

AS Latvijas Krājbanka

Consolidated Annual Report

for the year ended 31 December 2006

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STATEMENT OF THE MANAGEMENT

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 LVL 4 041 thousand, which is by LVL 1 394 thousand or 53% more than in 2005. The amount of the Krājbanka group's assets in 2006 increased by LVL 163.44 million or 67.6% (from LVL 241.69 million to LVL 405.13 million). But, the growth of the balance of deposits in 2006 made up LVL 124.82 million or 62% (from LVL 201.33 million to LVL 326.14 million), but the growth of granted loans – LVL 38.64 million or 25.4% (from LVL 152.28 million to LVL 190.92 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 LVL 3 101 thousand or 37.1% and the growth of net commission income by LVL 257 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 LVL 175 thousand or 35.6%, but expenses for loan loss impairment decreased by LVL 803 thousand or 40.4%. The ratio between special allowances for loan loss impairment 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 LVL 58 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 LVL 75 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 LVL 3.8 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.

STATEMENT OF THE MANAGEMENT

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 Versicherungs Aktiengesellschaft" (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

Rīga,
30 March 2007

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

Supervisory Council

<i>Name, surname</i>	<i>Position</i>	<i>Date of appointment/ Reappointment</i>
Raimondas Baranauskas	Chairman of the Council	28/10/2005/ 29/09/2006
Aleksandrs Antonov	Deputy Chairman of the Council	28/10/2005/ 29/09/2006
Naglis Stancikas	Member of the Council	28/10/2005/ 29/09/2006
Oļegs Suhorukov	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.

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 Ovčinnikova	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	27/06/2006
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,
30 March 2007

AS LATVIJAS KRĀJBANKA
INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2006

LVL '000	Notes	Group 2006	Group 2005 (restated)	Bank 2006	Bank 2005 (restated)
Interest income	4	18,239	12,837	18,239	12,829
Interest expense	4	(6,782)	(4,481)	(6,790)	(4,484)
Net interest income		11,457	8,356	11,449	8,345
Commission and fee income	6	6,636	6,163	6,599	6,148
Commission and fee expense	6	(1,707)	(1,491)	(1,705)	(1,486)
Net commission and fee income		4,929	4,672	4,894	4,662
Dividend income		-	-	6	-
Profit on sale of securities and foreign exchange trading	7	2,176	2,611	2,180	2,601
Other operating income	8	1,018	774	1,018	774
Operating income		19,580	16,413	19,547	16,382
Personnel expense	9	(7,268)	(5,814)	(7,233)	(5,799)
Depreciation and amortisation expense	22, 23	(1,712)	(1,642)	(1,707)	(1,639)
Other operating expenses	10	(5,386)	(4,441)	(5,328)	(4,433)
Total operating expenses		(14,366)	(11,897)	(14,268)	(11,871)
Impairment losses	11	(1,186)	(1,989)	(1,186)	(1,989)
Reversal of impairment losses	11	667	492	667	492
Profit before corporate income tax		4,695	3,019	4,760	3,014
Corporate income tax	12	(654)	(372)	(654)	(372)
Profit for the reporting year		4,041	2,647	4,106	2,642
Attributable to:					
Shareholders of the Bank		4,041	2,643	4,106	2,642
Minority		-	4	-	-
Basic earnings per share (in lats per share)	13	0.444	0.291	0.451	0.290
Diluted earnings per share (in lats per share)	13	0.343	0.227	0.348	0.227

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

AS LATVIJAS KRĀJBANKA
BALANCE SHEET
AS AT 31 DECEMBER 2006

LVL '000	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	69,659	28,515	69,659	28,513
Balances due from credit institutions and the central bank	15	99,594	16,884	99,594	16,883
Loans and advances to customers	16	190,919	152,283	191,059	152,283
Financial assets at fair value through profit or loss	17	17,577	16,043	17,577	15,897
Held-to-maturity investments	19	14,495	16,795	14,495	16,795
Investment in associate	20	-	-	-	121
Investment in subsidiary	20	-	-	486	5
Intangible assets	22	906	830	786	828
Fixed assets	23	10,389	9,401	10,359	9,394
Prepayments and accrued income		406	342	406	342
Other assets	24	1,189	597	1,156	594
Total assets		405,134	241,690	405,577	241,655
Liabilities					
Balances due to the central bank and credit institutions	25	46,390	16,290	46,390	16,290
Deposits from the customers	26	326,144	201,329	326,546	201,426
Derivative liabilities	18	254	85	254	85
Deferred income and accrued expenses	27	1,277	867	1,277	866
Deferred tax liability	12	755	840	755	840
Corporate income tax liability	28	718	465	718	465
Other liabilities	28	416	374	398	369
Subordinated debt	29	7,675	3,865	7,675	3,865
Total liabilities		383,629	224,115	384,013	224,206
Shareholders' equity					
Paid-in share capital	30	9,106	9,106	9,106	9,106
Share premium	30	1,323	1,323	1,323	1,323
Reserve capital and other reserves	30	626	626	626	626
Revaluation reserve	30	2,839	2,830	2,839	2,830
Retained earnings		3,570	922	3,564	922
Net income		4,041	2,643	4,106	2,642
Total issued capital and reserves attributable to equity holders of the parent		21,505	17,450	21,564	17,449
Minority interest		-	125	-	-
Total shareholders' equity and minority interest		21,505	17,575	21,564	17,449
Total liabilities and shareholders' equity		405,134	241,690	405,577	241,655

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

AS LATVIJAS KRĀJBANKA
STATEMENT OF CHANGES IN SHAREHOLDER'S EQUITY
AS AT 31 DECEMBER 2006

Group LVL '000	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		9,106	1,323	626	383	1,534	121	13,093
Adjustment in the result of changes in accounting policies*		-	-	-	-	(612)	-	(612)
Balance as at 31 December 2004 (restated)		9,106	1,323	626	383	922	121	12,481
Revaluation charged**		-	-	-	2,447	-	-	2,447
Net profit for the year		-	-	-	-	2,643	4	2,647
Balance as at 31 December 2005	30	9,106	1,323	626	2,830	3,565	125	17,575
Adjustment in the result of minority interest elimination (Note 21)		-	-	-	-	5	(125)	(120)
Reversal of deferred tax from revaluation reserve		-	-	-	9	-	-	9
Net profit for the year		-	-	-	-	4,041	-	4,041
Balance as at 31 December 2006	30	9,106	1,323	626	2,839	7,611	-	21,505

Bank LVL '000	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)		9,106	1,323	626	383	1,534	12,972
Adjustment in the result of changes in accounting policies*		-	-	-	-	(612)	(612)
Balance as at 31 December 2004 (restated)		9,106	1,323	626	383	922	12,360
Revaluation charged**		-	-	-	2,447	-	2,447
Net profit for the year		-	-	-	-	2,642	2,642
Balance as at 31 December 2005	30	9,106	1,323	626	2,830	3,564	17,449
Reversal of deferred tax from revaluation reserve		-	-	-	9	-	9
Net profit for the year		-	-	-	-	4,106	4,106
Balance as at 31 December 2006	30	9,106	1,323	626	2,839	7,670	21,564

*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.

