has been approved by the Bank's Board and Council. Supervision and management of this system is performed by the Asset and Liabilities Committee. The following policies are established and approved within the risk management system:

- Control policy over risk transactions
- Liquidity management policy
- Credit policy
- Interest rate risk management policy
- Trade portfolio policy
- Foreign exchange risk management policy
- State risk management policy

Credit risk

The Bank is exposed to credit risk while performing trading, lending and investment activities, as well as in transactions where the Bank acts as intermediary in the name of clients or issues guarantees to third parties. Credit risk related to trading and investment activities is managed in line with the Bank's trading risk management procedures.

The risk which can arise in the event that the Bank's partners in derivative and other financial instrument transactions might default on their obligations is monitored on an on going basis. To manage credit risk of derivative instruments, the Bank deals with counterparties of good credit standing. The Bank's credit policy identifies the requirements for the credit risk mitigation.

The main basis of credit risk occurrence is lending. The extent of credit risk is reflected in the asset amounts in the balance sheet. However, credit risk can also occur in relation to other products offered by the Bank including derivatives and investments in debt securities. The extent of credit risk in relation to these products is reflected in their carrying value in the balance sheet. In addition the Bank is exposed to credit risk from off-balance sheet items arising from additional loan commitments and issued guarantees.

Interest rate risk

Interest rate risk is measured by the extent to which changes in market interest rates impact on margins and net interest income. To the extent the term structure of interest bearing assets differs from that of liabilities, net interest income will increase or decrease as a result of movements in interest rates.

Interest rate risk represents the impact of changes in the market rates on the Bank's financial position. Daily banking activities involve interest rate risk influenced by repayment terms of assets and liabilities related to interest income and expenses or date of revision of interest rates. The Bank seeks to control this risk through the activities of the Bank's Treasury Department and Assets and Liabilities Management Committee.

See note 39 "Repricing maturity of assets and liabilities based on interest rate changes".

Liquidity risk

The Bank maintains liquidity management with the objective of ensuring that funds will be available at all times to honour all cash flow obligations as they become due. The Bank's liquidity policy is reviewed and approved by the Management Board.

Liquidity risk arises in the general funding of the Bank's activities and in the management of positions. It includes both the risk of being unable to fund assets at appropriate maturities and rates and the risk of being unable to liquidate an asset at a reasonable price and in an appropriate time frame.

Funds are raised using instruments including deposits, subordinated liabilities and share capital. The Bank strives to maintain a balance between continuity of funding and flexibility through the use of liabilities with a range of maturities. The Bank continually assesses liquidity risks by identifying and monitoring the changes in funding required to meet business goals.

In addition, the Bank holds a portfolio of liquid assets as part of its liquidity risk management strategy.

The relationship between the maturity of assets and liabilities, as well as memorandum items is indicative of liquidity risk and the extent to which it may be necessary to raise funds to meet outstanding obligations. For the allocation of Bank's assets, liabilities and memorandum items to maturity based on the time remaining from the balance sheet date to the contractual maturity dates see note 38 "Assets, liabilities and memorandum items by maturity profile".

Foreign exchange rate risk

The Bank has assets and liabilities denominated in several foreign currencies. Foreign currencies risk arises when the actual or forecasted assets in a foreign currency are either greater or less than the liabilities in that currency. The Bank's foreign currency policy is reviewed and approved by the Management Board. See note 37 "Currency analysis".

Derivatives

The financial instruments used by the Bank include forward and swap agreements whose value vary together with foreign currency exchange rate fluctuations and changes in interest rates. The risk in the transactions mentioned before is the possibility that the parties involved in the transactions might refuse to fulfill their obligations, as well as the market risk that the agreement value will decrease as a result of unfavourable changes in interest rates.

Market risk

All trading and available for sale financial instruments are subject to market risk. This is the risk that changes in market conditions will change the value of financial instruments. Financial instruments are recognized at their fair value and all changes in market value have a direct influence on the profit of the Bank.

The Bank uses its trading and available for sale financial instruments to follow market conditions. Market risk has been managed according to risk limits defined by the Management of the Bank.

4. INTEREST INCOME AND EXPENSE

EUR '000 0.702804	Group 2006	Group 2005 (restated)	Bank 2006	Bank 2005 (restated)
Interest income				
Loans and advances to non-banking customers	20,923	15,625	20,929	15,625
Securities	1,947	2,047	1,942	2,037
Held to maturity investments	753	950	753	950
Trading portfolio	24	-	24	-
Financial assets designated as fair value through profit and loss	1,170	1,097	1,165	1,087
Due from credit institutions	3,082	593	3,081	592
Total interest income	25,952	18,265	25,952	18,254
	-	-	-	-
Interest expense:	-	-	-	-
Deposits from the public	(8,288)	(5,319)	(8,299)	(5,323)
Due to credit institutions	(258)	(238)	(258)	(238)
Contributions to deposit guarantee fund	(714)	(507)	(714)	(507)
Subordinated debt	(390)	(312)	(390)	(312)
Total interest expense	(9,650)	(6,376)	(9,661)	(6,380)
Net interest income	16,302	11,889	16,291	11,874

5. INTEREST PRODUCTIVITY OF THE BANK'S BALANCE SHEET

		2006			2005		
	EUR '000 0.702804	**Average monthly balance**	**Interest**	**Effective interest rate**	**Average monthly balance**	**Interest**	**Effective interest rate**
	Assets						
	Cash and due from the Central Bank	54,022	-	-	27,752	-	-
	Due from other banks	59,317	3,081	5.19	18,621	592	3.18
	Financial investments	38,090	1,942	5.10	47,215	2,037	4.32
	Derivative assets	26	-	-	70	-	-
	Loans and advances to customers, net	237,348	20,929	8.82	192,313	15,625	8.12
	Other assets	25,361	-	-	20,920	-	-
A	**Total assets**	414,164	25,952	**6.27**	306,891	18,254	**5.95**
	Liabilities						
	Deposits from customers	353,995	9,013	2.55	252,474	5,830	2.31
	Due to other banks	14,227	258	1.81	16,934	238	1.40
	Derivative liabilities	343	-	-	142	-	-
	Subordinated debt	5,916	390	6.59	4,893	312	6.37
	Other liabilities	11,768	-	-	11,910	-	-
B	**Total liabilities**	386,249	9,661	**2.50**	286,353	6,380	**2.23**
	Shareholders' equity	27,915	-	-	20,538	-	-
C	**Total liabilities and shareholders' equity**	414,164	9,661	**2.33**	306,891	6,380	**2.08**

Net interest income	**16,291**			**11,874**	
***Interest spread* % (A-B)**		**3.77%**			**3.72%**
***Investment spread* % (A-C)**		**3.94%**			**3.87%**

There is no significant difference between Bank's and Group's productivity

6. COMMISSION AND FEE INCOME AND EXPENSE

EUR '000 0.702804	Group 2006	Group 2005 (restated)	Bank 2006	Bank 2005 (restated)
Commission and fee income:				
Payment cards	3,631	2,898	3,631	2,898
Money transfers	2,763	2,832	2,763	2,832
Transactions with privatization certificates	804	714	804	714
Maintenance fee	693	818	693	818
Cash services	657	589	657	589
Brokerage fee	151	141	151	141
Other	743	777	691	755
Total commission and fee income	9,442	8,769	9,390	8,747
Commission and fee expense:				
Payment cards	(1,360)	(1,242)	(1,360)	(1,242)
Settlements	(245)	(268)	(245)	(268)
Other	(824)	(611)	(821)	(604)
Total commission and fee expense	(2,429)	(2,121)	(2,426)	(2,114)
Net commission and fee income	7,013	6,648	6,964	6,633

7. PROFIT ON SALE OF SECURITIES AND FOREIGN EXCHANGE TRADING

EUR '000 0.702804	Group 2006	Group 2005 (restated)	Bank 2006	Bank 2005 (restated)
Profit from dealing with currency exchange	2,399	1,487	2,399	1,487
Profit on sale of securities at fair value through profit and loss	770	844	770	837
Profit from revaluation of securities, net	317	1,172	323	1,165
Profit/(loss) from revaluation of foreign currency positions, net	(390)	212	(390)	212
Total profit on sale of securities and foreign exchange trading	3,096	3,715	3,102	3,701

8. OTHER OPERATING INCOME

EUR '000 0.702804	Group 2006	Group 2005 (restated)	Bank 2006	Bank 2005 (restated)
Penalties received	1,175	862	1,175	862
Rental income	90	84	90	84
Gain from sale of fixed assets	9	90	9	90
Other operating income	174	65	174	65
Total other operating income	1,448	1,101	1,448	1,101

A major part of penalties received are penalties for non-compliance with contract terms and conditions.

