RIETUMU BANK GROUP

Consolidated and Bank Financial Statements
and Auditor’s Report
for the year ended 31 December 2006

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REPORT OF COUNCIL AND MANAGEMENT BOARD

1 Operating results

In year 2006 Rietumu Bank continued to dynamically develop and expand its business activities both in Latvia and beyond.

In 2006 the Bank obtained a €110 million commercial syndicated loan, with over 20 leading financial institutions from Europe, USA and other countries participating. The Bank intends to use the attracted funds for further expanding its corporate lending activities in Latvia and the Baltic region as well as for strengthening the Bank's positions in corporate lending in the rapidly growing markets of Russia and other CIS countries.

The Bank's credit portfolio demonstrated a strong growth in 2006. Preserving good credit quality and conservative approach in selecting projects, Rietumu Bank went on supporting large, innovative business projects. The Bank's focus in lending continues to be on corporate lending as well as commercial real estate projects.

Rietumu Bank continued the construction of its new headquarters Rietumu Capital Centre, which is likely to be finished by the end of 2007. A+++ graded business centre satisfies all the requirements due to its high functionality and most recent technological solutions.

The Bank proceeded with its branch network optimisation preparing for opening new modern customer centres which will feature high-class functionality thus ensuring quick and efficient customer service and providing full range of banking products.

In 2006, evolutionary changes occurred in the Bank's top-management. Former First Vice-president and Deputy Chairman of the Board Alexander Kalinovsky was approved for the position of the President and Chairman of the Executive Board. Michael J. Bourke, the former President and Chairman of the Executive Board of Rietumu Bank, continued his involvement with Rietumu as a Member of the Supervisory Council of the Bank. His new responsibilities include promotion of cooperation with financial institutions from EU and US countries as well as participation in working out bank strategy for these regions.

2 Financial results

	2006	2005	2004	2003
At year end (LVL'000)				
Total assets	922,253	704,197	603,209	477,024
Loans and advances to customers	373,515	256,276	192,011	160,992
Other interest earning assets (bonds)	89,794	78,671	80,381	65,764
Due to customers	659,141	602,578	539,585	435,093
Total shareholders' equity	96,158	71,942	44,380	31,216
For the year (LVL'000)				
Net profit before tax	33,937	22,052	14,565	9,952
Net profit after tax	29,584	18,960	14,568	8,317
Operating income	55,279	42,978	31,919	23,814
3 Ratios				
Earnings per share (LVL)				
After tax	1.31	0.89	0.71	0.41
Before tax	1.51	1.06	0.80	0.48
Dividend per share (LVL)	0.33	0.225	0.144	0.095
Dividend growth	47%	56%	52%	32%
Capital adequacy				
Basel	15.77 %	16.14%	14.35%	11.99%
Financial & Capital Markets Commission	14.85 %	13.99%	14.11%	12.42%
Return on equity				
Before tax	35.29%	38.76%	43.68%	35.76%
After tax	30.77%	33.48%	38.54%	29.89%

REPORT OF COUNCIL AND MANAGEMENT BOARD (continued)

	2006	2005	2004	2003
3 Ratios (continued)				
Return on assets				
Before tax	3.68%	3.20%	2.74%	2.09%
After tax	3.21%	2.77%	2.42%	1.74%
Profit margin (before tax)	61.39%	52.46%	51.72%	41.79%
Number of employees	657	648	578	561

During 2006, total assets grew to LVL 922 from LVL 704 mln at 31 December 2005. This represents a growth of 31%. Customers' deposits increased by 16% from LVL 570 mln at 31 December 2005 to LVL 659 mln at 31 December 2006.

The Bank's group net profit before tax for the year ended 31 December 2006 was LVL 33,937 mln (year ended 31 December 2005: LVL 22,052 mln) representing an increase of LVL 12 mln. Total shareholders equity increased from LVL 72 million at 31 December 2005 to LVL 96 million at 31 December 2006.

The Bank has been paying annual dividends for all financial years ended since 2001. For the financial year ended 2006, the Bank's management proposes to pay a dividend of LVL 0.33 per share (2005: LVL 0.225 per share) or LVL 7,425 thousand in total. (2005: LVL 5,063 thousand). The 2006 dividend represents a dividend growth of 47%. It is the intention of management that shareholders achieve dividend growth, provided that the Bank complies with all regulatory norms.

There have been no significant events with material effect on the results of the reporting period between the balance sheet date and the date of signing these financial statements.

We are looking forward to 2007 and beyond and we firmly believe that we will continue to offer the best corporate service of any bank in the Baltic States. We owe our success to our customers and business partners and we would like to express our appreciation to our customers and business partners for the trust that they have placed in us.

Leonid Esterkin	Alexander Kalinovsky
Chairman of the Council	Chairman of the Executive Board

7 March 2007

THE COUNCIL AND BOARD OF DIRECTORS OF THE BANK

As of the date of the signing of the financial statements:

The Council of Rietumu bank
1 January 2006 – 16 September 2006

Name	*Position*	*Date of appointment*
Leonid Esterkin	Chairman of the Council	15/04/98 (22/03/04 – 22/03/07)
Arkady Syharenko	Deputy Council Chairman	15/04/98 (22/03/04 – 22/03/07)
Valentin Bluger	Member of the Council	15/04/98 (22/03/04 – 22/03/07)

The Council of Rietumu bank
16 September 2006 – 31 December 2006

Name	*Position*	*Date of appointment*
Leonid Esterkin	Chairman of the Council	15/04/98 (15/09/06 – 15/09/09)
Arkady Syharenko	Deputy Council Chairman	15/04/98 (15/09/06 – 15/09/09)
Murphy Brendan Thomas	Deputy Council Chairman	16/09/05 (15/09/06 – 15/09/09)
Dermot Desmond	Member of the Council	16/09/05 (15/09/06 – 15/09/09)
Vitali Lipanov	Member of the Council	16/09/05 (15/09/06 – 15/09/09)
Michael Joseph Bourke	Member of the Council	15/09/06 (15/09/06 – 15/09/09)
Valentin Bluger	Member of the Council	15/04/98 (15/09/06 – 15/09/09)

The Board of Directors
1 January 2006 – 20 July 2006

Name	*Position*	*Date of appointment*
Michael Bourke	Chairman of the Executive Board, President	11/11/04 (11/11/04 – 11/11/07)
Alexander Kalinovsky	Member of the Executive Board, First Vice President	11/11/04 (11/11/04 – 11/11/07)
Rolf Fuls	Member of the Executive Board, Senior Vice President	11/11/04 (11/11/04 – 11/11/07)

The Board of Directors
20 July 2006 – 31 December 2006

Name	*Position*	*Date of appointment*
Alexander Kalinovsky	Chairman of the Executive Board, President	20/07/06 (20/07/06 – 20/07/09)
Rolf Fuls	Member of the Executive Board, First Vice President	20/07/06 (20/07/06 – 20/07/09)
Janis Muizhnieks	Member of the Executive Board, Senior Vice President	20/07/06 (20/07/06 – 20/07/09)
Dmitry Pyshkin	Member of the Executive Board, Senior Vice President	20/07/06 (20/07/06 – 20/07/09)
Alexander Pankov	Member of the Executive Board, Senior Vice President	20/07/06 (20/07/06 – 20/07/09)

There were no changes in the Board of Directors of the Bank during the period beginning 31 December 2006 through to the date of the signing of these financial statements.