AS LATVIJAS KRĀJBANKA
CASH FLOW STATEMENT
AS AT 31 DECEMBER 2006

LVL '000	Notes	Group 2006	Group 2005 (restated)	Bank 2006	Bank 2005 (restated)
Operating activities					
Result before corporate income tax		4,695	3,019	4,760	3,014
Depreciation and amortisation	22, 23	1,712	1,642	1,707	1,639
Increase in provisions for liabilities and charges		30	533	30	533
Gain on revaluation of foreign currency		274	(149)	274	(149)
Gain on revaluation of investments		226	(823)	226	(823)
Minority interest		(5)	-	-	-
Loss / (gain) from disposal of fixed assets, net	8, 10	34	(10)	34	(9)
Increase in cash and cash equivalents before changes in assets and liabilities, as a result of ordinary operations		6,966	4,212	7,031	4,205
Increase/(decrease) in deferred income and accrued expenses					
		410	(1,254)	411	(1,254)
(Increase) / decrease in prepayments and accrued income		(64)	1,495	(64)	1,499
Net decrease in derivative instruments	18	128	57	128	57
(Increase) / decrease in other assets		(57)	1,990	(28)	1,991
(Decrease) in other liabilities		(286)	(3,377)	(183)	(3,506)
(Decrease) / increase in financial assets fair value though profit or loss		(1,719)	18,886	(1,865)	18,914
Increase / (decrease) in financial assets held to maturity		2,300	(16,795)	2,300	(16,795)
(Increase) in balances due from the central bank and credit institutions		(4)	(2,957)	(4)	(2,962)
(Increase) in loans and advances to non-banking customers	16	(38,672)	(31,539)	(38,812)	(31,536)
(Decrease) in balances due to the central bank and credit institutions		-	(436)	-	(436)
Increase in deposits from the public		124,815	43,342	125,120	43,435
Net increase in cash and cash equivalents from operating activities		93,817	13,624	94,034	13,612
Paid income tax		(901)	(175)	(900)	(175)
Net increase in cash and cash equivalents		92,916	13,449	93,134	13,437
Cash inflow/ outflow from investing activities					
(Purchase) of fixed and intangible assets	22, 23	(3,111)	(935)	(2,964)	(926)
Proceeds from disposal of fixed and intangible assets		409	166	300	166
Investment in associate and subsidiary, net	21	-	-	(253)	-
Increase in cash and cash equivalents from investing activities		(2,702)	(769)	(2,917)	(760)
Cash inflow from financing activities					
Proceeds from issue of subordinated debt		3,810	3,865	3,810	3,865
Repayment of subordinated debt		-	(3,403)	-	(3,403)
Increase in cash and cash equivalents from financing activities		3,810	462	3,810	462
Net increase in cash and cash equivalents		94,024	13,142	94,027	13,139
Cash and cash equivalents at the beginning of the year					
Profit/(loss) from revaluation of foreign currency positions	33	26,158	12,867	26,155	12,867
		(274)	149	(274)	149
Cash and cash equivalents at the end of the year		33	119,908	119,908	26,155

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

AS LATVIJAS KRĀJBANKA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006

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:

<u>Region</u>	<u>Customer service centers</u>	
Rīga	38	(34)
Vidzeme, except Rīga	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 30 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 (IFRS) 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

AS LATVIJAS KRĀJBANKA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006

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 Lats (LVL 000's), 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:

<u>Reporting date</u>	<u>USD</u>	<u>EUR</u>
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

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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 receivables.

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

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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 range 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:

<u>Type of fixed assets</u>	<u>Annual Rate</u>
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

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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.

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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

LVL '000	Comparative figures as at 31 December 2005		
	Reported	Adjustment	Restated
Assets			
Cash and deposits with the central bank	28,513	-	28,513
Balances due from credit institutions and the central bank	13,929	2,954	16,883
Loans and advances to non-banking customers, net	152,584	(301)	152,283
Debt and other fixed income securities	31,863	(31,863)	-
Shares and other non-fixed income securities	175	(175)	-
Derivatives	1	(1)	-
Financial assets designated at fair value through profit or loss	-	15,897	15,897
Held-to-maturity investments	-	16,795	16,795
Investment in associate	121	-	121
Investment in subsidiary	5	-	5
Intangible assets	828	-	828
Fixed assets	9,394	-	9,394
Prepayments and accrued income	1,488	(1,146)	342
Other assets	4,292	(3,698)	594
Total assets	243,193	(1,538)	241,655
Liabilities			
Balances due to the central bank and credit institutions	16,286	4	16,290
Deposits from the public	198,156	3,270	201,426
Derivative liabilities	85	-	85
Deferred income and accrued expenses	2,481	(1,615)	866
Provisions	641	(641)	-
Deferred tax liability	959	(119)	840
Corporate tax liability	-	465	465
Other liabilities	2,599	(2,230)	369
Subordinated debt	3,865	-	3,865
Total liabilities	225,072	(866)	224,206
Shareholders' equity			
Paid-in share capital	9,106	-	9,106
Share premium	1,323	-	1,323
Reserve capital and other reserves	626	-	626
Revaluation reserve	2,830	-	2,830
Retained earnings	1,534	(612)	922
Net income	2,702	(60)	2,642
Total shareholders' equity and minority interest	18,121	(672)	17,449

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Total liabilities and shareholders' equity	243,193	(1,538)	241,655
Bank			
	Comparative figures as at 31 December 2005		
LVL '000	Reported	Adjustment	Restated
Income statement			
Interest income	12,225	604	12,829
Interest expense	(4,484)	-	(4,484)
Net interest income	7,741	604	8,345
Commission and fee income	6,939	(791)	6,148
Commission and fee expense	(1,486)	-	(1,486)
Net commission and fee income	5,453	(791)	4,662
Profit on sale of securities and foreign exchange trading	2,601	-	2,601
Other operating income	774	-	774
Operating income	16,569	(187)	16,382
Administrative expense	(9,955)	9,955	-
Remuneration	-	(5,799)	(5,799)
Depreciation and amortisation expense	(1,639)	-	(1,639)
Impairment losses	(2,139)	2,139	-
Reversal of impairment losses	492	(492)	-
Other operating expenses	(277)	(4,156)	(4,433)
Total operating expenses	(13,518)	1,647	(11,871)
Impairment losses	-	(1,989)	(1,989)
Reversal of impairment losses	-	492	492
Profit before corporate income tax	3,051	(37)	3,014
Corporate income tax	(349)	(23)	(372)
Profit for the reporting year	2,702	(60)	2,642

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 European Union, 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 European Union, 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.

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4. INTEREST INCOME AND EXPENSE

LVL '000	Group 2006	Group 2005 (restated)	Bank 2006	Bank 2005 (restated)
Interest income				
Loans and advances to non-banking customers	14,705	10,981	14,709	10,981
Securities	1,368	1,439	1,365	1,432
<i>Held to maturity investments</i>	529	668	529	668
<i>Trading portfolio</i>	17	-	17	-
<i>Financial assets designated as fair value through profit and loss</i>	822	771	819	764
Due from credit institutions	2,166	417	2,165	416
Total interest income	18,239	12,837	18,239	12,829
Interest expense:				
Deposits from the public	(5,825)	(3,738)	(5,833)	(3,742)
Due to credit institutions	(181)	(168)	(181)	(167)
Contributions to deposit guarantee fund	(502)	(356)	(502)	(356)
Subordinated debt	(274)	(219)	(274)	(219)
Total interest expense	(6,782)	(4,481)	(6,790)	(4,484)
Net interest income	11,457	8,356	11,449	8,345

5. INTEREST PRODUCTIVITY OF THE BANK'S BALANCE SHEET

LVL '000	2006			2005		
	Average monthly balance	Interest	Effective interest rate	Average monthly balance	Interest	Effective interest rate
Assets						
Cash and due from the Central Bank	37,967	-	-	19,504	-	-
Due from other banks	41,688	2,165	5.19	13,087	416	3.18
Financial investments	26,770	1,365	5.10	33,183	1,432	4.32
Derivative assets	18	-	-	49	-	-
Loans and advances to customers, net	166,809	14,709	8.82	135,158	10,981	8.12
Other assets	17,824	-	-	14,703	-	-
A Total assets	291,076	18,239	6.27	215,684	12,829	5.95
Liabilities						
Deposits from customers	248,789	6,335	2.55	177,440	4,098	2.31
Due to other banks	9,999	181	1.81	11,901	167	1.40
Derivative liabilities	241	-	-	100	-	-
Subordinated debt	4,158	274	6.59	3,439	219	6.37
Other liabilities	8,270	-	-	8,370	-	-
B Total liabilities	271,457	6,790	2.50	201,250	4,484	2.23
Shareholders' equity	19,619	-	-	14,434	-	-
C Total liabilities and shareholders' equity	291,076	6,790	2.33	215,684	4,484	2.08
Net interest income	11,449			8,345		
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