9. PERSONNEL EXPENSE

Personnel expense include remuneration to the Supervisory Council, the Management Board and other personnel of the Bank as well as related social security contributions and costs of other benefits.

EUR '000 0.702804	Group 2006	Group 2005 (restated)	Bank 2006	Bank 2005 (restated)
Remuneration to the Supervisory Council	11	55	11	55
Remuneration to the Management Board	673	406	673	406
Remuneration to other personnel	7,868	6,293	7,829	6,276
Social security contributions	1,789	1,519	1,779	1,514
Total remuneration and related social security contributions	10,341	8,273	10,292	8,251

The total number of personnel employed by the Bank is specified as follows:

	Group 2006	Group 2005 (restated)	Bank 2006	Bank 2005 (restated)
Members of the Management Board	6	6	6	6
Other Management personnel	34	33	33	30
Staff personnel	885	840	883	838
Total number of personnel employed	**925**	**879**	**922**	**874**

The Bank has entered into employment agreement with Board members granting the 6 month average salary in case of their dismissal. This do not applies if it is based on Board member initiative.

10. OTHER OPERATING EXPENSES

EUR '000 0.702804	Group 2006	Group 2005 (restated)	Bank 2006	Bank 2005 (restated)
Rent of premises and land	1,218	861	1,214	861
Advertising and marketing	1,039	968	1,039	966
Non- refundable value added tax	849	713	849	713
EDP maintenance	676	663	676	663
Communication	642	649	633	649
Security	498	477	498	477
Repairs and maintenance of premises and buildings	468	350	468	350
Car maintenance	390	283	333	283
Participation fees and payments to funds	245	101	245	101
Consulting and professional fees	231	233	229	232
Office expense	191	162	189	157
Training and other personnel expenses	185	124	184	124
Property and real estate tax	195	55	195	55
Insurance	151	108	151	108
Loss from fixed assets disposal	57	105	57	105
Other operating expenses	629	467	622	464
Total operating expenses	7,664	6,319	7,582	6,308

11. IMPAIRMENT LOSSES

An analysis of impairment losses for Bank and Group is presented as follows:

EUR '000 0.702804	Impairment losses for loan principal	Other impairment losses	Total
Impairment losses as at 31 December 2004 (restated)	3,320	184	3,504
Impairment losses	2,733	97	2,830
Reversal of impairment losses	(391)	(3)	(394)
Recovery of assets previously written-off	(306)	-	(306)
Net charge to the statement of income	2,036	94	2,130
Foreign exchange movements	37	1	38
Net write-offs and recoveries of assets	(1,389)	(21)	(1,410)
Impairment losses as at 31 December 2005	4,004	258	4,262
Impairment losses	1,672	16	1,688
Reversal of impairment losses	(686)	(3)	(689)
Recovery of assets previously written-off	(260)	-	(260)
Net charge to the statement of income	726	13	739
Foreign exchange movements	(17)	(1)	(18)
Net write-offs and recoveries of assets	(658)	(21)	(679)
Impairment losses as at 31 December 2006	4,055	249	4,304

There is no impairment for memorandum items.

12. CORPORATE INCOME TAX

Corporate income tax expense for the year ended 31 December 2006 was as follows:

EUR '000 0.702804	Group 2006	Group 2005 (restated)	Bank 2006	Bank 2005 (restated)
Deferred tax income	(108)	(133)	(108)	(133)
Corporate income tax	1,038	662	1,038	662
Corporate income tax for the reporting year	930	529	930	529

The reconciliation of corporate income tax at the statutory rate of 15% (2005: 15%) and the actual corporate income tax expense was as follows:

EUR '000 0.702804	Group 2006	Group 2005 (restated)	Bank 2006	Bank 2005 (restated)
Profit before taxes	6,680	4,296	6,773	4,289
Theoretical tax: 15% (2005: 15%)	1,002	644	1,016	643
Non-deductible expenses, net	84	(88)	70	(87)
Tax allowance on charity	(156)	(40)	(156)	(40)
Prior year adjustment	-	13	-	13
Corporate income tax for the reporting year	930	529	930	529

Reconciliation of prior year deferred tax balance with that of current period is as follows:

EUR '000 0.702804	Group 2006	Group 2005 (restated)	Bank 2006	Bank 2005 (restated)
Deferred tax liability at the beginning of the reporting period	1,195	713	1,195	713
Deferred tax charged through the profit or loss statement	(108)	(132)	(108)	(132)
Deferred tax charged through revaluation reserve	(13)	614	(13)	614
Deferred tax liability at the end of the reporting period	1,074	1,195	1,074	1,195

The deferred tax assets and liabilities relate to the following items:

EUR '000 0.702804	Group 2006	Group 2005 (restated)	Bank 2006	Bank 2005 (restated)
Deferred tax liability:				
-temporary difference on fixed asset carrying value for financial purposes and tax written down value	1,426	1,541	1,426	1,541
Deferred tax asset:				
- loan commissions	(235)	(272)	(235)	(272)
- other provisions	(117)	(74)	(117)	(74)
Deferred tax liability	1,074	1,195	1,074	1,195

13. EARNINGS PER SHARE

Earnings per share are calculated based upon the profit after taxation and the average number of shares in issue during the year.

	Group 2006	Group 2005 (restated)	Bank 2006	Bank 2005 (restated)
Profit after taxation (EUR '000)	5,750	3,766	5,842	3,759
Average number of shares in issue (thousand)	9,106	9,106	9,106	9,106
Earnings per share	**0.631**	**0.414**	**0.642**	**0.413**

Diluted earnings per share are calculated based on agreements, which in future might impact the number of shares in issue, as well as leave an impact on the current year income statement. Thus the diluted earnings per share are calculated by dividing profit after taxation or loss adjusted for the interest paid on subordinated debt, by the average number of shares in issue during the year adjusted for the effects of the amount of shares, which might be issued by converting subordinated debt from "CONVERS GROUP MANAGEMENT COMPANY" at the ratio of 1.64 EUR of subordinated debt for one share (see also Note 29).

	Group 2006	Group 2005 (restated)	Bank 2006	Bank 2005 (restated)
Profit after taxation (EUR '000)	5,750	3,766	5,842	3,759
Interest for subordinated debt, net of tax (EUR '000)	332	265	332	265
	6,082	4,031	6,174	4,024
Average number of shares in issue (thousand)	9,106	9,106	9,106	9,106
Potential shares in result of conversion of subordinated debt (thousand)	3,361	3,361	3,361	3,361
	12,467	**12,467**	**12,467**	**12,467**
Diluted earnings per share (EUR)	**0.488**	**0.323**	**0.495**	**0.323**

14. CASH AND DEPOSITS ON DEMAND WITH THE CENTRAL BANK

EUR '000 0.702804	Group 31.12.2006	Group 31.12.2005 (restated)	Bank 31.12.2006	Bank 31.12.2005 (restated)
Cash	22,826	17,952	22,826	17,949
Deposits with the Bank of Latvia	76,290	22,621	76,290	22,621
Total cash and deposits on demand with the central bank	99,116	40,573	99,116	40,570

Bank has restricted use of cash in escrow account in amount of EUR 2, 647 thousand as at 31 December 2006.

According to the requirement of the Bank of Latvia credit institutions should comply with the requirement on obligatory reserves. As at 31 December 2006 the obligatory reserves were EUR 35,707 thousand (2005: EUR 20,743 thousand). In the reporting year, The Bank has complied with the requirements on obligatory reserves.