STATEMENT OF MANAGEMENT RESPONSIBILITY

The Management of Rietumu Bank (Bank) are responsible for the preparation of the consolidated financial statements of the Bank and its subsidiaries (the Group) as well as for the preparation of the financial statements of the Bank.

The consolidated and Bank financial statements on pages 9 to 47 are prepared in accordance with the source documents and present fairly the financial position of the Group as of 31 December 2006 and the results of its operations and cash flows for the year ended 31 December 2006 as well as the financial position of the Bank as of 31 December 2006 and the results of its operations and cash flows for the year ended 31 December 2006.

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

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

On behalf of the Management of the Bank:

Leonid Esterkin Chairman of the Council	Alexander Kalinovsky Chairman of the Executive Board

7 March 2007

AUDITOR'S REPORT

KPMG Baltics SIA
Balasta dambis 1a
Riga LV 1048
Latvia

Phone +371 7038000
Fax +371 7038002
Internet: www.kpmg.lv

Independent Auditors' Report

To the shareholders of AS "Rietumu Banka"

Report on the Financial Statements

We have audited the accompanying financial statements of AS "Rietumu Banka", which comprise the unconsolidated balance sheet as at 31 December 2006, and the unconsolidated 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, as set out on pages 9 to 47. We have also audited the accompanying consolidated financial statements of AS "Rietumu Banka" and subsidiaries ("the Group"), which comprise the consolidated balance sheet as at 31 December 2006, and the consolidated 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, as set out on pages 9 to 47.

Management's Responsibility for the Financial Statements

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

Auditors' 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 relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free of 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 our 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, we consider internal control relevant to the 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 Bank's internal control. An audit also includes evaluating the appropriateness of accounting principles 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 opinion.

Opinion

In our opinion, the unconsolidated Bank's financial statements give a true and fair view of the financial position of 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 adopted by the European Union.

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group 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 adopted by the European Union.

Report on Other Legal and Regulatory Requirements

In addition, our responsibility is to assess whether the accounting information included in the Management Report, as set out on pages 3 to 4, the preparation of which is the responsibility of management, is consistent with the financial statements. Our work with respect to the Management Report was limited to the aforementioned scope and did not include a review of any information other than drawn from the financial statements of the Bank. In our opinion, the management report is consistent with the financial statements.

Patrick Querubin
Partner
KPMG Baltics SIA
License No 55
Riga, Latvia
7 March 2007

Inga Lipšane

Sworn Auditor
Certificate No. 112

This report is an English translation of the original Latvian. In the event of discrepancies between the two reports, the Latvian version prevails.

INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2006

		2006		2005	
	Notes	**Group LVL'000**	**Bank LVL'000**	**Group LVL'000**	**Bank LVL'000**
Interest income	4	41,472	41,039	28,982	27,423
Interest expense	5	(11,365)	(11,476)	(6,478)	(5,796)
Net interest income		**30,107**	**29,563**	**22,504**	**21,627**
Commission and fee income	6	15,599	15,063	13,839	12,251
Commission and fee expense	7	(2,875)	(2,763)	(1,996)	(1,786)
Net commission and fee income		**12,724**	**12,300**	**11,843**	**10,465**
Profit on trading with financial instruments, net	8	11,504	10,994	7,414	6,690
Dividends received		47	637	37	6,614
Other operating income		897	893	1,180	819
Operating income		**55,279**	**54,387**	**42,978**	**46,215**
Administrative expense	9	(17,869)	(17,405)	(16,562)	(15,099)
Amortization and depreciation charges		(2,202)	(2,186)	(2,009)	(1,973)
Other operating expense		(471)	(64)	(1,624)	(53)
Impairment losses	10	(561)	(561)	(579)	(579)
Goodwill impairment		(194)	(194)	(138)	-
Loss from disposal of assets		(45)	(9)	(14)	(14)
PROFIT BEFORE INCOME TAX		**33,937**	**33,968**	**22,052**	**28,497**
Income tax expense	11	(4,353)	(4,346)	(3,092)	(3,009)
PROFIT FOR THE YEAR		**29,584**	**29,622**	**18,960**	**25,488**
Earnings per share		1.31	1.32	0.89	1.19

The accompanying notes are an integral part of these consolidated and bank financial statements.

The consolidated and bank financial statements are authorized for approval by the Council and the Board of Directors of the Bank on 7 March 2007 and signed on their behalf by:

Leonid Esterkin	Alexander Kalinovsky
Chairman of the Council	Chairman of the Executive Board

BALANCE SHEET AND MEMORANDUM ITEMS AS AT 31 DECEMBER 2006

	Notes	31 December 2006 Group LVL'000	31 December 2006 Bank LVL'000	31 December 2005 Group LVL'000	31 December 2005 Bank LVL'000
ASSETS					
Cash and balances with central bank	12	61,953	61,913	52,080	52,056
Balances due from credit institutions	13	359,558	359,142	289,121	288,522
- demand deposits		*206,188*	*205,772*	*231,545*	*230,946*
- other deposits		*153,370*	*153,370*	*57,576*	*57,576*
Financial assets held for trading	14	36,901	36,454	2,683	2,595
- bonds and other fixed income securities		*32,802*	*32,801*	*466*	*378*
- shares and other non-fixed income securities		*3,023*	*2,577*	*1,381*	*1,381*
- derivative financial assets		*1,076*	*1,076*	*836*	*836*
Financial assets available-for-sale	15	1,851	777	1,641	794
- bonds and other fixed income securities		*538*	*538*	*595*	*595*
- shares and other non-fixed income securities		*1,313*	*239*	*1,046*	*199*
Loans to non-banking customers	16	373,515	372,553	256,276	248,313
Held-to-maturity investments	17	57,506	57,506	78,180	78,180
Accrued income and deferred expenses	18	3,825	3,641	1,902	1,836
Property, plant and equipment	19	19,762	19,727	14,947	14,773
Intangible assets	20	3,710	3,708	4,198	4,198
Investments in subsidiaries and associated entities	21	310	13,955	146	11,411
Other assets	22	3,362	2,584	3,023	1,147
Total assets		**922,253**	**931,960**	**704,197**	**703,825**

The accompanying notes are an integral part of these consolidated and bank financial statements.