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6. COMMISSION AND FEE INCOME AND EXPENSE

LVL '000	Group 2006	Group 2005 (restated)	Bank 2006	Bank 2005 (restated)
Commission and fee income:				
Payment cards	2,552	2,037	2,552	2,037
Money transfers	1,942	1,990	1,942	1,990
Transactions with privatization certificates	565	502	565	502
Maintenance fee	487	575	487	575
Cash services	462	414	462	414
Brokerage fee	106	99	106	99
Other	522	546	485	531
Total commission and fee income	6,636	6,163	6,599	6,148
Commission and fee expense:				
Payment cards	(956)	(873)	(956)	(873)
Settlements	(172)	(188)	(172)	(188)
Other	(579)	(430)	(577)	(425)
Total commission and fee expense	(1,707)	(1,491)	(1,705)	(1,486)
Net commission and fee income	4,929	4,672	4,894	4,662

7. PROFIT ON SALE OF SECURITIES AND FOREIGN EXCHANGE TRADING

LVL '000	Group 2006	Group 2005 (restated)	Bank 2006	Bank 2005 (restated)
Profit from dealing with currency exchange	1,686	1,045	1,686	1,045
Profit on sale of securities at fair value through profit and loss	541	593	541	588
Profit from revaluation of securities, net	223	824	227	819
Profit/(loss) from revaluation of foreign currency positions, net	(274)	149	(274)	149
Total profit on sale of securities and foreign exchange trading	2,176	2,611	2,180	2,601

8. OTHER OPERATING INCOME

LVL '000	Group 2006	Group 2005 (restated)	Bank 2006	Bank 2005 (restated)
Penalties received	826	606	826	606
Rental income	63	59	63	59
Gain from sale of fixed assets	6	63	6	63
Other operating income	123	46	123	46
Total other operating income	1,018	774	1,018	774

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

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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.

LVL '000	Group 2006	Group 2005 (restated)	Bank 2006	Bank 2005 (restated)
Remuneration to the Supervisory Council	8	39	8	39
Remuneration to the Management Board	473	285	473	285
Remuneration to other personnel	5,530	4,423	5,502	4,411
Social security contributions	1,257	1,067	1,250	1,064
Total remuneration and related social security contributions	7,268	5,814	7,233	5,799

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

LVL '000	Group 2006	Group 2005 (restated)	Bank 2006	Bank 2005 (restated)
Rent of premises and land	856	605	853	605
Advertising and marketing	730	680	730	679
Non- refundable value added tax	597	501	597	501
EDP maintenance	475	466	475	466
Communication	451	456	445	456
Security	350	335	350	335
Repairs and maintenance of premises and buildings	329	246	329	246
Car maintenance	274	199	234	199
Participation fees and payments to funds	172	71	172	71
Consulting and professional fees	162	164	161	163
Office expense	134	114	133	110
Training and other personnel expenses	130	87	129	87
Property and real estate tax	137	39	137	39
Insurance	106	76	106	76
Loss from fixed assets disposal	40	74	40	74
Other operating expenses	443	328	437	326
Total operating expenses	5,386	4,441	5,328	4,433

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11. IMPAIRMENT LOSSES

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

LVL'000	Impairment losses for loan principal	Other impairment losses	Total
Impairment losses as at 31 December 2004 (restated)	2,333	129	2,462
Impairment losses	1,921	68	1,989
Reversal of impairment losses	(275)	(2)	(277)
Recovery of assets previously written-off	(215)	-	(215)
Net charge to the statement of income	1,431	66	1,497
Foreign exchange movements	26	1	27
Net write-offs and recoveries of assets	(976)	(15)	(991)
Impairment losses as at 31 December 2005	2,814	181	2,995
Impairment losses	1,175	11	1,186
Reversal of impairment losses	(482)	(2)	(484)
Recovery of assets previously written-off	(183)	-	(183)
Net charge to the statement of income	510	9	519
Foreign exchange movements	(12)	(1)	(13)
Net write-offs and recoveries of assets	(462)	(14)	(476)
Impairment losses as at 31 December 2006	2,850	175	3,025

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:

LVL '000	Group 2006	Group 2005 (restated)	Bank 2006	Bank 2005 (restated)
Deferred tax income	(76)	(93)	(76)	(93)
Corporate income tax	730	465	730	465
Corporate income tax for the reporting year	654	372	654	372

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

LVL '000	Group 2006	Group 2005 (restated)	Bank 2006	Bank 2005 (restated)
Profit before taxes	4,695	3,019	4,760	3,014
Theoretical tax: 15% (2005: 15%)	704	452	714	452
Non-deductible expenses, net	59	(61)	49	(61)
Tax allowance on charity	(109)	(28)	(109)	(28)
Prior year adjustment	-	9	-	9
Corporate income tax for the reporting year	654	372	654	372

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

LVL '000	Group 2006	Group 2005 (restated)	Bank 2006	Bank 2005 (restated)
Deferred tax liability at the beginning of the reporting period	840	501	840	501
Deferred tax charged through the profit or loss statement	(76)	(93)	(76)	(93)
Deferred tax charged through revaluation reserve	(9)	432	(9)	432
Deferred tax liability at the end of the reporting period	755	840	755	840

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

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LVL '000	Group 2006	Group 2005 (restated)	Bank 2006	Bank 2005 (restated)
<i>Deferred tax liability:</i>				
-temporary difference on fixed asset carrying value for financial purposes and tax written down value	1,002	1,083	1,002	1,083
<i>Deferred tax asset:</i>				
- loan commissions	(165)	(191)	(165)	(191)
- other provisions	(82)	(52)	(82)	(52)
Deferred tax liability	755	840	755	840

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 (LVL'000)	4,041	2,647	4,106	2,642
Average number of shares in issue (thousand)	9,106	9,106	9,106	9,106
Earnings per share	0.444	0.291	0.451	0.290

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 1.15 LVL of subordinated debt for one share (see also Note 29).

	Group 2006	Group 2005 (restated)	Bank 2006	Bank 2005 (restated)
Profit after taxation (LVL'000)	4,041	2,647	4,106	2,642
Interest for subordinated debt, net of tax (LVL'000)	233	186	233	186
	4,274	2,833	4,339	2,828
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 (LVL)	0.343	0.227	0.348	0.227

14. CASH AND DEPOSITS ON DEMAND WITH THE CENTRAL BANK

LVL '000	Group 31.12.2006	Group 31.12.2005 (restated)	Bank 31.12.2006	Bank 31.12.2005 (restated)
Cash	16,042	12,617	16,042	12,615
Deposits with the Bank of Latvia	53,617	15,898	53,617	15,898
Total cash and deposits on demand with the central bank	69,659	28,515	69,659	28,513

Bank has restricted use of cash in escrow account in amount of LVL 1,860 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 LVL 25,095 thousand (2005: LVL 14,578 thousand). In the reporting year, The Bank has complied with the requirements on obligatory reserves.