15. BALANCES DUE FROM CREDIT INSTITUTIONS AND CENTRAL BANKS

EUR '000 0.702804	Group 31.12.2006	Group 31.12.2005 (restated)	Bank 31.12.2006	Bank 31.12.2005 (restated)
Correspondent accounts	22,853	2,206	22,853	2,205
Term deposits	118,856	21,818	118,856	21,817
Total balances due from credit institutions	141,709	24,024	141,709	24,022

Balances due from credit institutions by geographic region:

EUR '000 0.702804	Group 31.12.2006	Group 31.12.2005 (restated)	Bank 31.12.2006	Bank 31.12.2005 (restated)
Placements with Latvian commercial banks	72,962	17,043	72,962	17,042
Placements with OECD banks	56,533	6,294	56,533	6,293
Placements with other banks	12,214	687	12,214	687
Total balances due from credit institutions	141,709	24,024	141,709	24,022

16. LOANS AND ADVANCES TO CUSTOMERS

EUR '000 0.702804	Group 31.12.2006	Group 31.12.2005 (restated)	Bank 31.12.2006	Bank 31.12.2005 (restated)
Loans	251,070	195,857	251,269	195,857
Utilised credit lines	19,684	19,024	19,684	19,024
Debit balances on settlement cards	4,004	2,584	4,004	2,584
Factoring	397	1,425	397	1,425
Overdrafts	347	424	347	424
Finance lease	206	491	206	491
Repo	-	878	-	878
Total gross loans and advances to non-banking customers	275,708	220,683	275,907	220,683
Impairment losses (Note 11)	(4,055)	(4,004)	(4,055)	(4,004)
Total net loans and advances to non-banking customers	271,653	216,679	271,852	216,679

Loans and advances to non-banking customers before impairment losses by customer type:

EUR '000 0.702804	Group 31.12.2006	Group 31.12.2005 (restated)	Bank 31.12.2006	Bank 31.12.2005 (restated)
Other private individuals	161,490	102,556	161,490	102,556
Privately held companies	107,026	111,980	107,225	111,980
Personnel employed by the Bank	5,874	4,705	5,874	4,705
Municipal authorities	883	1,319	883	1,319
Municipality owned enterprises	267	74	267	74
Public and religious institutions	152	6	152	6
State owned enterprises	16	43	16	43
Total loans and advances to non-banking customers	275,708	220,683	275,907	220,683

Loans and advances to non-banking customers before impairment losses by industry:

EUR '000 0.702804	Group 31.12.2006	Group 31.12.2005 (restated)	Bank 31.12.2006	Bank 31.12.2005 (restated)
Private individuals	167,364	107,262	167,364	107,262
Operation with real estate	26,246	23,517	26,246	23,517
Retail trade and wholesale distribution	15,804	15,228	15,804	15,228
Manufacturing	11,861	21,103	11,861	21,103
Hotels and restaurants	9,505	6,726	9,505	6,726
Agriculture and forestry	9,427	11,508	9,427	11,508
Financial intermediaries	8,722	8,496	8,722	8,496
Construction	6,669	4,482	6,669	4,482
Transport, warehousing and communications	2,271	4,434	2,271	4,434
State administration and healthcare	2,255	2,472	2,255	2,472
Electricity, gas and water utilities	1,631	4,903	1,631	4,903
Other service industries	13,953	10,552	14,152	10,552
Total loans and advances to non-banking customers	275,708	220,683	275,907	220,683

Loans issued to corporate customers specifically for the purpose of constructing buildings or other premises in the above industry profile have been classified as loans and advances to construction industry.

The Group accepted collateral summarized in the table below:

EUR '000 0.702804	Group/ Bank 31.12.2006
Real estate	430,635
Guarantees received	1,733
Equipment	7,211
Vehicles	8,154
Other property	134,367
Collateral received	582,100
Loans and advances to non-banking customers, net	271,852
Exposure to collateral ratio	3,046

Leasing

Gross investment distribution by maturity:

EUR '000 0.702804	Group 31.12.2006	Group 31.12.2005 (restated)	Bank 31.12.2006	Bank 31.12.2005 (restated)
Up to 1 year	168	209	168	209
1 to 5 years	38	282	38	282
Total leasing portfolio (A)	206	491	206	491

Future periods' interest income distribution by maturity:

EUR '000 0.702804	Group 31.12.2006	Group 31.12.2005 (restated)	Bank 31.12.2006	Bank 31.12.2005 (restated)
Up to 1 year	21	23	21	23
1 to 5 years	2	5	2	5
Total future periods' interest income (B)	23	28	23	28

Minimum lease payments distribution by maturity:

EUR '000 0.702804	Group 31.12.2006	Group 31.12.2005 (restated)	Bank 31.12.2006	Bank 31.12.2005 (restated)
Up to 1 year	189	232	189	232
1 to 5 years	40	287	40	287
Total gross investments (A+B)	229	519	229	519

The maturity of leasing does not exceed 5 years.

As at 31 December 2006 and 2005 the accrued interest on non-performing loans was EUR 514 thousand and EUR 344 thousand respectively.

The Bank does not have any significant concentrations of credit risk.

17. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

EUR '000 0.702804	Group 31.12.2006	Group 31.12.2005 (restated)	Bank 31.12.2006	Bank 31.12.2005 (restated)
Financial assets designated at fair value through profit or loss				
Government bonds	18,772	12,363	18,772	12,200
Corporate bonds	3,298	1,382	3,298	1,382
Credit and other financial institutions bonds	2,397	8,429	2,397	8,385
Municipalities bonds	393	403	393	403
Shares	13	1	13	1
Privatization certificates	77	248	77	248
Total financial assets designated at fair value through profit or loss	24,950	22,826	24,950	22,619
Held for trading (Note 18)	60	1	60	1
Total financial assets at fair value through profit or loss	25,010	22,827	25,010	22,620

18. DERIVATIVES

	Notional amount		Fair value			
			Assets		Liabilities	
EUR '000 0.702804	31.12.2006	31.12.2005 (restated)	31.12.2006	31.12.2005 (restated)	31.12.2006	31.12.2005 (restated)
Currency derivatives	76,094	18,238	60	1	361	118
Equity and similar derivatives						
Forwards (sale)	-	2,001	-	-	-	3
Total derivatives	76,094	20,239	60	1	361	121

19. HELD TO MATURITY INVESTMENTS

EUR '000 0.702804	Group 31.12.2006	Group 31.12.2005 (restated)	Bank 31.12.2006	Bank 31.12.2005 (restated)
Government bonds	18,915	23,035	18,915	23,035
Credit and other financial institutions bonds	882	-	882	-
Corporate bonds	828	862	828	862
Total held to maturity investments	20,625	23,897	20,625	23,897

20. INVESTMENT IN SUBSIDIARY, ASSOCIATE

EUR '000 0.702804	Business profile	Historical cost 31.12.2006	Share (%)	Historical cost 31.12.2005	Share (%)
AS "Ieguldījumu sabiedrība "Astra Krājfondi""(associate in 2005)	Investment fund management	513	100	172	50
Ieguldījumu pārvaldes sabiedrība "LKB Assets Management"	Investment fund management	171	100	-	-
SIA "Krājinvestīcijas"	Real estate management	7	100	7	100
Total investment in subsidiary, associate		**691**	**-**	**179**	**-**

21. BUSINESS ACQUISITION

In 1 April 2006 the Bank purchased additional 50% in AS "Ieguldījumu sabiedrība "Astra Krājfondi"" by acquiring 120,000 shares for EUR 343 thousand and thus became the sole shareholder of this company. The fair value of the assets acquired equaled the purchase price therefore no goodwill was recognized on acquisition.

The fair value of assets, liabilities and off-balance sheet liabilities of AS Ieguldījumu sabiedrība Astra Krājfondi at the acquisition date was as follows:

	Fair value at the acquisition date	*Carrying value at the acquisition date*
Intangible asset (the client portfolio)	341	-
Balances due from credit institutions	145	145
Financial assets (held for trading and held to maturity)	198	198
Loans and advances to customers	3	3
Fixed assets	8	7
Intangible assets	3	3
Other assets	3	4
Total	701	360
Liabilities	17	17
Bank's share of net assets measured at fair value (50%)	342	-
Paid		

The sales and net profit of the "Astra Krājfondi" for the period from 1 April till 31 December 2006 was EUR 46 thousand and EUR 18 thousand respectively. The cash acquired is immaterial.