BALANCE SHEET AND MEMORANDUM ITEMS AS AT 31 DECEMBER 2006

	Notes	31 December 2006 Group LVL'000	31 December 2006 Bank LVL'000	31 December 2005 Group LVL'000	31 December 2005 Bank LVL'000
LIABILITIES					
Balances due to other banks	23	125,487	125,487	20,686	20,686
- demand deposits		*4,600*	*4,600*	*6,011*	*6,011*
- term deposits		*120,887*	*120,887*	*14,675*	*14,675*
Balances due to customers	24	659,141	669,229	570,004	572,926
- demand deposits		*523,495*	*533,583*	*516,380*	*519,302*
- term deposits		*135,646*	*135,646*	*53,624*	*53,624*
Amounts payable under repurchase agreements	25	32,321	32,321	32,574	32,574
Held-for-trading financial liabilities					
- derivative financial liabilities		-	-	110	110
Deferred income and accrued expense	26	3,413	3,066	3,510	2,912
Current tax liability	27	544	542	227	224
Deferred tax liability	27	1,809	1,809	1,538	1,538
Other liabilities		3,380	3,355	3,606	1,284
Total liabilities		**826,095**	**835,809**	**632,255**	**632,254**
SHAREHOLDERS' EQUITY					
Paid-in share capital	28	22,500	22,500	22,500	22,500
Share premium		4,809	4,809	4,809	4,809
Legal reserve		16	16	16	16
Revaluation reserve - *property*		4,623	4,623	4,739	4,739
Revaluation reserve		738	-	1,064	-
Current year profit		29,584	29,622	18,960	25,488
Retained earnings		33,888	34,581	19,854	14,019
Total shareholders' equity		**96,158**	**96,151**	**71,942**	**71,571**
Total liabilities and shareholders' equity		**922,253**	**931,960**	**704,197**	**703,825**
MEMORANDUM ITEMS					
Contingent liabilities (guarantees)		10,782	10,782	6,955	6,955
Letters or credit		12,881	12,881	6,741	6,741
Financial commitments (unutilized credit lines)		57,834	58,434	63,121	89,688
		81,497	**82,097**	**76,817**	**103,384**

The accompanying notes are an integral part of these consolidated and bank financial statements.

The consolidated and bank financial statements are authorized for approval by the Council and the Board of Directors of the Bank on 7 March 2007 and signed on their behalf by:

Leonid Esterkin
Chairman of the Council

Alexander Kalinovsky
Chairman of the Executive Board

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2006

GROUP	Paid-in share capital	Share premium	Legal reserve	Revaluation reserve	Revaluation reserve – property	Revaluation reserve – available-for-sale investments	Retained earnings	Total Shareholders' equity
	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000
Balance at 31 December 2004 as reported	**20,757**	**151**	**16**	**-**	**636**	**(23)**	**22,843**	**44,380**
Dividends paid	-	-	-	-	-	-	(2,989)	(2,989)
Net profit for the year	-	-	-	-	-	-	18,960	18,960
Revaluation reserve	-	-	-	1, 064	-	-	-	1,064
Revaluation reserve - property	-	-	-	-	4,103	-	-	4,103
Revaluation of available-for-sale investments	-	-	-	-	-	23	-	23
Share issue	1,743	4,658	-	-	-	-	-	6,401
As of 31 December 2005	**22,500**	**4,809**	**16**	**1,064**	**4,739**	**-**	**38,814**	**71,942**
Dividends paid	-	-	-	-	-	-	(5,063)	(5,063)
Net profit for the year	-	-	-	-	-	-	29,584	29,584
Revaluation reserve	-	-	-	(326)	-	-	-	(326)
Transfers	-	-	-	-	(116)	-	137	21
As of 31 December 2006	**22,500**	**4,809**	**16**	**738**	**4,623**	**-**	**63,472**	**96,158**

The accompanying notes are an integral part of these consolidated and bank financial statements.

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2006

BANK	Paid-in share capital	Share premium	Legal reserve	Revaluation reserve – property	Revaluation reserve – available-for-sale investments	Retained earnings	Total Shareholders' equity
	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000
Balance at 31 December 2004 as reported	**20,757**	**151**	**16**	**636**	**(23)**	**22,856**	**44,393**
Restatement due to change in accounting policy (note 2)	-	-	-	-	-	(5,848)	(5,848)
Balance at 31 December 2004 as restated	**20,757**	**151**	**16**	**636**	**(23)**	**17,008**	**38,545**
Dividends paid	-	-	-	-	-	(2,989)	(2,989)
Net profit for the year	-	-	-	-	-	25,488	25,488
Revaluation of property	-	-	-	4,103	-	-	4,103
Revaluation of available-for-sale investments	-	-	-	-	23	-	23
Share issue	1,743	4,658	-	-	-	-	6,401
As of 31 December 2005	**22,500**	**4,809**	**16**	**4,739**	**-**	**39,507**	**71,571**
Dividends paid	-	-	-	-	-	(5,063)	(5,063)
Net profit for the year	-	-	-	-	-	29,622	29,622
Revaluation of property	-	-	-	(116)	-	137	21
As of 31 December 2006	**22,500**	**4,809**	**16**	**4,623**	**-**	**64,203**	**96,151**

The accompanying notes are an integral part of these consolidated and bank financial statements.