15. BALANCES DUE FROM CREDIT INSTITUTIONS AND CENTRAL BANKS

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LVL '000	Group 31.12.2006	Group 31.12.2005 (restated)	Bank 31.12.2006	Bank 31.12.2005 (restated)
Correspondent accounts	16,061	1,550	16,061	1,550
Term deposits	83,533	15,334	83,533	15,333
Total balances due from credit institutions	99,594	16,884	99,594	16,883

Balances due from credit institutions by geographic region:

LVL '000	Group 31.12.2006	Group 31.12.2005 (restated)	Bank 31.12.2006	Bank 31.12.2005 (restated)
Placements with Latvian commercial banks	51,278	11,978	51,278	11,977
Placements with OECD banks	39,732	4,423	39,732	4,423
Placements with other banks	8,584	483	8,584	483
Total balances due from credit institutions	99,594	16,884	99,594	16,883

16. LOANS AND ADVANCES TO CUSTOMERS

LVL '000	Group 31.12.2006	Group 31.12.2005 (restated)	Bank 31.12.2006	Bank 31.12.2005 (restated)
Loans	176,453	137,649	176,593	137,649
Utilised credit lines	13,834	13,370	13,834	13,370
Debit balances on settlement cards	2,814	1,816	2,814	1,816
Factoring	279	1,002	279	1,002
Overdrafts	244	298	244	298
Finance lease	145	345	145	345
Repo	-	617	-	617
Total gross loans and advances to non-banking customers	193,769	155,097	193,909	155,097
Impairment losses (Note 11)	(2,850)	(2,814)	(2,850)	(2,814)
Total net loans and advances to non-banking customers	190,919	152,283	191,059	152,283

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

LVL '000	Group 31.12.2006	Group 31.12.2005 (restated)	Bank 31.12.2006	Bank 31.12.2005 (restated)
Other private individuals	113,496	72,077	113,496	72,077
Privately held companies	75,218	78,700	75,358	78,700
Personnel employed by the Bank	4,128	3,307	4,128	3,307
Municipal authorities	621	927	621	927
Municipality owned enterprises	188	52	188	52
Public and religious institutions	107	4	107	4
State owned enterprises	11	30	11	30
Total loans and advances to non-banking customers	193,769	155,097	193,909	155,097

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

LVL '000	Group 31.12.2006	Group 31.12.2005 (restated)	Bank 31.12.2006	Bank 31.12.2005 (restated)
Private individuals	117,624	75,384	117,624	75,384
Operation with real estate	18,446	16,528	18,446	16,528
Retail trade and wholesale distribution	11,107	10,702	11,107	10,702
Manufacturing	8,336	14,831	8,336	14,831
Hotels and restaurants	6,680	4,727	6,680	4,727
Agriculture and forestry	6,625	8,088	6,625	8,088
Financial intermediaries	6,130	5,971	6,130	5,971
Construction	4,687	3,150	4,687	3,150
Transport, warehousing and communications	1,596	3,116	1,596	3,116
State administration and healthcare	1,585	1,737	1,585	1,737
Electricity, gas and water utilities	1,146	3,446	1,146	3,446
Other service industries	9,807	7,417	9,947	7,417
Total loans and advances to non-banking customers	193,769	155,097	193,909	155,097

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:

LVL '000	Group/ Bank 31.12.2006
Real estate	302,652
Guarantees received	1,218
Equipment	5,068
Vehicles	5,731
Other property	94,433
Collateral received	409,102
Loans and advances to non-banking customers, net	191,059
Exposure to collateral ratio	2.141

Leasing

Gross investment distribution by maturity:

LVL '000	Group 31.12.2006	Group 31.12.2005 (restated)	Bank 31.12.2006	Bank 31.12.2005 (restated)
Up to 1 year	118	147	118	147
1 to 5 years	27	198	27	198
Total leasing portfolio (A)	145	345	145	345

Future periods' interest income distribution by maturity:

LVL '000	Group 31.12.2006	Group 31.12.2005 (restated)	Bank 31.12.2006	Bank 31.12.2005 (restated)
Up to 1 year	15	16	15	16
1 to 5 years	1	4	1	4
Total future periods' interest income (B)	16	20	16	20

Minimum lease payments distribution by maturity:

LVL '000	Group 31.12.2006	Group 31.12.2005 (restated)	Bank 31.12.2006	Bank 31.12.2005 (restated)
Up to 1 year	133	163	133	163
1 to 5 years	28	202	28	202
Total gross investments (A+B)	161	365	161	365

The maturity of leasing does not exceed 5 years.

As at 31 December 2006 and 2005 the accrued interest on non-performing loans was LVL 361 thousand and LVL 242 thousand respectively.

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

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17. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

LVL '000	Group		Bank	
	31.12.2006	31.12.2005 (restated)	31.12.2006	31.12.2005 (restated)
Financial assets designated at fair value through profit or loss				
Government bonds	13,193	8,689	13,193	8,574
Corporate bonds	2,318	971	2,318	971
Credit and other financial institutions bonds	1,685	5,924	1,685	5,893
Municipalities bonds	276	283	276	283
Shares	9	1	9	1
Privatization certificates	54	174	54	174
Total financial assets designated at fair value through profit or loss	17,535	16,042	17,535	15,896
Held for trading (Note 18)	42	1	42	1
Total financial assets at fair value through profit or loss	17,577	16,043	17,577	15,897

18. DERIVATIVES

LVL '000	Notional amount		Fair value			
			Assets		Liabilities	
	31.12.2006	31.12.2005 (restated)	31.12.2006	31.12.2005 (restated)	31.12.2006	31.12.2005 (restated)
Currency derivatives	53,479	12,818	42	1	254	83
Equity and similar derivatives						
Forwards (sale)	-	1,406	-	-	-	2
Total derivatives	53,479	14,224	42	1	254	85

19. HELD TO MATURITY INVESTMENTS

LVL '000	Group		Bank	
	31.12.2006	31.12.2005 (restated)	31.12.2006	31.12.2005 (restated)
Government bonds	13,293	16,189	13,293	16,189
Credit and other financial institutions bonds	620	-	620	-
Corporate bonds	582	606	582	606
Total held to maturity investments	14,495	16,795	14,495	16,795

20. INVESTMENT IN SUBSIDIARY, ASSOCIATE

LVL '000	Business profile	Historical cost		Historical cost	
		31.12.2006	Share (%)	31.12.2005	Share (%)
AS "Ieguldījumu sabiedrība "Astra Krājfondi"" (associate in 2005)	Investment fund management	361	100	121	50
Ieguldījumu pārvaldes sabiedrība "LKB Assets Management"	Investment fund management	120	100	-	-
SIA "Krājinvestīcijas"	Real estate management	5	100	5	100
Total investment in subsidiary, associate		486	-	126	-

21. BUSINESS ACQUISITION

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In 1 April 2006 the Bank purchased additional 50% in AS "Ieguldījumu sabiedrība "Astra Krājfondi"" by acquiring 120,000 shares for LVL 241 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)	240	-
Intangible assets	2	2
Balances due from credit institutions	102	102
Financial assets (held for trading and held to maturity)	139	139
Loans and advances to customers	2	2
Fixed assets	6	6
Other assets	2	3
Total	493	254
Liabilities	12	12
Bank's share of net assets measured at fair value (50%)	241	-
Paid	241	-

The sales and net profit of the "Astra Krājfondi" for the period from 1 April till 31 December 2006 was LVL 23 thousand and LVL 13 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 LVL 120 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.

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22. INTANGIBLE ASSETS

The Group

LVL '000	Licences, software, etc.	Other intangible asset	Advance payments	Intangible assets, total
Historical cost				
As at 31 December 2004	3,142	-	11	3,153
Additions	246	-	34	280
Transfer	39	-	(39)	-
Disposals	(8)	-	-	(8)
As at 31 December 2005	3,419	-	6	3,425
Additions*	125	240	124	489
Transfer	18	-	(18)	-
Disposals	(329)	-	-	(329)
As at 31 December 2006	3,233	240	112	3,585
Amortisation				
As at 31 December 2004	2,298	-	-	2,298
Charge	304	-	-	304
Reversal due to disposals	(7)	-	-	(7)
As at 31 December 2005	2,595	-	-	2,595
Charge	285	-	-	285
Reversal due to disposals	(321)	-	-	(321)
As at 31 December 2006	2,559	-	-	2,559
Impairment losses				
As at 31 December 2005	-	-	-	-
Charge	-	120	-	120
As at 31 December 2006	-	120	-	120
Net book value				
As at 31 December 2004	844	-	11	855
As at 31 December 2005	824	-	6	830
As at 31 December 2006	674	120	112	906

* The acquisition of intangible and tangible fixed assets through business combination amounted LVL 122 thousand and LVL 6 thousand respectively. For more details see note 21.