In 2006, the Bank established its fully owned asset management company LKB Assets Management with the share capital of EUR 171 thousand. Asset management company LKB Assets Management was registered with the Republic of Latvia Enterprise Register on 11 April 2006. The methods disclosed in Note 2 have been applied to include the financial statements of AS "Ieguldījumu sabiedrība "Astra Krājfondi"", asset management company LKB Assets Management and limited liability company Krājinvestīcijas in the Group's consolidated financial statements.

The shares of the subsidiaries are not listed.

22. INTANGIBLE ASSETS

The Group

EUR '000 0.702804	Licences, software, etc.	Other intangible asset	Advance payments	Intangible assets, total
Historical cost				
As at 31 December 2004	4,471	-	16	4,487
Additions	350	-	48	145
Transfer	55	-	(56)	198
Disposals	(11)	-	-	3
As at 31 December 2005	4,865	-	8	4,873
Additions*	178	342	176	3
Transfer	25	-	(25)	-
Disposals	(468)	-	-	361
As at 31 December 2006	4,600	342	159	5,101
Amortisation				
As at 31 December 2004	3,270	-	-	3,270
Charge	432			432
Reversal due to disposals	(10)	-	-	(10)
As at 31 December 2005	3,692	-	-	3,692
Charge	406	-	-	406
Reversal due to disposals	(457)	-	-	(457)
As at 31 December 2006	3,641	-	-	3,641
Impairment losses				
As at 31 December 2005	-	-	-	-
Charge	-	171	-	171
As at 31 December 2006	-	171	-	171
Net book value				
As at 31 December 2004	1,201	-	16	1,217
As at 31 December 2005	1,173	-	8	1,181
As at 31 December 2006	959	**171**	159	**1,289**

* The acquisition of intangible and tangible fixed assets through business combination amounted EUR 174 thousand and EUR 9 thousand respectively. For more details see note 21.

The Bank

EUR '000 0.702804	Licences, software, etc.	Advance payments	Intangible assets, total
Historical cost			
As at 31 December 2004	4,466	16	4,482
Additions	349	48	397
Transfer	55	(55)	-
Disposals	(11)	-	(11)
As at 31 December 2005	4,859	9	4,868
Additions	178	176	354
Transfer	26	(26)	-
Disposals	(468)	-	(468)
As at 31 December 2006	4,595	159	4,754
Amortisation			
As at 31 December 2004	3,269	-	3,269
Charge	431	-	431
Reversal due to disposals	(10)	-	(10)
As at 31 December 2005	3,690	-	3,690
Charge	403	-	403
Reversal due to disposals	(457)	-	(457)
As at 31 December 2006	3,636	-	3,636
Net book value			
As at 31 December 2004	1,197	16	1,213
As at 31 December 2005	1,169	9	1,178
As at 31 December 2006	959	159	1,118

23. FIXED ASSETS

The Group

EUR '000 0.702804	Land and buildings	Leasehold improvements	Transport vehicles	Office equipment	Advance payments	Total tangible assets
Historical cost/ Revalued						
As at 31 December 2004	4,188	1,749	667	16,381	47	23,032
Additions	1	87	17	663	297	1,065
Revaluation	3,431	-	-	-	-	3,431
Transfer	-	36		123	(159)	-
Disposals	(174)	(85)	(66)	(1,069)	-	(1,394)
As at 31 December 2005	7,446	1,787	618	16,098	185	26,134
Additions*		1,615	37	1,242	1,007	3,901
Transfer	-	2	226	309	(538)	(1)
Disposals	(1)	(181)	(13)	(1,073)	(90)	(1,358)
As at 31 December 2006	7,445	3,223	868	16,576	564	28,676
Depreciation						
As at 31 December 2004	572	865	324	10,799	-	12,560
Charge	129	181	65	1,529	-	1,904
Revaluation	(666)	-	-	-	-	(666)
Reversal due to disposals	(35)	(80)	(47)	(878)	-	(1,040)
As at 31 December 2005	-	966	342	11,450		12,758
Charge	200	182	153	1,495	-	2,030
Reversal due to disposals	-	(152)	(3)	(739)	-	(894)
As at 31 December 2006	200	996	492	12,206	-	13,894
Net book value						
As at 31 December 2004	3,616	884	343	5,582	47	10,472
As at 31 December 2005	7,446	821	276	4,648	185	13,376
As at 31 December 2006	7,245	2,227	376	4,370	564	14,782

*The acquisition of intangible and tangible fixed assets through business combination amounted EUR 173 thousand and EUR 9 thousand respectively. For more details see note 21.

The cost value of the revalued fixed assets is approximately EUR 3.3 mln.

The Bank

EUR '000 0.702804	Land and buildings	Leasehold improvements	Transport vehicles	Office equipment	Advance payments	Total tangible assets
Historical cost/ Revalued						
As at 31 December 2004	4,188	1,749	667	16,382	47	23,033
Addition	1	84	17	652	297	1,051
Revaluation	3,431	-	-	-	-	3,431
Transfer	-	36	-	123	(159)	-
Disposal	(174)	(85)	(66)	(1,069)	-	(1,394)
As at 31 December 2005	7,446	1,784	618	16,088	185	26,121
Additions	-	1,615	-	1,243	1,007	3,865
Transfer	-	2	226	309	(538)	(1)
Disposals	(1)	(178)	(13)	(1,072)	(90)	(1,354)
As at 31 December 2006	7,445	3,223	831	16,568	564	28,631
Depreciation						
As at 31 December 2004	572	865	324	10,799	-	12,560
Addition	129	179	65	1,528	-	1,901
Revaluation	(666)	-	-	-	-	(666)
Reversal due to disposals	(35)	(80)	(47)	(879)	-	(1,041)
As at 31 December 2005	-	964	342	11,448	-	12,754
Charge	200	181	153	1,492	-	2,026
Reversal due to disposals	-	(149)	(3)	(737)	-	(889)
As at 31 December 2006	200	996	492	12,203	-	13,891
Net book value						
As at 31 December 2004	3,616	884	343	5,583	47	10,473
As at 31 December 2005	7,446	820	276	4,640	185	13,367
As at 31 December 2006	7,245	2,227	339	4,365	564	14,740

The cost value of the revalued fixed assets is approximately EUR 3.3 mln.

24. OTHER ASSETS

EUR '000 0.702804	Group 31.12.2006	Group 31.12.2005 (restated)	Bank 31.12.2006	Bank 31.12.2005 (restated)
Unrealised gains from SPOT transactions	95	23	95	23
Value added tax prepayment	209	154	209	154
Advance on corporate income tax	751	129	751	129
Settlement with Western Union	191	295	191	295
Other	695	507	648	503
Gross total other assets	1,941	1,108	1,894	1,103
Impairment losses (see Note 11)	(249)	(258)	(249)	(258)
Total other assets	1,692	850	1,645	846

25. BALANCES DUE TO THE CENTRAL BANK AND CREDIT INSTITUTIONS

EUR '000 0.702804	Group 31.12.2006	Group 31.12.2005 (restated)	Bank 31.12.2006	Bank 31.12.2005 (restated)
Correspondent accounts and demand deposits	10,174	10,172	10,174	10,172
Term deposits	55,833	13,007	55,833	13,007
Total balances due to credit institutions	66,007	23,179	66,007	23,179

Balances due to credit institutions by geographic region:

EUR '000 0.702804	Group 31.12.2006	Group 31.12.2005 (restated)	Bank 31.12.2006	Bank 31.12.2005 (restated)
Placements from Latvian commercial banks	56,018	23,166	56,018	23,166
Placements from other non-OECD banks	9,989	13	9,989	13
Total balances due from credit institutions	66,007	23,179	66,007	23,179

As at 31 December 2006, the Bank had pledged Latvian government securities with a nominal value of EUR 0 thousand (2005: EUR 17,074 thousand) and a carrying value of EUR 0 thousand (2005: EUR 17,332 thousand) and Latvian government eurobonds with a nominal value of EUR 700 thousand (2005: EUR 650 thousand) and a carrying value of EUR 697 thousand (2005: EUR 690 thousand). The Bank uses repurchase agreements with Latvian government securities as a source of short-term funding.