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2006

	Notes	2006 Group	2006 Bank	2005 Group	2005 Bank
		LVL'000	LVL'000	LVL'000	LVL'000
CASH INFLOW FROM OPERATING ACTIVITIES					
Profit before income tax		33,937	33,968	22,052	28,497
Amortization and depreciation		2,202	2,186	2,009	1,973
Impairment losses (recoveries)		800	764	717	579
Increase in cash and cash equivalents before changes in assets and liabilities, as a result of ordinary operations		**36,939**	**36,918**	**24,778**	**31,049**
(Increase)/ decrease in balances due from banks		(95,794)	(95,794)	5,317	5,317
(Increase) in loans		(117,072)	(124,073)	(63,885)	(74,139)
(Increase) in assets available-for-sale investments		(210)	17	-	-
(Increase) in assets held-for-trading securities		(33,978)	(33,619)	(879)	(792)
(Increase) in derivative assets and liabilities		(350)	(350)	659	659
(Increase) in accrued income and deferred expenses		(2,931)	(2,058)	(173)	(329)
(Increase) in other assets		(461)	(1,559)	(1,041)	52
Increase in balances due to other banks		114,876	114,876	(6,142)	(6,142)
Increase in deposits		89,137	96,303	62,993	76,630
Increase in deferred income and accrued expenses		(97)	(154)	553	201
Increase in other liabilities		(226)	2,071	3,374	1,127
Increase in cash and cash equivalents from operating activities before corporate income tax		**(10,167)**	**(7,422)**	**25,554**	**33,633**
Corporate income tax paid		(3,745)	(3,737)	(2,904)	(2,820)
Net cash and cash equivalents from operating activities		**(13,912)**	**(11,159)**	**22,650**	**30,813**
CASH OUTFLOW FROM INVESTING ACTIVITIES					
Purchase of property, plant and equipment		(7,157)	(7,101)	(3,339)	(3,097)
(Purchase) of equity investments in other entities and acquisition of subsidiaries		(164)	(3,048)	(134)	(9,086)
Sale of equity investments in other entities and acquisition of subsidiaries		(62)	246	-	-
Increase in held-to-maturity investments		20,674	20,674	(79)	392
Proceeds from sale of property, plant and equipment		276	209	557	418
Decrease in cash and cash equivalents from investing activities		**13,567**	**10,980**	**(2,995)**	**(11,373)**
CASH INFLOW FROM FINANCING ACTIVITIES					
Share issue		-	-	6,401	6,401
Dividends paid		(5,063)	(5,063)	(2,989)	(2,989)
Increase in cash and cash equivalents from financing activities		**(5,063)**	**(5,063)**	**3,412**	**3,412**
Net cash inflow for the period		**(5,408)**	**(5,242)**	**23,067**	**22,852**
Cash and cash equivalents at the beginning of the year		**268,949**	**268,327**	**245,882**	**245,475**
Cash and cash equivalents at the end of the year	31	**263,541**	**263,085**	**268,949**	**268,327**

The accompanying notes are an integral part of the consolidated and bank financial statements.

1 INCORPORATION AND PRINCIPAL ACTIVITIES

A/s Rietumu Banka (the Bank) was established on 14 May 1992 and incorporated in the Republic of Latvia as a joint stock company, in which the shareholders have limited liability. The main areas of operation of the Bank and subsidiaries (the Group) include granting loans, transferring payments and exchanging foreign currencies both for its customers and for trading purposes. The Bank's legal address is 54 Brīvības street, Riga LV 1011, Latvia.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A summary of the principal accounting policies all of which have been applied consistently (unless otherwise stated), is set out below:

a) Going concern

The accompanying financial statements have been prepared on a going concern basis, which contemplates the realisation of assets and the satisfaction of liabilities in the normal course of business. The accompanying financial statements do not include any adjustments should the Bank be unable to continue as a going concern.

b) Reporting currency

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

c) Statement of compliance

These financial statements are prepared in accordance with International Financial Reporting Standards (IFRS), and its interpretations as adopted by the European Union, and regulations of the Financial and Capital Market Commission in force as at balance sheet date.

Basis of preparation

The financial statements have been prepared on the historical cost basis except for the following items which are carried at fair value. Derivative financial instruments, financial assets and liabilities carried at fair value through profit and loss account, and available for sale assets are measured at fair value except those whose fair value cannot be reliably estimated. Other financial assets and liabilities and non-financial assets and liabilities are carried at amortized cost in accordance with the effective interest rate method.

The accounting policies used in the preparation of the financial statements are consistent with those used in the annual financial statements for the year ended 31 December 2005. However, the Group and the Bank implemented for the first time new Regulations (dated February 24, 2006) on preparation of financial statements issued by Financial and Capital Market Commission. As a result separate balance sheet items were reclassified. Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year.

The preparation of financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. Although these estimates are based on management's best knowledge of current events and actions, actual results ultimately may differ from those estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period, in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgments made by management in the application of IFRSs that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year relate to loan loss impairment allowances.

New International Financial Reporting Standards and interpretations not yet effective

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2006, and have not been applied in preparing these consolidated and banks financial statements:

IFRS 7 *Financial Instrument: Disclosures* and amendment to IAS 1 *Presentation of Financial Statements – Capital Disclosures* determines the type and amount of disclosures made in financial statements, but has no impact on the reported profits or financial position. In accordance with the transition requirements of the standards, the Group and the Bank will have to provide full comparative information when the standard and amendment is applied at required date of 1 January 2007.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

IFRIC 7 Applying the Restatement Approach under IAS29 Financial Reporting in Hyperinflationary Economies addresses the application of IAS 29 when an economy first becomes hyperinflationary and in particular the accounting for deferred tax. IFRIC 7 which becomes mandatory for the Group's and the Bank's 2007 financial statements, is not expected to have any impact on the financial statements.

IFRIC 8 *Scope of IFRS 2 Share-based Payments* addresses the accounting of share-based payment transactions in which some or all of goods or services received can not be specifically identified. IFRIC 8 will become mandatory for the Group's and the Bank's 2007 financial statements, with retrospective application required. The group has not yet determined the potential effect of the interpretation. IFRIC 8 is not relevant to the Bank's operations as the Bank has not entered into any share-based payments arrangements and is not expected to have any material impact on the consolidated and Bank financial statements.

IFRIC 9 *Reassessment of Embedded Derivatives* requires that a reassessment of whether the embedded derivative should be separated from the underlying host should be made only when there are changes to the contract. IFRIC 9, which becomes mandatory for the Group's and the Bank's 2007 financial statements, is not expected to have any material impact on the consolidated and Bank financial statements.

IFRIC 10 *Interim Financial Reporting and Impairment* prohibits the reversal of an impairment loss recognised in a previous interim period in respect of goodwill, an investment in an equity instrument or a financial asset carried at cost. IFRIC 10 will become mandatory for the Group's and Bank's 2007 financial statements, and will apply to goodwill, investment in equity instruments, and financial assets carried at cost retrospectively from the date the Group and the Bank first applied the measurement criteria of IAS 36 and IAS 39 respectively (i.e. January 1, 2007). The adoption of IFRIC 10 will not result in a material impact on consolidated and Bank's financial statements.

IFRS 8 Operating Segments requires segment disclosure based on the components of the entity that management monitors in making decisions about operating matters. Operating segments are components of an entity about which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. The Bank expects the new Standard to significantly alter the presentation and disclosure of its operating segments in the financial statements.

IFRIC 11 IFRS 2: Group and Treasury Share Transactions requires a share-based payment arrangement in which an entity receives goods or services as consideration for its own equity-instruments to be accounted for as an equity-settled share-based payment transaction, regardless of how the equity instruments needed are obtained. It also provides guidance on whether share-based payment arrangements, in which suppliers of goods or services of an entity are provided with equity instruments of the entity's parent, should be accounted for as cash-settled or equity-settled in the entity's financial statements. The Group and the Bank have not entered into any share-based payments arrangements and are not expected to have any material impact on the consolidated and Bank financial statements.