The Bank

LVL '000	Licences, software, etc.	Advance payments	Intangible assets, total
Historical cost			
As at 31 December 2004	3,139	11	3,150
Additions	245	34	279
Transfer	39	(39)	-
Disposals	(8)	-	(8)
As at 31 December 2005	3,415	6	3,421
Additions	125	124	249
Transfer	18	(18)	-
Disposals	(329)	-	(329)
As at 31 December 2006	3,229	112	3,341
Amortisation			
As at 31 December 2004	2,297	-	2,297
Charge	303	-	303
Reversal due to disposals	(7)	-	(7)
As at 31 December 2005	2,593	-	2,593
Charge	283	-	283
Reversal due to disposals	(321)	-	(321)
As at 31 December 2006	2,555	-	2,555
Net book value			
As at 31 December 2004	842	11	853
As at 31 December 2005	822	6	828
As at 31 December 2006	674	112	786

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23. FIXED ASSETS

The Group

LVL '000	Land and buildings	Leasehold improvements	Transport vehicles	Office equipment	Advance payments	Total tangible assets
Historical cost/ Revalued						
As at 31 December 2004	2,943	1,229	469	11,513	33	16,187
Additions	1	61	12	465	209	748
Revaluation	2,411	-	-	-	-	2,411
Transfer	-	25	-	87	(112)	-
Disposals	(122)	(59)	(47)	(751)	-	(979)
As at 31 December 2005	5,233	1,256	434	11,314	130	18,367
Additions*	-	1,135	26	873	708	2,742
Transfer	-	1	159	217	(378)	(1)
Disposals	(1)	(127)	(9)	(754)	(63)	(954)
As at 31 December 2006	5,232	2,265	610	11,650	397	20,154
Depreciation						
As at 31 December 2004	402	608	228	7,589	-	8,827
Charge	91	127	45	1,075	-	1,338
Revaluation	(468)	-	-	-	-	(468)
Reversal due to disposals	(25)	(56)	(33)	(617)	-	(731)
As at 31 December 2005	-	679	240	8,047	-	8,966
Charge	140	128	108	1,051	-	1,427
Reversal due to disposals	-	(107)	(2)	(519)	-	(628)
As at 31 December 2006	140	700	346	8,579	-	9,765
Net book value						
As at 31 December 2004	2,541	621	241	3,924	33	7,360
As at 31 December 2005	5,233	577	194	3,267	130	9,401
As at 31 December 2006	5,092	1,565	264	3,071	397	10,389

*The acquisition of intangible and tangible fixed assets through business combination amounted LVL 122 thousand and LVL 6 thousand respectively. For more details see note 21.

The cost value of the revalued fixed assets is approximately LVL 2.3 mln.

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The Bank

LVL '000	Land and buildings	Leasehold improvements	Transport vehicles	Office equipment	Advance payments	Total tangible assets
Historical cost/ Revalued						
As at 31 December 2004	2,943	1,229	469	11,513	33	16,187
Addition	1	59	12	458	209	739
Revaluation	2,411	-	-	-	-	2,411
Transfer	-	25	-	87	(112)	-
Disposal	(122)	(59)	(47)	(751)	-	(979)
As at 31 December 2005	5,233	1,254	434	11,307	130	18,358
Additions	-	1,135	-	872	708	2,715
Transfer	-	1	159	217	(378)	(1)
Disposals	(1)	(125)	(9)	(753)	(63)	(951)
As at 31 December 2006	5,232	2,265	584	11,643	397	20,121

Depreciation

As at 31 December 2004	402	608	228	7,589	-	8,827
Addition	91	126	45	1,074	-	1,336
Revaluation	(468)	-	-	-	-	(468)
Reversal due to disposals	(25)	(56)	(33)	(617)	-	(731)
As at 31 December 2005	-	678	240	8,046	-	8,964
Charge	140	127	108	1,049	-	1,424
Reversal due to disposals	-	(105)	(2)	(519)	-	(626)
As at 31 December 2006	140	700	346	8,576	-	9,762

Net book value

As at 31 December 2004	2,541	621	241	3,924	33	7,360
As at 31 December 2005	5,233	576	194	3,261	130	9,394
As at 31 December 2006	5,092	1,565	238	3,067	397	10,359

The cost value of the revalued fixed assets is approximately LVL 2.3 mln.

24. OTHER ASSETS

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LVL '000	Group 31.12.2006	Group 31.12.2005 (restated)	Bank 31.12.2006	Bank 31.12.2005 (restated)
Unrealised gains from SPOT transactions	67	16	67	16
Value added tax prepayment	147	108	147	108
Advance on corporate income tax	528	91	528	91
Settlement with Western Union	134	207	134	207
Other	488	356	455	353
Gross total other assets	1,364	778	1,331	775
Impairment losses (see Note 11)	(175)	(181)	(175)	(181)
Total other assets	1,189	597	1,156	594

25. BALANCES DUE TO THE CENTRAL BANK AND CREDIT INSTITUTIONS

LVL '000	Group 31.12.2006	Group 31.12.2005 (restated)	Bank 31.12.2006	Bank 31.12.2005 (restated)
Correspondent accounts and demand deposits	7,150	7,149	7,150	7,149
Term deposits	39,240	9,141	39,240	9,141
Total balances due to credit institutions	46,390	16,290	46,390	16,290

Balances due to credit institutions by geographic region:

LVL '000	Group 31.12.2006	Group 31.12.2005 (restated)	Bank 31.12.2006	Bank 31.12.2005 (restated)
Placements from Latvian commercial banks	39,370	16,281	39,370	16,281
Placements from other non-OECD banks	7,020	9	7,020	9
Total balances due from credit institutions	46,390	16,290	46,390	16,290

As at 31 December 2006, the Bank had pledged Latvian government securities with a nominal value of LVL 0 thousand (2005: LVL 12,000 thousand) and a carrying value of LVL 0 thousand (2005: LVL 12,181 thousand) and Latvian government eurobonds with a nominal value of LVL 492 thousand (2005: LVL 457 thousand) and a carrying value of LVL 490 thousand (2005: LVL 485 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:

LVL '000	Group 31.12.2006	Group 31.12.2005 (restated)	Bank 31.12.2006	Bank 31.12.2005 (restated)
Private individuals	229,939	165,979	229,939	165,980
State owned enterprises	50,872	5,331	50,872	5,331
Privately held companies	39,960	28,431	40,362	28,527
Public and religious institutions	3,139	853	3,139	853
Municipal authorities	2,234	732	2,234	732
Central governments	-	3	-	3
Total deposits from the public	326,144	201,329	326,546	201,426

Deposits from the public by geographic region:

LVL '000	Group 31.12.2006	Group 31.12.2005 (restated)	Bank 31.12.2006	Bank 31.12.2005 (restated)
Residents	307,205	191,494	307,607	191,591
Non-residents	18,939	9,835	18,939	9,835
Total deposits from the public	326,144	201,329	326,546	201,426

27. DEFERRED INCOME AND ACCRUED EXPENSES

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LVL '000	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	436	274	436	274
Vacation accruals	205	163	205	162
Deferred income	47	8	47	8
State duty on privatization certificate transfers	-	14	-	14
Other accrued expense	589	408	589	408
Total deferred income and accrued expense	1,277	867	1,277	866