26. DEPOSITS FROM THE CUSTOMERS

Deposits from the public by type of depositors:

EUR '000 0.702804	Group 31.12.2006	Group 31.12.2005 (restated)	Bank 31.12.2006	Bank 31.12.2005 (restated)
Private individuals	327,174	236,167	327,174	236,169
State owned enterprises	72,384	7,585	72,384	7,585
Privately held companies	56,858	40,454	57,430	40,590
Public and religious institutions	4,466	1,214	4,466	1,214
Municipal authorities	3,179	1,041	3,179	1,041
Central governments	-	4	-	4
Total deposits from the public	464,061	286,465	464,633	286,603

Deposits from the public by geographic region:

EUR '000 0.702804	Group 31.12.2006	Group 31.12.2005 (restated)	Bank 31.12.2006	Bank 31.12.2005 (restated)
Residents	437,113	272,471	437,685	272,609
Non-residents	26,948	13,994	26,948	13,994
Total deposits from the public	464,061	286,465	464,633	286,603

27. DEFERRED INCOME AND ACCRUED EXPENSES

EUR '000 0.702804	Group 31.12.2006	Group 31.12.2005 (restated)	Bank 31.12.2006	Bank 31.12.2005 (restated)
Accrued remuneration costs and social security contributions	620	390	620	390
Vacation accruals	292	232	292	231
Deferred income	67	11	67	11
State duty on privatization certificate transfers		20		20
Other accrued expense	838	581	838	580
Total deferred income and accrued expense	1,817	1,234	1,817	1,232

28. CORPORATE INCOME TAX AND OTHER LIABILITIES

EUR '000 0.702804	Group 31.12.2006	Group 31.12.2005 (restated)	Bank 31.12.2006	Bank 31.12.2005 (restated)
Corporate income tax	1,022	662	1,022	662
Account payable related to purchase of Astra Krājfondi	152		152	
Unrealized losses from SPOT transactions	107	10	107	
Other liabilities	333	522	307	525
Total other liabilities	1,614	1,194	1,588	1,187

29. SUBORDINATED DEBT

EUR '000 0.702804	Bank/ Group 31.12.2006	Bank/ Group 31.12.2005 (restated)
"CONVERS GROUP MANAGEMENT COMPANY"	5,501	5,499
"Akademgrupp"	5,420	-
Total other liabilities	10,921	5,499

The debt due to the "Convers Group Management Company" terms includes an interest rate of 7% and a term of seven years, maturing on 8 November 2012. According to the agreement on subordinated debt with "Convers Group Management Company" dated on 8 November 2005, the borrower has the right to receive the invested funds at the end of the loan agreement or if the Bank is liquidated. The borrower has rights to apply for conversion of the subordinated capital into shares according to the Agreement and legislation. The share purchase price of 1.15 LVL per share is set in the Agreement for the conversion of the subordinated capital into shares.

According to the agreement on subordinated debt with Closed Joint-Stock Company "Akademgrupp" dated on 27 December 2006, the borrower has the right to receive the invested funds at the end of the loan agreement or if the Bank is liquidated**.** The debt terms include an interest rate of 8.6% and a term of seven years, maturing on 27 December 2013.

30. SHAREHOLDERS' EQUITY AND RESERVES

As at 31 December 2006, the Bank's registered and paid share capital was EUR 12,957 thousand (2005: 12,957 thousand). Share capital consists of 9,106,412 shares entitling to equal rights to dividends, liquidation quota and voting rights at the shareholders meeting. Nominal value per share is LVL 1. All 9,106,412 bearer's shares with voting rights and nominal value of LVL 1 are listed in the Free List of the Riga Stock Exchange. There is no limitation on expropriation of shares. Bank has not issued employee shares and there is no shareholder to whom the special control right is granted. No limitation is known that would restrict or limit the commitment of shareholder's of shares or voting rights. At the reporting date the Bank is in the process to increase its share capital based on decision made in shareholders meeting dated on 29/09/2006. For more details see Subsequent event (Note 42).

The Bank's principal shareholders as at 31 December 2006 and 2005 were as follows:

EUR '000 0.702804	31.12.2006 Paid-in share capital	31.12.2006 % of total paid-in capital	31.12.2005 Paid-in share capital	31.12.2005 % of total paid-in capital
JSC bank ''Snoras''	9,717	75.00	10,756	83.01
AS "West Investment"	1,235	9.53	-	-
Geminy Investment Fund LTD	1,037	8.01	-	-
Other	968	7.46	2,201	16.99
Total	12,957	**100**	12,957	**100**

Changes in Bank's statutes can be made in shareholders meeting by ¾ voting right presented in the shareholder meeting.

Bank has not entered in any agreement that would come into power if there were change of control.

The beneficial interests of the members of the Management Board in the shares of the Bank (in thousands of shares) as at the end of the reporting year:

Number ('000)	31.12.2006 Ordinary shares	31.12.2005 Ordinary Shares
Andris Nātriņš*	-	4.3
Gints Bukovskis*	-	3.5
Total Management Board	**-**	**7.8**

* as of 31 December 2006 the person was not the member of the Board

Bank reserves:

- The reserve was based on legislation that existed on period year 1993 – 2001 and mainly refers to privatization and the treatment of capital increase and distribution of profit. The last movement relates to share capital increase in 21 November 2000. As of the 31 December 2006 the Bank reserve amounted EUR 891 thousand.
- The revaluation reserve is a reserve from revaluation of fixed assets. Based on the provisions of IAS 16 revaluations shall be made with the sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the balance sheet date. As of 31 December 2005 the Bank has performed revaluation of all its property under "Land and Building". As the result the revaluation reserve was increased by EUR 3,482 thousand. Revaluation had been performed by certified, independent valuers. For recognition purposes the average value between two unrelated valuers' statements was used.

Share premium relates to share capital increase in 2001. The excess of share capital sell value to its nominal was EUR 1,882 thousand.

31. ASSETS AND LIABILITIES UNDER MANAGEMENT

As of 31 December 2006 total assets under management amounted to EUR 20,368 thousand (2005: 9,915) recognized off-balance sheet. The Bank based on the fund owner's specific requests issues loans to non-banking customers classified as funds under trust management. Based on the trust management agreements with customers, the fund owner's bear all the risks associated with these loans, and the Bank acts only as an intermediary for loan issuance.

32. ASSETS HELD IN CUSTODY

Assets held in custody reached total value of EUR 94,063 thousand (2005: EUR 112,844 thousand) as of 31 December 2006. This includes investments in non-resident and resident financial instruments in amount of EUR 2,410 thousand and EUR 91,653 thousand (2005: EUR 714 thousand and EUR 112,129 thousand) respectively.

33. CASH AND CASH EQUIVALENTS

EUR '000 0.702804	Group 31.12.2006	Group 31.12.2005 (restated)	Bank 31.12.2006	Bank 31.12.2005 (restated)
Cash and deposits with the Bank of Latvia	99,116	40,573	99,116	40,570
Balances due from credit institutions	137,505	19,825	137,505	19,824
Balances due to credit institutions	(66,007)	(23,179)	(66,007)	(23,179)
Total cash and cash equivalents	170,614	37,219	170,614	37,215

Cash and cash equivalent amount is reduced by due to other credit institutions and the Bank of Latvia on demand and with the residual maturity less than 3 months, as stipulated in the Preparation Terms of Bank annual reports set by FCMC.

34. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

The Bank/ Group estimates that fair value of its assets and liabilities, except fair values of held-to-maturity investment, do not diverge significantly from their carrying amount. The fair value of held to maturity investments is EUR 20,327 thousand (2005: 23,388).

35. CONCENTRATION OF ASSETS AND OFF-BALANCE SHEET ITEMS BY GEOGRAPHIC REGION

	Group 31.12.2006		Group 31.12.2005 (restated)		Bank 31.12.2006		Bank 31.12.2005 (restated)	
EUR '000 0.702804	Assets	Liabilities and shareholders equity	Assets	Liabilities and shareholders equity	Assets	Liabilities and shareholders equity	Assets	Liabilities and shareholders equity
Latvia	488,344	518,127	319,254	313,780	488,974	518,758	319,204	313,730
OECD countries	62,549	10,517	16,118	18,476	62,549	10,516	16,118	18,476
Other	25,561	47,810	8,522	11,638	25,561	47,810	8,522	11,638
Total	576,454	576,454	343,894	343,894	577,084	577,084	343,844	343,844

36. CAPITAL ADEQUACY

Capital adequacy refers to the sufficiency of the Bank's capital resources to cover the credit risks and market risks arising from the portfolio of assets of the Bank and the memorandum item exposures of the Bank.