IFRIC 12 Service Concession Arrangements provides guidance to private sector entities on certain recognition and measurement issues that arise in accounting for public-to-private service concession arrangements. The Group and the Bank has not entered into any service concession arrangements and is not expected to have any material impact on the consolidated and Bank financial statements.

d) Basis of consolidation

Subsidiaries are those entities controlled by the Bank. Control exists when the Bank has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control effectively commences until the date that control effectively ceases.

Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Intra-group balances, and any unrealised gains income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

Investments in subsidiaries are accounted at cost in the Bank's financial statements. Subsidiary undertakings, which are those companies and other entities in which the Group, directly or indirectly, has power to exercise control over financial and operating policies, have been consolidated.

At 1 January 2005, the Bank adopted the amended IAS 27 and designated its investments in unlisted company equity investments (subsidiaries) as financial assets measured at cost. The Bank recognises income from the investment only to the extent that the Bank receives dividends from accumulated profits of the subsidiaries arising after the date of acquisition. Prior to 1 January 2006 financial statements, investments in subsidiaries were accounted for under the equity method. Under the equity method, the Bank's share of the post-acquisition profits or losses of subsidiaries was recognised in the income statement. The comparative figures of

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

the Bank for previous periods of 31 December 2003 and 2004 have been restated. The impact of the change is to reduce reported net profit for the year ended 31 December 2004 by LVL 2.1 million to LVL 12.5 million and to reduce the reported shareholders' equity at 31 December 2004 by LVL 5.8 million.

The purchase method of accounting is used to account for the acquisition of subsidiaries. The cost of an acquisition is measured at the fair value of the assets given up, shares issued or liabilities undertaken at the date of acquisition, plus costs directly attributable to the acquisition. See Note *h)* for the accounting policy on goodwill. The financial statements of the subsidiaries are consolidated in the Group's financial statements on a line-by-line basis by adding together similar types of assets and liabilities as well as income and expenses.

Balances of the foreign subsidiary have been included in the consolidated financial statements at the exchange rate set by the Bank of Latvia as at the end of the reporting period. Statement of income and statement of cash flows of foreign entity are translated into lats at average exchange rates for the year.

e) Financial instruments

Recognition

The Group initially recognizes loans and advances, deposits, and debt on the date that they are originated. All other financial assets and liabilities are initially recognized on the settlement date.

Derecognition

The Group derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial assert are transferred.

The Group derecognizes a financial liability when its contractual obligations are discharged or cancelled or expire.

Amortized cost measurement

The amortized cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognized and the maturity amount, minus any reduction for impairment.

Identification and measurement of impairment

At each balance sheet date the Group assesses whether there is objective evidence that the financial assets not carried at fair value through profit or loss are impaired. Financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset, and that the loss event has an impact on the future cash flows on the asset that can be estimated reliably.

The Group considers evidence of impairment at both a specific asset and collective level. All individually significant financial assets are assessed for specific impairment. All significant assets found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Assets that are not individually significant are then collectively assessed for impairment by grouping together financial assets carried at amortized cost with similar risk characteristics.

Impairment losses on assets carried at amortized cost are measured as the difference between the carrying amount of the financial assets and the present value of estimated cash flows discounted at the assets' original effective interest rate. Losses are recognized in profit or loss. When a subsequent event causes the amount of impairment loss to decrease, the impairment loss is reversed through profit or loss.

The determination of fair values of financial assets and financial liabilities is based on quoted market prices or dealer price quotations for financial instruments traded in active markets. For all other financial instruments fair value is determined by using valuation techniques. Valuation techniques include net present value techniques, the discounted cash flow method, comparison to similar instruments for which market observable prices exist, and valuation models. The Group uses widely recognized valuation models for determining the fair value of common and more simple financial instruments like interest rate and currency swaps. For these financial instruments, inputs into models are market observable.

Loans are stated in the balance sheet at the amortized cost, less any impairment allowances. Impairment losses and recoveries are made monthly based on regular loan reviews. Allowances during the period are reflected in the income statement.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Loans and advances

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

For the purposes of these financial statements, loans and advances include regular loans, credit card balances, as well as any other outstanding credit balances from non-banking customers. All loans and advances are recognized when cash is advanced to borrowers.

Loans and advances are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at amortized cost using the effective interest method. Certain expenses, such as legal fees or sales commissions for employees acting as agents or are incurred in securing a loan are treated as part of the cost of the transaction.

An impairment allowances for possible credit losses are established.

The level of the impairment allowances is based on the estimates of known relevant factors affecting the loan collectability and collateral values. The ultimate loss, however, may vary significantly from the current estimates. These estimates are reviewed on a monthly basis, and, as adjustments become necessary, they are reported in the statement of income in the period in which they become known.

When a loan is uncollectible, it is written off against the related impairment provision; subsequent recoveries are credited to the provision expense in the statement of income.

Investment securities

Investment securities are classified into the following two categories: held-to maturity investments and available-for-sale assets. Investment securities where the management has both the intent and ability to hold to maturity are classified as held-to-maturity. Investment securities intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices are classifies as available-for-sale. Management determines the appropriate classification of its investments at the date of purchase.

Investment securities are initially measured at fair value plus incremental direct transaction costs.

Held-to-maturity investments are non-derivative assets with fixed or determinable payments and fixed maturity and are carried at amortized cost using the effective interest method, less impairment. Any sale or reclassification of a significant amount of held-to-maturity investments not close to their maturity would result in the reclassification of all held-to-maturity investments as available-for-sale, and prevent the Group from classifying investment securities as held-to-maturity for the current and the following two financial years.

Available-for-sale investments are non-derivative investments and are carried at fair value except for unquoted equity securities whose fair value cannot be reliably measured and are carried at cost. The fair value is based on quoted bid prices or amounts derived from cash flow models. Unrealized gains and losses arising from changes in the fair value of securities classified as available-for-sale are recognized in equity. Equity securities for which fair values cannot be measured reliably are recognized at cost less impairment. When the securities are disposed of or impaired, the related accumulated fair value adjustments are included in the statement of income as gains and losses from investment securities.

Interest income is recognized in profit or loss using the effective interest method.

Financial assets held for trading

Trading securities are marketable securities that are acquired and sold with the intention of gaining profit on their short-term price fluctuation.