28. CORPORATE INCOME TAX AND OTHER LIABILITIES

LVL '000	Group 31.12.2006	Group 31.12.2005 (restated)	Bank 31.12.2006	Bank 31.12.2005 (restated)
Corporate income tax	718	465	718	465
Account payable related to purchase of Astra Krājfondi	107	-	107	-
Unrealized losses from SPOT transactions	75	7	75	-
Other liabilities	234	367	216	369
Total other liabilities	1,134	839	1,116	834

29. SUBORDINATED DEBT

LVL '000	Bank/ Group 31.12.2006	Bank/ Group 31.12.2005 (restated)
"Convers Group Management Company"	3,865	3,865
"Akademgrupp"	3,810	-
Total other liabilities	7,675	3,865

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

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As at 31 December 2006, the Bank's registered and paid share capital was LVL 9,106 thousand (2005: 9,106 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:

LVL '000	31.12.2006		31.12.2005	
	Paid-in share capital	% of total paid-in capital	Paid-in share capital	% of total paid-in capital
JSC bank "Snoras"	6,829	75.00	7,559	83.01
AS "West Investment"	868	9.53	-	-
Geminy Investment Fund LTD	729	8.01	-	-
Other	680	7.46	1,547	16.99
Total	9,106	100	9,106	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	31.12.2005
	Ordinary shares	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 LVL 626 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 LVL 2,447 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 LVL 1,323 thousand.

31. ASSETS AND LIABILITIES UNDER MANAGEMENT

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As of 31 December 2006 total assets under management amounted to LVL 14,315 thousand (2005: 6,968) 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 LVL 66,108 thousand (2005: LVL 79,307 thousand) as of 31 December 2006. This includes investments in non-resident and resident financial instruments in amount of LVL 1,694 thousand and LVL 64,414 thousand (2005: LVL 502 thousand and LVL 78,805 thousand) respectively.

33. CASH AND CASH EQUIVALENTS

LVL '000	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	69,659	28,515	69,659	28,513
Balances due from credit institutions	96,639	13,933	96,639	13,932
Balances due to credit institutions	(46,390)	(16,290)	(46,390)	(16,290)
Total cash and cash equivalents	119,908	26,158	119,908	26,155

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 LVL 14,286 thousand (2005: 16,437).

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

LVL '000	Group 31.12.2006		Group 31.12.2005 (restated)		Bank 31.12.2006		Bank 31.12.2005 (restated)	
	Assets	Liabilities and shareholders equity	Assets	Liabilities and shareholders equity	Assets	Liabilities and shareholders equity	Assets	Liabilities and shareholders equity
Latvia	343,210	364,142	224,373	220,526	343,653	364,585	224,338	220,491
OECD countries	43,960	7,391	11,328	12,985	43,960	7,391	11,328	12,985
Other	17,964	33,601	5,989	8,179	17,964	33,601	5,989	8,179
Total	405,134	405,134	241,690	241,690	405,577	405,577	241,655	241,655

36. CAPITAL ADEQUACY

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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%).

LVL '000	Group 31.12.2006	Bank 31.12.2006
Tier 1		
Paid-in share capital	9,106	9,106
Share premium	1,323	1,323
Reserve capital	626	626
Audited retained earnings (not subject to dividend distribution)	3,570	3,564
Audited profit for the year (not subject to dividend distribution)	4,041	4,106
Less		
Intangible assets	(906)	(786)
Total Tier 1	17,760	17,939
Tier 2		
Subordinated debt	7,671	7,671
Revaluation reserve	1,981	1,981
Total Tier 2	9,652	9,652
Decrease in equity		
Significant investment in other credit and financial institutions	-	(481)
Equity to be utilized for the capital adequacy calculation in accordance with the guidelines of the Finance and Capital Market Commission (A)	27,412	27,110

Risk weighted assets and memorandum items

LVL '000	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	94,777	94,777	0%	-	-
20% weighted risk assets	94,444	94,444	20%	18,889	18,889
50% weighted risk assets	25,680	25,680	50%	12,840	12,840
100% weighted risk assets	190,233	190,676	100%	190,233	190,676
Total assets	405,134	405,577		221,962	222,405
Memorandum items					
0% risk weighted	144	144	0%	-	-
20% risk weighted	687	687	20%	137	137
100% risk weighted	8,507	8,507	100%	8,507	8,507
Total risk weighted assets and memorandum items (B)				230,606	231,049
Capital adequacy ratio (A/B)				11.9%	11.7%

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37. CURRENCY ANALYSIS

As of 31 December 2006:	LVL	USD	EUR	Other currencies	Total
LVL'000					
Assets					
Cash and deposits with the central Bank	64,060	972	4,145	482	69,659
Balances due from credit institutions and central banks	44,780	36,720	9,249	8,845	99,594
Loans and advances to customers	84,377	3,655	103,027	-	191,059
Securities and investments	25,778	3,083	3,697	-	32,558
Fixed and intangible assets	11,145	-	-	-	11,145
Prepayments and other assets	1,207	186	162	7	1,562
Total assets	231,347	44,616	120,280	9,334	405,577
Liabilities and shareholders' equity					
Balances due to the central bank and credit institutions	18,507	21,584	6,278	21	46,390
Deposits from the public	247,849	33,135	44,998	564	326,546
Derivative liabilities	254	-	-	-	254
Accounts payable and other liabilities	2,950	81	107	10	3,148
Subordinate capital	-	3,809	3,866	-	7,675
Shareholders' equity	21,564	-	-	-	21,564
Total liabilities and shareholders' equity	291,124	58,609	55,249	595	405,577
Net long/ (short) position on balance sheet	(59,777)	(13,993)	65,031	8,739	-
Net long/ (short) position on balance sheet as of 31 December 2005	(28,390)	(4,284)	31,791	883	-
Off-balance sheet items from foreign exchange					
Unsettled spot foreign exchange transactions	702	(570)	89	(230)	(9)
Forward foreign exchange transaction	35,372	14,560	(41,792)	(8,345)	(205)
Net long/(short) position on foreign exchange	36,074	13,990	(41,703)	(8,575)	(214)
Net long/(short) position	(23,703)	(3)	23,328	164	(214)
Net long/(short) position as of 31 December 2005	(20,612)	(61)	20,196	403	(74)
Financial commitments and contingencies					
Contingent liabilities	113	343	1,257	-	1,713
Financial commitments	7,005	24,929	6,772	-	38,706
Total financial commitments and contingencies	7,118	25,272	8,029	-	40,419

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.

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

As of 31 December 2006:	Within	1 - 3	3 - 6	6 - 12	1 - 5	Over	Undated	Total
LVL'000	1 month	months	months	months	years	5 years		
Assets								
Cash and deposits with the central Bank	69,659	-	-	-	-	-	-	69,659
Balances due from credit institutions and central banks	91,159	5,480	-	-	-	-	2,955	99,594
Loans and advances to customers	7,997	7,240	9,965	24,598	94,048	46,400	671	190,919
Securities and investments	62	440	15,864	2,334	9,519	3,791	62	32,072
Fixed and intangible assets	-	-	-	-	-	-	11,295	11,295
Prepayments and other assets	227	-	-	-	-	-	1,368	1,595
Total assets	169,104	13,160	25,829	26,932	103,567	50,191	16,351	405,134
Liabilities and shareholders' equity								
Balances due to the central bank and credit institutions	46,390	-	-	-	-	-	-	46,390
Deposits from the public	193,933	21,636	46,750	42,407	20,830	588	-	326,144
Derivative liabilities	232	3	14	5	-	-	-	254
Deferred tax liability	-	-	-	-	-	-	755	755
Accounts payable and other liabilities	2,411	-	-	-	-	-	-	2,411
Subordinate capital	4	-	-	-	-	7,671	-	7,675
Shareholders' equity	-	-	-	-	-	-	21,505	21,505
Total liabilities and shareholders' equity	242,970	21,639	46,764	42,412	20,830	8,259	22,260	405,134
Net liquidity gap	(73,866)	(8,479)	(20,935)	(15,480)	82,737	41,932	(5,909)	-
Financial commitments and contingencies								
Contingent liabilities	1,713	-	-	-	-	-	-	1,713
Financial commitments	38,706	-	-	-	-	-	-	38,706
Total financial commitments and contingencies	40,419	-	-	-	-	-	-	40,419