The Bank's international risk based capital adequacy ratio as at 31 December 2006 was 12.1% (2005: 12.3%), which is above the minimum ratio recommended by the 1988 Basle Committee guidelines of 8%. At the same time, in accordance with the Finance and Capital Market Commission requirements, the Bank's risk based capital adequacy ratio was 11.7% (2005: 11.6%). In accordance with the changes to the Law on Credit Institutions in 2004, capital adequacy ratio for banks starting from 2004 is 8%.

According to the requirements of Financial and Capital Markets Commission, credit institutions must calculate the market risk capital requirement for trading book items. The Management of the Bank believes that its trading activities are not significant and therefore the calculation of such a capital requirement would not have a material effect on the capital adequacy ratio. As at 31 December 2006, the market risk capital requirement is calculated only for foreign currency risk.

The Finance and Capital Market Commission requirements developed in line with European Union directives are principally consistent with the Basle Committee guidelines for the calculation of the capital adequacy ratio.

FCMC requires Latvian banks to maintain a capital adequacy ratio of 8% of risk weighted assets based on its methodology. The Group's capital adequacy ratio under FCMC methodology as of 31 December 2006 was 11.9% (as of 31 December 2005: 11.6%).

EUR '000 0.702804	**Group 31.12.2006**	**Bank 31.12.2006**
Tier 1		
Paid-in share capital	12,957	12,957
Share premium	1,882	1,882
Reserve capital	891	891
Audited retained earnings (not subject to dividend distribution)	5,079	5,071
Audited profit for the year (not subject to dividend distribution)	5,750	5,842
Less		
Intangible assets	(1,289)	(1,118)
Total Tier 1	25,270	25,525
Tier 2		
Subordinated debt	10,915	10,915
Revaluation reserve	2,819	2,819
Total Tier 2	13,734	13,734
Decrease in equity		
Significant investment in other credit and financial institutions	-	(684)
Equity to be utilized for the capital adequacy calculation in accordance with the guidelines of the Finance and Capital Market Commission (A)	39,004	38,575

Risk weighted assets and memorandum items

EUR '000 0.702804	Balance/ credit equivalent for memorandum items		Risk Weighting	Risk Weighted Assets	
	Group 31.12.2006	**Bank 31.12.2006**		**Group 31.12.2006**	**Bank 31.12.2006**
Assets					
0% weighted risk assets	134,856	134,856	0%	-	-
20% weighted risk assets	134,382	134,382	20%	26,876	26,876
50% weighted risk assets	36,539	36,539	50%	18,270	18,270
100% weighted risk assets	270,677	271,308	100%	270,677	271,308
Total assets	576,454	577,084		315,823	316,454
Memorandum items					
0% risk weighted	205	205	0%	-	-
20% risk weighted	978	978	20%	195	195
100% risk weighted	12,104	12,104	100%	12,104	12,104
Total risk weighted assets and memorandum items (B)				328,122	328,753
Capital adequacy ratio (A/B)				**11.9%**	**11.7%**

37. CURRENCY ANALYSIS

As of 31 December 2006: **EUR '000** **0.702804**	**LVL**	**USD**	**EUR**	**Other currencies**	**Total**
Assets					
Cash and deposits with the central Bank	91,149	1,383	5,898	686	99,116
Balances due from credit institutions and central banks	63,716	52,248	13,160	12,585	141,709
Loans and advances to customers	120,058	5,200	146,594	-	271,852
Securities and investments	36,679	4,387	5,260	-	46,326
Fixed and intangible assets	15,858	-	-	-	15,858
Prepayments and other assets	1,717	265	231	10	2,223
Total assets	329,177	63,483	171,143	13,281	577,084
Liabilities and shareholders' equity					
Balances due to the central bank and credit institutions	26,333	30,711	8,933	30	66,007
Deposits from the public	352,657	47,147	64,026	803	464,633
Derivative liabilities	361	-	-	-	361
Accounts payable and other liabilities	4,198	115	152	14	4,479
Subordinate capital	-	5,420	5,501	-	10,921
Shareholders' equity	30,683	-	-	-	30,683
Total liabilities and shareholders' equity	414,232	83,393	78,612	847	577,084
Net long/ (short) position on balance sheet	(85,055)	(19,910)	92,531	12,434	-
Net long/ (short) position on balance sheet as of 31 December 2005	(40,395)	(6,096)	45,235	1,256	-
Off-balance sheet items from foreign exchange					
Unsettled spot foreign exchange transactions	999	(811)	127	(327)	(12)
Forward foreign exchange transaction	50,330	20,717	(59,465)	(11,874)	(292)
Net long/(short) position on foreign exchange	51,329	19,906	(59,338)	(12,201)	(304)
Net long/(short) position	(33,726)	(4)	33,193	233	(304)
Net long/(short) position as of 31 December 2005	(29,328)	(87)	28,736	573	(105)
Financial commitments and contingencies					
Contingent liabilities	161	488	1,788	-	2,437
Financial commitments	9,967	35,471	9,636	-	55,074
Total financial commitments and contingencies	10,128	35,959	11,424	-	57,511

Consolidated companies operates with LVL currency as the result the Group currency position do not differ from Bank's currency position.

The Latvian banking legislation requires that open positions in each foreign currency may not exceed 10% of the Bank's equity (see Note 36 for the definition of equity under the Bank of Latvia's regulations) and that the total net foreign currency open position may not exceed 20% of the equity.

As at 31 December 2006 and 2005, the Bank complied with the requirements for the net open currency position.

In line with Latvia's preparations for accession to the European Economic and Monetary Union, on 31 December 2004 the Bank of Latvia changed the peg of the lat from XDR and determined a fixed pegged rate of 1 EUR = 0.702804 LVL effective as of 1 January 2005.

Effective 1 January 2005, there are no restrictions for the corresponding parts of the net open positions in Euro and Lats as stated in the FCMC normative acts on changes to the LVL pegging to EUR set by the Bank of Latvia.

38. ASSETS, LIABILITIES AND MEMORANDUM ITEMS BY MATURITY PROFILE– The Group

As of 31 December 2006: EUR '000 0.702804	Within 1 month	1 - 3 months	3 - 6 months	6 - 12 months	1 - 5 years	Over 5 years	Undated	Total
Assets								
Cash and deposits with the central Bank	99,116	-	-	-	-	-	-	99,116
Balances due from credit institutions and central banks	129,707	7,797	-	-	-	-	4,205	141,709
Loans and advances to customers	11,379	10,302	14,179	35,000	133,818	66,021	954	271,653
Securities and investments	88	626	22,573	3,321	13,545	5,394	88	45,635
Fixed and intangible assets	-	-	-	-	-	-	16,071	16,071
Prepayments and other assets	323	-	-	-	-	-	1,947	2,270
Total assets	240,613	18,725	36,752	38,321	147,363	71,415	23,265	576,454
Liabilities and shareholders' equity								
Balances due to the central bank and credit institutions	66,007	-	-	-	-	-	-	66,007
Deposits from the public	275,942	30,785	66,519	60,340	29,638	837	-	464,061
Derivative liabilities	330	4	20	7	-	-	-	361
Deferred tax liability	-	-	-	-	-	-	1,074	1,074
Accounts payable and other liabilities	3,431	-	-	-	-	-	-	3,431
Subordinate capital	6	-	-	-	-	10,915	-	10,921
Shareholders' equity	-	-	-	-	-	-	30,599	30,599
Total liabilities and shareholders' equity	345,716	30,789	66,539	60,347	29,638	11,752	31,673	576,454
Net liquidity gap	(105,103)	(12,064)	(29,787)	(22,026)	117,725	59,663	(8,408)	-
Financial commitments and contingencies								
Contingent liabilities	2,437	-	-	-	-	-	-	2,437
Financial commitments	55,074	-	-	-	-	-	-	55,074
Total financial commitments and contingencies	57,511	-	-	-	-	-	-	57,511