Financial assets held for trading are initially recognized and subsequently measured at fair value based on quoted bid prices in the balance sheet with transaction costs recognized directly in profit or loss statement. All related realized and unrealized gains and losses from changes in fair value are included in net trading income. Interest earned whiLVLt holding trading securities is reported as interest income. Dividends received are included in dividend income. Trading securities are not reclassified subsequent to their initial recognition.

f) Derivative financial instruments

Derivative financial instruments including foreign exchange contracts, interest rate futures, forward rate agreements, currency and interest rate swaps, currency and interest rate options (both written and purchased) and other derivative financial instruments are initially recognized and subsequently are measured at their fair value. Fair values are obtained from quoted market prices, discounted cash flow modeLVL and options pricing modeLVL as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Changes in the fair value of derivatives held for trading are included in net trading income.

g) Sale and repurchase agreements and lending of securities

Securities purchased under agreements to resell ('reverse repos') are recorded as loans and advances to other banks or customers as appropriate and separately disclosed in the respective balance sheet categories. The difference between sale and repurchase price is treated as interest and accrued over the life of repo agreements using the effective yield method.

Securities borrowed are not recognized in the financial statements, unless these are sold to third parties, in which case the purchase and sale are recorded with the gain or loss included in trading income. The obligation to return securities is recorded at fair value as a trading liability.

h) Goodwill

Goodwill represents the excess of the cost of a business combination over the Bank's interest in the fair value of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill is measured at cost less accumulated impairment losses.

At each balance sheet date the Bank assesses whether there is any indication of impairment. If such indications exist, an analysis is performed to assess whether the carrying amount of goodwill is fully recoverable. An impairment is recognized if the carrying amount exceeds the recoverable amount. Please refer to *j)* for the estimation of the recoverable amount.

i) Property, plant and equipment

All property, plant and equipment is stated at historical cost or revalued amount less accumulated depreciation.

Depreciation is provided in equal monthly instalments over the expected useful lives, which have been estimated by the management as follows:

Buildings and constructions	50 years
Leasehold improvements	20 years
Office equipment	4 - 5 years
Vehicles	5 years
Other property, plant and equipment	2 - 5 years

The buildings were revalued as at 31 December 2005. Depreciation methods, useful lives, and residual values are reassessed at the reporting date. Revaluation is made on the basis of valuations performed by independent external valuer biannually. Increases in the carrying amount arising on revaluation of property are credited to the revaluation reserve in shareholders equity. Decreases that offset previous increases are the same asset are charged against that reserve; all other decreases are charged to the statement of income. Each year the difference between the depreciation based on the revalued carrying amount of the asset (the depreciation charged to the statement of income) and depreciation based on the asset's original cost is transferred from revaluation reserve to retained earnings.

Leasehold improvements are capitalized and depreciated over the lesser of their useful life and the remaining lease contract period on a straight-line basis.

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount. Gains and losses on disposal of property and equipment are determined by reference to their carrying amount and are taken into account in determining operating profit. Repairs and renewaLVL are charged to the statement of income when the expenditure is incurred.

j) Impairment of non-financial assets

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

An impairment loss is recognized whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognized in the income statement. Impairment losses recognized in respect of cash-generating units are allocated first to reduce carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a *pro rata* basis.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

An impairment loss in respect of goodwill is not reversed unless the loss was caused by a specific external event of an exceptional nature that is not expected to recur, and the increase in recoverable amount relates clearly to the reversal of the effect of that specific event.

In respect of other assets, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is only reversed to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

k) Interest bearing liabilities

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

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

l) Funds under trust management

Funds managed by the Bank on behalf of its customers, funds and other institutions are not regarded as assets of the Bank and, therefore, are not included in its balance sheet.

m) Income and expense recognition

All interest income and expense items are recognized on an accrual basis using the effective yield method based on actual purchase price. Interest income and expense include the amortisation of any discount or premium or other differences between the initial carrying amount of an interest bearing instrument and its amount at maturity calculated on an effective interest rate basis. No interest income is recognized on non-performing loans and advances in which interest is unlikely to be collected. The recognition of interest income ceases when the payment of interest or principal is in doubt and accrued interest is automatically provided for. Interest income includes coupons earned on fixed income investment and trading securities and accrued discount and premium on treasury bills and other instruments.

Net trading income includes gains and losses arising from disposals and changes in the fair value of financial assets and liabilities held for trading.

Commissions and fees are generally recognized on an accruals basis when the service has been provided. Loan origination fees for loans, which are probable of being drawn down, are deferred (together with related direct costs) and recognized according to the effective yield on the loan.

Commissions for long-term loans issued are reflected in the part of profit or loss account, which relates to the reporting period taking into account the terms of the loan agreement.

Finance lease income is recognized over the term of the lease using the net investment method, which reflects a constant periodic rate of return on the net investment amount outstanding on the finance leases.

Operating lease income is recognized on a straight-line basis over the lease term.

n) Foreign currency translation

Transactions denominated in foreign currency are translated into LVL at the official Bank of Latvia exchange rate on the date of the transaction, which approximates the prevailing market rates. Any gain or loss resulting from the change in rates of exchange subsequent to the date of transaction is included in the statement of income as a profit or loss from the revaluation of foreign currency positions. Monetary assets and liabilities, including outstanding commitments to deliver or acquire foreign currencies under spot exchange transactions, are translated at the official rate of exchange at the balance sheet date.

All translation differences on debt securities and other monetary financial assets measured at fair value are included in foreign exchange gains and losses. Thus, underlying translation differences on available-for-sale equities are included in the revaluation reserve in equity.

The principal rates of exchange (LVL to 1 foreign currency unit) set forth by the Bank of Latvia and used in the preparation of the

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Group's and Bank's balance sheet as of 31 December 2006 and 31 December 2005 were as follows:

31.12.2006		31.12.2005	
USD	0.5360	USD	0.5930
EUR	0.7028	EUR	0.7028
RUB	0.0203	RUB	0.0206
UAH	0.1060	UAH	0.1170

o) Corporate income tax

The charge for current taxation is based on computations made by management separately for each of the Group companies in accordance with respective tax legislation.

Income tax expense comprises current and deferred tax. Income tax expense is recognized in the income statement except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor tax profit, and differences relating to investments in subsidiaries to the extent that they probably will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

The principal temporary differences arise from depreciation on property and equipment, allowances for loan loss impairment, tax losses carried forward and revaluation of properties and certain financial assets and liabilities, including derivative contracts.

The amount of deferred tax related to fair value re-measurement of available-for-sale investments, which are charged or credited directly to equity, is also credited or charged directly to equity and is subsequently recognized in the statement of income together with the deferred gain or loss.