As of 31 December 2005 (restated):	Within	1 - 3	3 - 6	6 - 12	1 - 5	Over	Undated	Total
LVL'000	1 month	months	months	months	years	5 years		
Assets								
Cash and deposits with the central Bank	28,515	-	-	-	-	-	-	28,515
Balances due from credit institutions and central banks	13,871	62	-	-	-	-	2,951	16,884
Loans and advances to customers	6,140	6,213	6,586	21,733	66,039	44,834	738	152,283
Securities and investments	9,351	132	106	5,628	15,204	2,242	175	32,838
Fixed and intangible assets	-	-	-	-	-	-	10,231	10,231
Prepayments and other assets	43	-	-	-	-	-	896	939
Total assets	57,920	6,407	6,692	27,361	81,243	47,076	14,991	241,690
Liabilities and shareholders' equity								
Balances due to the central bank and credit institutions	16,290	-	-	-	-	-	-	16,290
Deposits from the public	126,909	13,819	18,040	29,784	12,186	591	-	201,329
Derivative liabilities	85	-	-	-	-	-	-	85
Deferred tax liability	-	-	-	-	-	-	840	840
Accounts payable and other liabilities	1,706	-	-	-	-	-	-	1,706
Subordinate capital	-	-	-	-	-	3,865	-	3,865
Shareholders' equity	-	-	-	-	-	-	17,450	17,450
Minority interest	-	-	-	-	-	-	125	125
Total liabilities and shareholders' equity	144,990	13,819	18,040	29,784	12,186	4,456	18,415	241,690
Net liquidity gap	(87,070)	(7,412)	(11,348)	(2,423)	69,057	42,620	(3,424)	-
Financial commitments and contingencies								
Contingent liabilities	1,293	-	-	-	-	-	-	1,293
Financial commitments	16,237	-	-	-	-	-	-	16,237
Total financial commitments and contingencies	17,530	-	-	-	-	-	-	17,530

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

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The Bank

As of 31 December 2006:	Within	1 - 3	3 - 6	6 - 12	1 - 5	Over	Undated	Total
LVL'000	1 month	months	months	months	years	5 years		
Assets								
Cash and deposits with the central Bank	69,659	-	-	-	-	-	-	69,659
Balances due from credit institutions and central banks	91,159	5,480	-	-	-	-	2,955	99,594
Loans and advances to customers	8,137	7,240	9,965	24,598	94,048	46,400	671	191,059
Securities and investments	62	440	15,864	2,334	9,519	3,791	548	32,558
Fixed and intangible assets	-	-	-	-	-	-	11,145	11,145
Prepayments and other assets	194	-	-	-	-	-	1,368	1,562
Total assets	169,211	13,160	25,829	26,932	103,567	50,191	16,687	405,577
Liabilities and shareholders' equity								
Balances due to the central bank and credit institutions	46,390	-	-	-	-	-	-	46,390
Deposits from the public	194,285	21,636	46,750	42,407	20,880	588	-	326,546
Derivative liabilities	232	3	14	5	-	-	-	254
Deferred tax liability	-	-	-	-	-	-	755	755
Accounts payable and other liabilities	2,393	-	-	-	-	-	-	2,393
Subordinate capital	4	-	-	-	-	7,671	-	7,675
Shareholders' equity	-	-	-	-	-	-	21,564	21,564
Total liabilities and shareholders' equity	243,304	21,639	46,764	42,412	20,880	8,259	22,319	405,577
Net liquidity gap	(74,093)	(8,479)	(20,935)	(15,480)	82,687	41,932	(5,632)	-
Financial commitments and contingencies								
Contingent liabilities	1,713	-	-	-	-	-	-	1,713
Financial commitments	38,706	-	-	-	-	-	-	38,706
Total financial commitments and contingencies	40,419	-	-	-	-	-	-	40,419

As of 31 December 2005 (restated):	Within	1 - 3	3 - 6	6 - 12	1 - 5	Over	Undated	Total
LVL'000	1 month	months	months	months	years	5 years		
Assets								
Cash and deposits with the central Bank	28,513	-	-	-	-	-	-	28,513
Balances due from credit institutions and central banks	13,870	62	-	-	-	-	2,951	16,883
Loans and advances to customers	6,140	6,213	6,586	21,733	66,039	44,834	738	152,283
Securities and investments	9,345	132	106	5,598	15,204	2,132	301	32,818
Fixed and intangible assets	-	-	-	-	-	-	10,222	10,222
Prepayments and other assets	40	-	-	-	-	-	896	936
Total assets	57,908	6,407	6,692	27,331	81,243	46,966	15,108	241,655
Liabilities and shareholders' equity								
Balances due to the central bank and credit institutions	16,290	-	-	-	-	-	-	16,290
Deposits from the public	126,952	13,819	18,040	29,784	12,240	591	-	201,426
Derivative liabilities	85	-	-	-	-	-	-	85
Deferred tax liability	-	-	-	-	-	-	840	840
Accounts payable and other liabilities	1,700	-	-	-	-	-	-	1,700
Subordinate capital	-	-	-	-	-	3,865	-	3,865
Shareholders' equity	-	-	-	-	-	-	17,449	17,449
Total liabilities and shareholders' equity	145,027	13,819	18,040	29,784	12,240	4,456	18,289	241,655
Net liquidity gap	(87,119)	(7,412)	(11,348)	(2,453)	69,003	42,510	(3,181)	-
Financial commitments and contingencies								
Contingent liabilities	1,293	-	-	-	-	-	-	1,293
Financial commitments	16,237	-	-	-	-	-	-	16,237
Total financial commitments and contingencies	17,530	-	-	-	-	-	-	17,530

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

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

As of 31 December 2006:	Within	1 - 3	3 - 6	6 - 12	1 - 5	Over	Non-	
LVL'000	1 month	months	months	months	years	5 years	interest	Total
							bearing	
Assets								
Cash and deposits with the central Bank	55,477	-	-	-	-	-	14,182	69,659
Balances due from credit institutions and central banks	94,226	5,368	-	-	-	-	-	99,594
Loans and advances to customers	7,862	152,191	5,345	10,050	14,378	333	760	190,919
Securities and investments	146	440	16,212	2,125	9,254	3,791	104	32,072
Fixed and intangible assets	-	-	-	-	-	-	11,295	11,295
Prepayments and other assets	-	-	-	-	-	-	1,595	1,595
Total assets	157,711	157,999	21,557	12,175	23,632	4,124	27,936	405,134
Liabilities and shareholders' equity								
Balances due to the central bank and credit institutions	46,390	-	-	-	-	-	-	46,390
Deposits from the public	193,933	21,636	46,750	42,407	20,830	588	-	326,144
Derivative liabilities	-	-	-	-	-	-	254	254
Accounts payable and other liabilities	-	-	-	-	-	-	3,166	3,166
Subordinate capital	4	-	-	-	-	7,671	-	7,675
Shareholders' equity	-	-	-	-	-	-	21,505	21,505
Total liabilities and shareholders' equity	240,327	21,636	46,750	42,407	20,830	8,259	24,925	405,134
Total interest sensitivity gap	(82,616)	136,363	(25,193)	(30,232)	2,802	(4,135)	3,011	-