As of 31 December 2005 (restated): EUR '000 0.702804	Within 1 month	1 - 3 months	3 - 6 months	6 - 12 months	1 - 5 years	Over 5 years	Undated	Total
Assets								
Cash and deposits with the central Bank	40,573	-	-	-	-	-	-	40,573
Balances due from credit institutions and central banks	19,737	88	-	-	-	-	4,199	24,024
Loans and advances to customers	8,737	8,840	9,371	30,923	93,965	63,793	1,050	216,679
Securities and investments	13,305	188	151	8,008	21,633	3,190	249	46,724
Fixed and intangible assets	-	-	-	-	-	-	14,557	14,557
Prepayments and other assets	61	-	-	-	-	-	1,276	1,337
Total assets	82,413	9,116	9,522	38,931	115,598	66,983	21,331	343,894
Liabilities and shareholders' equity								
Balances due to the central bank and credit institutions	23,179	-	-	-	-	-	-	23,179
Deposits from the public	180,574	19,663	25,669	42,379	17,339	841	-	286,465
Derivative liabilities	121	-	-	-	-	-	-	121
Deferred tax liability	-	-	-	-	-	-	1,195	1,195
Accounts payable and other liabilities	2,428	-	-	-	-	-	-	2,428
Subordinate capital	-	-	-	-	-	5,499	-	5,499
Shareholders' equity	-	-	-	-	-	-	24,830	24,830
Minority interest	-	-	-	-	-	-	177	177
Total liabilities and shareholders' equity	206,302	19,663	25,669	42,379	17,339	6,340	26,202	343,894
Net liquidity gap	(123,889)	(10,547)	(16,147)	(3,448)	98,259	60,643	(4,871)	-
Financial commitments and contingencies								
Contingent liabilities	1,840	-	-	-	-	-	-	1,840
Financial commitments	23,103	-	-	-	-	-	-	23,103
Total financial commitments and contingencies	24,943	-	-	-	-	-	-	24,943

38. ASSETS, LIABILITIES AND MEMORANDUM ITEMS BY MATURITY PROFILE (continued) – The Bank

As of 31 December 2006: EUR '000 0.702804	Within 1 month	1 - 3 months	3 - 6 months	6 - 12 months	1 - 5 years	Over 5 years	Undated	Total
Assets								
Cash and deposits with the central Bank	99,116	-	-	-	-	-	-	99,116
Balances due from credit institutions and central banks	129,708	7,797	-	-	-	-	4,204	141,709
Loans and advances to customers	11,578	10,302	14,179	35,000	133,818	66,021	954	271,852
Securities and investments	88	626	22,572	3,321	13,544	5,394	781	46,326
Fixed and intangible assets	-	-	-	-	-	-	15,858	15,858
Prepayments and other assets	276	-	-	-	-	-	1,947	2,223
Total assets	240,766	18,725	36,751	38,321	147,362	71,415	23,744	577,084
Liabilities and shareholders' equity								
Balances due to the central bank and credit institutions	66,007	-	-	-	-	-	-	66,007
Deposits from the public	276,442	30,785	66,519	60,340	29,710	837	-	464,633
Derivative liabilities	330	4	20	7	-	-	-	361
Deferred tax liability	-	-	-	-	-	-	1,074	1,074
Accounts payable and other liabilities	3,405	-	-	-	-	-	-	3,405
Subordinate capital	6	-	-	-	-	10,915	-	10,921
Shareholders' equity	-	-	-	-	-	-	30,683	30,683
Total liabilities and shareholders' equity	346,190	30,789	66,539	60,347	29,710	11,752	31,757	577,084
Net liquidity gap	(105,424)	(12,064)	(29,788)	(22,026)	117,652	59,663	(8,013)	-
Financial commitments and contingencies								
Contingent liabilities	2,437	-	-	-	-	-	-	2.437
Financial commitments	55,074	-	-	-	-	-	-	55.074
Total financial commitments and contingencies	57,511	-	-	-	-	-	-	57.511

As of 31 December 2005 (restated): EUR '000 0.702804	Within 1 month	1 - 3 months	3 - 6 months	6 - 12 months	1 - 5 years	Over 5 years	Undated	Total
Assets								
Cash and deposits with the central Bank	40,570	-	-	-	-	-	-	40,570
Balances due from credit institutions and central banks	19,735	88	-	-	-	-	4,199	24,022
Loans and advances to customers	8,737	8,840	9,371	30,923	93,965	63,793	1,050	216,679
Securities and investments	13,297	188	151	7,965	21,633	3,034	428	46,696
Fixed and intangible assets	-	-	-	-	-	-	14,545	14,545
Prepayments and other assets	57	-	-	-	-	-	1,275	1,332
Total assets	82,396	9,116	9,522	38,888	115,598	66,827	21,497	343,844
Liabilities and shareholders' equity								
Balances due to the central bank and credit institutions	23,179	-	-	-	-	-	-	23,179
Deposits from the public	180,636	19,662	25,669	42,379	17,416	841	-	286,603
Derivative liabilities	121	-	-	-	-	-	--	121
Deferred tax liability	-	-	-	-	-	-	1,195	1,195
Accounts payable and other liabilities	2,419	-	-	-	-	-	-	2,419
Subordinate capital	-	-	-	-	-	5,499	-	5,499
Shareholders' equity	-	-	-	-	-	-	24,828	24,828
Total liabilities and shareholders' equity	206,355	19,662	25,669	42,379	17,416	6,340	26,023	343,844
Net liquidity gap	(123,959)	(10,546)	(16,147)	(3,491)	98,182	60,487	(4,526)	-
Financial commitments and contingencies								
Contingent liabilities	1,840	-	-	-	-	-	-	1,840
Financial commitments	23,103	-	-	-	-	-	-	23,103
Total financial commitments and contingencies	24,943	-	-	-	-	-	-	24,943

39. REPRICING MATURITY OF ASSETS AND LIABILITIES BASED ON INTEREST RATE CHANGES – The Group

The amount of assets and liabilities analysed over remaining period to their next repricing date was as follows:

As of 31 December 2006: EUR '000 0.702804	Within 1 month	1 - 3 months	3 - 6 months	6 - 12 months	1 - 5 years	Over 5 years	Non-interest bearing	Total
Assets								
Cash and deposits with the central Bank	78,937	-	-	-	-	-	20,179	99,116
Balances due from credit institutions and central banks	134,071	7,638	-	-	-	-	-	141,709
Loans and advances to customers	11,187	216,548	7,605	14,300	20,458	474	1,081	271,653
Securities and investments	208	626	23,068	3,024	13,167	5,394	148	45,635
Fixed and intangible assets	-	-	-	-	-	-	16,071	16,071
Prepayments and other assets	-	-	-	-	-	-	2,270	2,270
Total assets	224,403	224,812	30,673	17,324	33,625	5,868	39,749	576,454
Liabilities and shareholders' equity								
Balances due to the central bank and credit institutions	66,007	-	-	-	-	-	-	66,007
Deposits from the public	275,942	30,785	66,519	60,340	29,638	837	-	464,061
Derivative liabilities	-	-	-	-	-	-	361	361
Accounts payable and other liabilities	-	-	-	-	-	-	4,505	4,505
Subordinate capital	6	-	-	-	-	10,915	-	10,921
Shareholders' equity	-	-	-	-	-	-	30,599	30,599
Total liabilities and shareholders' equity	341,955	30,785	66,519	60,340	29,638	11,752	35,465	576,454
Total interest sensitivity gap	(117,552)	194,027	(35,846)	(43,016)	3,987	(5,884)	4,284	-