A deferred tax asset is recognized only to the extent that is probable that future taxable profits will be available against which the assets can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that is no longer probable that the related tax benefit will be realized.

p) Cash and cash equivalents

For the purpose of presentation in the statement of cash flows, cash and cash equivalents are defined as the following:
+ Cash and balances with central banks;
+ Demand deposits due from other banks due within 3 months;
- Demand deposits due to other banks due within 3 months.

q) Treasury shares

Where the Bank or its subsidiaries purchase the Bank's share capital or obtains rights to purchase its share capital, the consideration paid including any attributable transaction costs is shown as a deduction from total shareholders' equity.

r) Provisions

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

Employee entitlements to annual leave and long service leave are recognized when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date.

s) Regulatory requirements

The Bank is subject to the regulatory requirements of the Bank of Latvia and the Finance and Capital Market Commission. The major requirements relate to credit risk concentration, capital adequacy, liquidity and foreign currency exposure.

3 FINANCIAL RISK MANAGEMENT

A Strategy in using financial instruments

By its nature the Group's activities are principally related to the use of financial instruments including derivatives. The Group accepts deposits from customers at both fixed and floating rates and for various periods and seeks to earn interest margins by investing these funds in high quality assets. The Group seeks to increase these margins by consolidating short-term funds and lending for longer periods at higher rates whilst maintaining sufficient liquidity to meet all claims that might fall due.

The Group also seeks to raise its interest margins by obtaining above market margins, net of provisions, through lending to commercial and retail borrowers with a range of credit standing. Such exposures involve not just on-balance sheet loans and advances but the Group also enters into guarantees and other commitments such as letters of credit and performance, and other bonds.

The Group also trades in financial instruments where it takes positions in traded and over the counter instruments including derivatives to take advantage of short-term market movements in the equity and bond markets and in currency, interest rate and commodity prices. The Board places trading limits on the level of exposure that can be taken in relation to both overnight and intra-day market positions. With the exception of specific hedging arrangements, foreign exchange and interest rate exposures associated with these derivatives are normally offset by entering into counterbalancing positions, thereby controlling the variability in the net cash amounts required to liquidate market positions.

B Capital adequacy

To monitor the adequacy of its capital the Group uses ratios established by the Bank for International Settlements (BIS) and Financial and Capital Markets Commission. These ratios measure capital adequacy (minimum 8% as required by BIS and, as from November 2004 also by the Financial and Capital Markets commission) by comparing the Group's eligible capital with its balance sheet assets, off-balance-sheet commitments and market and other risk positions at weighted amounts to reflect their relative risk.

The market risk approach covers the general market risk and the risk of open positions in currencies and debt and equity securities. Assets are weighted according to broad categories of notional risk, being assigned a risk weighting according to the amount of capital deemed to be necessary to support them. Four categories of risk weights (0%, 20%, 50%, 100%) are applied; cash and money market instruments have a zero risk weighting which means that no capital is required to support the holding of these assets. Property and equipment carries a 100% risk weighting, meaning that it must be supported by capital equal to 8% of the carrying amount.

Off-balance-sheet credit related commitments and forwards and options based derivative instruments are taken into account by applying different categories of conversion factors, designed to convert these items into balance sheet equivalents. The resulting equivalent amounts are then weighted for risk using the same percentages as for on-balance-sheet assets.

A detailed analysis of the Group Capital Adequacy is presented in Note 34.

C Credit risk

The Group takes on exposure to credit risk which is the risk that a counterparty will be unable to pay amounts in full when due. The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments. Such risks are monitored on a revolving basis and subject to an annual or more frequent review. Limits on the level of credit risk by product, industry sector and by country are approved quarterly by the Board of Directors. The exposure to any one borrower including banks and brokers is further restricted by sub-limits covering on and off-balance sheet exposures and daily delivery risk limits in relation to trading items such as forward foreign exchange contracts. Actual exposures against limits are monitored daily. Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate. Exposure to credit risk is also managed in part by obtaining collateral and corporate and personal guarantees.

3 FINANCIAL RISK MANAGEMENT (continued)

Derivatives

The Group maintains strict control limits on net open derivative positions, i.e. the difference between purchase and sale contracts, by both amount and term. At any one time the amount subject to credit risk is limited to the current fair value of instruments that are favourable to the Group (i.e. assets), which in relation to derivatives is only a small fraction of the contract or notional values used to express the volume of instruments outstanding. This credit risk exposure is managed as part of the overall lending limits with customers, together with potential exposures from market movements. Collateral or other security is not usually obtained for credit risk exposures on these instruments, except where the group requires margin deposits from counterparties.

Credit related commitments

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit, which represent irrevocable assurances that the Group will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Documentary and commercial letters of credit, which are written undertakings by the Group on behalf of a customer authorizing a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions, are collateralized by the underlying shipments of goods to which they relate and therefore carry less risk than a direct borrowing.

Commitments to make loans at a specific rate of interest during a fixed period of time are accounted for as derivatives and accounted for as such unless these commitments do not extend beyond the period expected to be needed to perform appropriate underwriting, in which case they considered to be “regular way” transactions.

Commitments to extend credit represent unused portions of authorizations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Group monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

D Market risk

The group takes on exposure to market risks. Market risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements. The group applies a real-time centralized routine process, which enables the Group to be sufficiently flexible to all sudden changes in the financial markets. The system of limits established for market risk management in the Group evaluates such risks on a nominal basis as well as through a ‘value at risk’ methodology to estimate the market risk of positions held and the maximum losses expected, based upon a number of assumptions for various changes in market conditions. The Board of Directors sets limits, which are monitored on a daily basis.

E Currency risk

The Group takes on exposure to effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Board of Directors sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily. The Group’s exposure to foreign currency risk is presented in Note 33.

F Interest rate risk

The Group takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise. The Board of Directors sets limits on the level of mismatch of interest rate repricing that may be undertaken, which is monitored daily. The Group’s exposure to interest rate risk is presented in Note 36.

G Liquidity risk

The Group is exposed to daily calls on its available cash resources from overnight deposits, current accounts, maturing deposits, loan draw downs, guarantees and from margin and other calls on cash settled derivatives. The group does not maintain cash resources to meet all of these needs as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty. The Board sets limits on the minimum proportion of maturing funds available to meet such calls and on the minimum level of interbank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand.

3. FINANCIAL RISK MANAGEMENT (continued)

Note 35 analyses assets and liabilities of the Group into relevant maturity groupings based on the remaining period at balance sheet date to the contractual maturity date.

Maturities of assets and liabilities

The matching and controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Group. It is unusual for banks ever to be completely matched since business transacted is often of uncertain term and of different types. An unmatched position potentially enhances profitability, but also increases the risk of losses.

The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest–bearing liabilities as they mature, are important factors in assessing the liquidity of the Group and its exposure to changes in interest rates and exchange rates.

Liquidity requirements to support calls under guarantees and standby letters of credit are considerably less than the amount of the commitment because the Group does not generally expect the third party to draw funds under the agreement. The total outstanding contractual amount of commitments to extend credit does not necessarily represent future cash requirements, since many of these commitments will expire or terminate without being funded.