As of 31 December 2005 (restated):	Within	1 - 3	3 - 6	6 - 12	1 - 5	Over	Non-	
LVL'000	1 month	months	months	months	years	5 years	interest	Total
							bearing	
Assets								
Cash and deposits with the central Bank	15,900	-	-	-	-	-	12,615	28,515
Balances due from credit institutions and central banks	16,884	-	-	-	-	-	-	16,884
Loans and advances to customers	6,140	120,584	3,603	12,297	6,322	2,599	738	152,283
Securities and investments	9,924	131	106	5,055	15,204	2,242	176	32,838
Fixed and intangible assets	-	-	-	-	-	-	10,231	10,231
Prepayments and other assets	-	-	-	-	-	-	939	939
Total assets	48,848	120,715	3,709	17,352	21,526	4,841	24,699	241,690
Liabilities and shareholders' equity								
Balances due to the central bank and credit institutions	16,290	-	-	-	-	-	-	16,290
Deposits from the public	126,907	14,783	17,970	29,697	11,605	367	-	201,329
Derivative liabilities	-	-	-	-	-	-	85	85
Accounts payable and other liabilities	-	-	-	-	-	-	2,546	2,546
Subordinate capital	-	-	-	-	-	3,865	-	3,865
Minority interest	-	-	-	-	-	-	125	125
Shareholders' equity	-	-	-	-	-	-	17,450	17,450
Total liabilities and shareholders' equity	143,197	14,783	17,970	29,697	11,605	4,232	20,206	241,690
Total interest sensitivity gap	(94,349)	105,932	(14,261)	(12,345)	9,921	609	4,493	-

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

As of 31 December 2006:	Within	1 - 3	3 - 6	6 - 12	1 - 5	Over	Non-	
LVL'000	1 month	months	months	months	years	5 years	interest	Total
							bearing	
Assets								
Cash and deposits with the central Bank	55,477	-	-	-	-	-	14,182	69,659
Balances due from credit institutions and central banks	94,226	5,368	-	-	-	-	-	99,594
Loans and advances to customers,	8,003	152,191	5,345	10,050	14,378	333	759	191,059
Securities and investments	146	440	16,212	2,125	9,254	3,791	590	32,558
Fixed and intangible assets	-	-	-	-	-	-	11,145	11,145
Prepayments and other assets	-	-	-	-	-	-	1,562	1,562
Total assets	157,852	157,999	21,557	12,175	23,632	4,124	28,238	405,577
Liabilities and shareholders' equity								
Balances due to the central bank and credit institutions	46,390	-	-	-	-	-	-	46,390
Deposits from the public	194,285	21,636	46,750	42,407	20,880	588	-	326,546
Derivative liabilities	-	-	-	-	-	-	254	254
Accounts payable and other liabilities	-	-	-	-	-	-	3,148	3,148
Subordinate capital	4	-	-	-	-	7,671	-	7,675
Shareholders' equity	-	-	-	-	-	-	21,564	21,564
Total liabilities and shareholders' equity	240,679	21,636	46,750	42,407	20,880	8,259	24,966	405,577
Total interest sensitivity gap	(82,827)	136,363	(25,193)	(30,232)	2,752	(4,135)	3,272	-

As of 31 December 2005 (restated):	Within	1 - 3	3 - 6	6 - 12	1 - 5	Over	Non-	
LVL'000	1 month	months	months	months	years	5 years	interest	Total
							bearing	
Assets								
Cash and deposits with the central Bank	15,898	-	-	-	-	-	12,615	28,513
Balances due from credit institutions and central banks	16,883	-	-	-	-	-	-	16,883
Loans and advances to customers	6,140	120,584	3,603	12,297	6,322	2,599	738	152,283
Securities and investments	9,919	131	106	5,024	15,204	2,132	302	32,818
Fixed and intangible assets	-	-	-	-	-	-	10,222	10,222
Prepayments and other assets	-	-	-	-	-	-	936	936
Total assets	48,840	120,715	3,709	17,321	21,526	4,731	24,813	241,655
Liabilities and shareholders' equity								
Balances due to the central bank and credit institutions	16,290	-	-	-	-	-	-	16,290
Deposits from the public	126,952	14,783	17,970	29,697	11,657	367	-	201,426
Derivative liabilities	-	-	-	-	-	-	85	85
Accounts payable and other liabilities	-	-	-	-	-	-	2,540	2,540
Subordinate capital	-	-	-	-	-	3,865	-	3,865
Shareholders' equity	-	-	-	-	-	-	17,449	17,449
Total liabilities and shareholders' equity	143,242	14,783	17,970	29,697	11,657	4,232	20,074	241,655
Total interest sensitivity gap	(94,402)	105,932	(14,261)	(12,376)	9,869	499	4,739	-

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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.

LVL '000	Bank 2006	Bank 2005
Amounts receivable:		
Loans and advances to related parties:		
- Management	139	85
- Parent company	153	12
- Other related legal entities	10,156	1,745
- Other related private individuals	86	21
Total loans and advances to related parties	10,534	1,863
Amounts payable:		
Deposits and funds received:		
- Management	-	6
- Parent company	6,808	6
- Other related legal entities	603	665
- Other related private individuals	145	-
Total amounts payable	7,556	677
Credit commitments and contingencies to related legal entities		
- Management	468	151
- Other related private individuals	707	30
Total commitments and contingencies to related parties	1,175	181
Profit and loss items		
Interest income	138	23
<i>Inc. Interest income from parent company</i>	1	11
Interest expense	(47)	(11)
<i>Inc. Interest expense from parent company</i>	(40)	(11)
Commission income	29	5
<i>Inc. Interest expense from parent company</i>	28	-
Other income/ expense	3	-
Total profit or loss	123	17

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:

LVL '000	Group 31.12.2006	Group 31.12.2005 (restated)	Bank 31.12.2006	Bank 31.12.2005 (restated)
Contingent liabilities				
Outstanding guarantees	1,713	531	1,713	531
Irrevocable letters of credit	-	762	-	762
Total contingent liabilities	1,713	1,293	1,713	1,293
Financial commitments				
Credit commitments	14,435	16,096	14,435	16,096
Other commitments	24,271	141	24,271	141
Total financial commitments	38,706	16,237	38,706	16,237
Total contingent liabilities and financial commitments	40,419	17,530	40,419	17,530

Credit commitments include unused credit limits granted on settlement cards, which as at 31 December 2006 amounted to LVL 3,618 (2005: 2,727) thousand.

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42. INTEREST RATE RISK

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

LVL '000	Fixed rate	Floating rate	Total
Cash and deposits with the central bank	54,273	-	54,273
Balances due from credit institutions and the central bank	96,527	3,067	99,594
Securities	31,495	473	31,968
Loans and advances to customers	38,034	151,892	189,926
Total interest bearing assets	220,329	155,432	375,761
Balances due to the central bank and credit institutions	39,308	7,082	46,390
Deposits from the customers	290,883	35,365	326,248
Subordinated debt	7,675	-	7,675
Total interest bearing liabilities	337,866	42,447	380,313

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 "Shareholder'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.

REGISTERED OFFICES

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INDEPENDENT AUDITOR'S REPORT

To the shareholders of AS Latvijas Krājbanka

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of AS Latvijas Krājbanka and its subsidiaries (hereinafter - the Group) and the accompanying financial statements of AS Latvijas Krājbanka (hereinafter the Bank) for the year ended 31 December 2006 (jointly "financial statements"), set out on pages 8 through 44 which comprise the balance sheet as at 31 December 2006, the statements of income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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


Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Group and the Bank as at 31 December 2006, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as endorsed by the European Union.

Report on Compliance of the Management Report

Furthermore, we have read the Management Report for the year ended 31 December 2006 (included on pages 3 through 4 of the accompanying 2006 Annual Report) and have not noted any material inconsistencies between the financial information included in it and the financial statements for the year ended 31 December 2006.

Ernst & Young Baltic SIA
License No. 17



Diāna Krišjāne
Personal ID code: 250873-12964
Latvian Sworn Auditor
Certificate No. 124

Rīga, 20 March 2007