As of 31 December 2005 (restated): EUR '000 0.702804	Within 1 month	1 - 3 months	3 - 6 months	6 - 12 months	1 - 5 years	Over 5 years	Non-interest bearing	Total
Assets								
Cash and deposits with the central Bank	22,623	-	-	-	-	-	17,950	40,573
Balances due from credit institutions and central banks	24,024	-	-	-	-	-	-	24,024
Loans and advances to customers	8,736	171,576	5,127	17,497	8,995	3,698	1,050	216,679
Securities and investments	14,121	186	151	7,193	21,633	3,190	250	46,724
Fixed and intangible assets	-	-	-	-	-	-	14,557	14,557
Prepayments and other assets	-	-	-	-	-	-	1,337	1,337
Total assets	69,504	171,762	5,278	24,690	30,628	6,888	35,144	343,894
Liabilities and shareholders' equity								
Balances due to the central bank and credit institutions	23,179	-	-	-	-	-	-	23,179
Deposits from the public	180,572	21,034	25,569	42,255	16,512	523	-	286,465
Derivative liabilities	-	-	-	-	-	-	121	121
Accounts payable and other liabilities	-	-	-	-	-	-	3,623	3,623
Subordinate capital	-	-	-	-	-	5,499	-	5,499
Minority interest	-	-	-	-	-	-	177	177
Shareholders' equity	-	-	-	-	-	-	24,830	24,830
Total liabilities and shareholders' equity	203,751	21,034	25,569	42,255	16,512	6,022	28,751	343,894
Total interest sensitivity gap	(134,247)	150,728	(20,291)	(17,565)	14,116	866	6,393	-

39. REPRICING MATURITY OF ASSETS AND LIABILITIES BASED ON INTEREST RATE CHANGES (continued) – The Bank

As of 31 December 2006: EUR '000 0.702804	Within 1 month	1 - 3 months	3 - 6 months	6 - 12 months	1 - 5 years	Over 5 years	Non-interest bearing	Total
Assets								
Cash and deposits with the central Bank	78,937	-	-	-	-	-	20,179	99,116
Balances due from credit institutions and central banks	134,071	7,638	-	-	-	-	-	141,709
Loans and advances to customers,	11,387	216,548	7,605	14,300	20,458	474	1,080	271,852
Securities and investments	208	626	23,068	3,024	13,167	5,394	839	46,326
Fixed and intangible assets	-	-	-	-	-	-	15,858	15,858
Prepayments and other assets	-	-	-	-	-	-	2,223	2,223
Total assets	224,603	224,812	30,673	17,324	33,625	5,868	40,179	577,084
Liabilities and shareholders' equity								
Balances due to the central bank and credit institutions	66,007	-	-	-	-	-	-	66,007
Deposits from the public	276,442	30,785	66,519	60,340	29,710	837	-	464,633
Derivative liabilities	-	-	-	-	-	-	361	361
Accounts payable and other liabilities	-	-	-	-	-	-	4,479	4,479
Subordinate capital	6	-	-	-	-	10,915	-	10,921
Shareholders' equity	-	-	-	-	-	-	30,683	30,683
Total liabilities and shareholders' equity	342,455	30,785	66,519	60,340	29,710	11,752	35,523	577,084
Total interest sensitivity gap	(117,852)	194,027	(35,846)	(43,016)	3,915	(5,884)	4,656	-

As of 31 December 2005 (restated): EUR '000 0.702804	Within 1 month	1 - 3 months	3 - 6 months	6 - 12 months	1 - 5 years	Over 5 years	Non-interest bearing	Total
Assets								
Cash and deposits with the central Bank	22,621	-	-	-	-	-	17,949	40,570
Balances due from credit institutions and central banks	24,022	-	-	-	-	-	-	24,022
Loans and advances to customers	8,736	171,576	5,127	17,497	8,995	3,698	1,050	216,679
Securities and investments	14,113	186	151	7,149	21,633	3,034	430	46,696
Fixed and intangible assets	-	-	-	-	-	-	14,545	14,545
Prepayments and other assets	-	-	-	-	-	-	1,332	1,332
Total assets	69,492	171,762	5,278	24,646	30,628	6,732	35,306	343,844
Liabilities and shareholders' equity								
Balances due to the central bank and credit institutions	23,179	-	-	-	-	-	-	23,179
Deposits from the public	180,636	21,034	25,569	42,255	16,587	522	-	286,603
Derivative liabilities	-	-	-	-	-	-	121	121
Accounts payable and other liabilities	-	-	-	-	-	-	3,614	3,614
Subordinate capital	-	-	-	-	-	5,499	-	5,499
Shareholders' equity	-	-	-	-	-	-	24,828	24,828
Total liabilities and shareholders' equity	203,815	21,034	25,569	42,255	16,587	6,021	28,563	343,844
Total interest sensitivity gap	(134,323)	150,728	(20,291)	(17,609)	14,041	711	6,743	-

40. RELATED PARTIES

Related parties are defined as shareholders who have significant influence over the Bank, members of the Council and Board of Directors, key Management personnel, their close relatives and companies in which they have a controlling interest as well as subsidiaries and associated companies.

EUR '000 0.702804	Bank 2006	Bank 2005
***Amounts receivable*:**		
Loans and advances to related parties:		
- Management	198	121
- Parent company	218	17
- Other related legal entities	14,451	2,483
- Other related private individuals	122	30
Total loans and advances to related parties	**14,989**	**2,651**
***Amounts payable*:**		
Deposits and funds received:		
- Management	-	8
- Parent company	9,687	8
- Other related legal entities	858	946
- Other related private individuals	206	-
Total amounts payable	10,751	962
Credit commitments and contingencies to related legal entities		
- Management	666	215
- Other related private individuals	1,006	43
Total commitments and contingencies to related parties	**1,672**	**258**
Profit and loss items		
Interest income	196	33
Inc. Interest income from parent company	1	16
Interest expense	(67)	(16)
Inc. Interest expense from parent company	(57)	(16)
Commission income	41	7
Inc. Interest expense from parent company	40	-
Other income/ expense	4	-
Total profit or loss	**174**	**24**

All deposits from related parties are attracted on market terms and conditions. No impairment losses have been recognized in respect of loans given to related parties.

41. COMMITMENTS AND CONTINGENCIES

Memorandum items include the following contingent liabilities and commitments, as well as client security account balances outstanding at the end of the year:

EUR '000 0.702804	Group 31.12.2006	Group 31.12.2005 (restated)	Bank 31.12.2006	Bank 31.12.2005 (restated)
Contingent liabilities				
Outstanding guarantees	2,437	756	2,437	756
Irrevocable letters of credit	-	1,084	-	1,084
Total contingent liabilities	2,437	1,840	2,437	1,840
Financial commitments				
Credit commitments	20,539	22,903	20,539	22,903
Other commitments	34,535	201	34,535	201
Total financial commitments	55,074	23,103	55,074	23,103
Total contingent liabilities and financial commitments	57,511	24,943	57,511	24,943

Credit commitments include unused credit limits granted on settlement cards, which as at 31 December 2006 amounted to EUR 5,148 (2005: 3,880) thousand.

42. INTEREST RATE RISK

The following table shows the split of interest bearing assets in their nominal value as of 31 December 2006.

EUR '000 **0.702804**	**Fixed rate**	**Floating rate**	**Total**
Cash and deposits with the central bank	77,224	-	**77,224**
Balances due from credit institutions and the central bank	137,346	4,364	**141,710**
Securities	44,813	673	**45,486**
Loans and advances to customers	54,117	216,123	**270,240**
Total interest bearing assets	**313,500**	**221,160**	**534,660**
Balances due to the central bank and credit institutions	55,930	10,077	**66,007**
Deposits from the customers	413,889	50,320	**464,209**
Subordinated debt	10,921	-	**10,921**
Total interest bearing liabilities	**480,740**	**60,397**	**541,137**

43. SUBSEQUENT EVENTS

At the signing of this report the Bank is in the process to increase its share capital. 800 thousand ordinary shares and 850 thousand "A category" preferred shares is offered in 3 stages. Ordinary shares are with the same characteristic as described in Note 30 "Shareholde's Equity". The preferred shares have no voting rights, but have rights to receive dividend from net income in proportion of its rate in shareholder's equity. The preferred shares have the quota in liquidation. At the date of signing these financial statements there is no registration of share capital increase in commercial register taken place.

Bank established fully owned daughter company SIA "LKB Leasing" on 9 January 2007 in order to develop Leasing products and activities.

As at 31 January 2007, the Bank issued mortgage bonds in nominal value of EUR 5,000 thousand with 3 year maturity and interest rate euro LIBOR +1% with coupon payments twice a year.

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