H Fiduciary activities

The Group provides custody, trustee, corporate administration, investment management and advisory services to third parties, which involve the Group making allocation and purchase and sale decisions in relation to a wide range of financial instruments. Those assets that are held in a fiduciary capacity are not included in these financial statements. Some of these arrangements involve the Group accepting targets for benchmark levels of returns for the assets under the Group's care. These services give rise to the risk that the Group will be accused of mal-administration or under-performance.

4 INTEREST INCOME

Interest income is comprised of the following:

	2006 Group LVL'000	2006 Bank LVL'000	2005 Group LVL'000	2005 Bank LVL'000
On balances due from credit institutions	14,102	14,091	8,777	8,777
On loans granted to customers	23,398	22,976	16,186	14,630
On debt securities	3,972	3,972	4,019	4,016
Total	**41,472**	**41,039**	**28,982**	**27,423**

5 INTEREST EXPENSE

Interest expense is comprised of the following:

	2006 Group LVL'000	2006 Bank LVL'000	2005 Group LVL'000	2005 Bank LVL'000
On due to customers	7,177	7,292	4,291	4,205
On balances due to other banks	2,925	2,921	923	406
Other	1,263	1,263	1,264	1,185
Total	**11,365**	**11,476**	**6,478**	**5,796**

6 COMMISSION AND FEE INCOME

Commission and fee income is comprised of the following:

	2006 Group LVL'000	2006 Bank LVL'000	2005 Group LVL'000	2005 Bank LVL'000
Money transfers	6,704	6,704	7,063	7,063
Cash withdrawals	352	352	378	378
Commission income from payment cards	2,584	2,584	1,999	1,999
Revenue from customer asset management and brokerage commissions	2,022	710	1,694	139
Account opening and closing	373	373	22	22
Commission income from loans	1,299	1,299	918	918
Other	2,265	3,041	1,765	1,732
Total	**15,599**	**15,063**	**13,839**	**12,251**

7 COMMISSION AND FEE EXPENSE

Commission and fee expense is comprised of the following:

	2006 Group LVL'000	2006 Bank LVL'000	2005 Group LVL'000	2005 Bank LVL'000
Banks	751	751	836	836
Loans commissions	504	504	-	-
Brokerage commission	221	135	189	61
Cash withdrawals	17	17	18	18
Credit card expenses	937	937	755	755
Other commission	445	419	198	116
Total	**2,875**	**2,763**	**1,996**	**1,786**

8 PROFIT FROM TRADING WITH FINANCIAL INSTRUMENTS, NET

	2006 Group LVL'000	2006 Bank LVL'000	2005 Group LVL'000	2005 Bank LVL'000
Foreign exchange profit from conversion of currencies	10,060	10,001	6,677	6,607
Loss from foreign currency revaluation	(1,287)	(1,218)	(1,360)	(1,216)
Profit from deals with trading securities	1,186	666	1,709	915
Profit from revaluation of securities	655	655	498	494
Profit/(loss) from deals with other financial instruments	890	890	(110)	(110)
Total net gain from trading with securities and foreign currencies	**11,504**	**10,994**	**7,414**	**6,690**

Foreign currency contracts

The table below summarizes the contractual amounts of the Group's forward exchange contracts outstanding at 31 December 2006. The resultant unrealized gains and losses on these unmatured contracts, along with the amounts payable and receivable on the matured but unsettled contracts, have been recognized in the income statement and in prepaid expenses and accrued income and other liabilities.

	Notional amount		Fair value			
	2006	2005	2006		2005	
			Assets	Liabilities	Assets	Liabilities
	LVL '000	LVL '000	LVL '000	LVL '000	LVL '000	LVL '000
Forward contracts	29,638	91,112	79	(141)	266	(154)

As of 31 December 2006 there were 80 outstanding foreign exchange agreements (2005: 118).

9 ADMINISTRATIVE EXPENSES

Salaries, wages and related social security contributions represent the basic remuneration of the employees, social security contributions as well as other remuneration. During the years ended 31 December 2006 and 2005, the Bank employed on average 657 and 648 employees, respectively.

Administrative expense is comprised of the following:

	2006 Group LVL'000	2006 Bank LVL'000	2005 Group LVL'000	2005 Bank LVL'000
Salaries to Board of Directors and Council	2,877	2,604	1,640	1,639
Staff salaries	7,169	7,039	6,170	5,760
Social tax	1,428	1,396	1,306	1,236
Communications	997	989	1,020	999
Professional fees	156	105	627	91
Advertising and marketing	381	381	323	243
Charitable donations	1,226	1,226	784	784
Utilities and maintenance	189	189	180	180
Representation	103	103	94	93
Travel	319	315	289	264
Rent	350	298	363	282
Stationary	82	76	84	84
Training	88	80	69	69
Property tax	167	167	109	109
Change in accruals for annual leave	(23)	(23)	107	107
Other	2,360	2,460	3,397	3,159
Total	**17,869**	**17,405**	**16,562**	**15,099**

10 IMPAIRMENT LOSSES

	2006 Group LVL'000	2006 Bank LVL'000	2005 Group LVL'000	2005 Bank LVL'000
Impairment losses:				
Loans and advances no non-banking customers	(631)	(631)	(896)	(896)
Investment in associates	(258)	(258)	-	-
Accrued income	-	-	(73)	(73)
Other assets	(127)	(127)	(10)	(10)
	(1,016)	**(1,016)**	**(979)**	**(979)**
Reversal of impairment losses:				
Loans and advances to non-banking customers	455	455	400	400
Net impairment losses	**(561)**	**(561)**	**(579)**	**(579)**

The following table reflects the total of the Bank's allowance account for impairment losses on loans at the end of the reporting years:

	Loans	Investments	Accrued income	Other	Total
Allowance for impairment losses as of 31 December 2004	**1,040**	**1,319**	**-**	**1**	**2,360**
Reversal of impairment losses	(400)	-	-	-	(400)
Net impairment losses	896	-	73	10	979
Written off assets	(444)	-	-	-	(444)
Currency revaluation	17	197	-	-	214
Allowance as of 31 December 2005	**1,109**	**1,516**	**73**	**11**	**2,709**
Reversal of impairment losses	(403)	-	(52)	-	(455)
Net impairment losses	631	-	-	385	1,016
Written off assets	(376)	-	(15)	(5)	(396)
Currency revaluation	(19)	(145)	(6)	-	(170)
Allowance as of 31 December 2006	**942**	**1,371**	**-**	**391**	**2,704**

11 TAXATION

The tax on the operating profit differs from the theoretical amount that would arise using the basic tax rate for the Parent as follows:

	2006 Group LVL'000	2006 Bank LVL'000	2005 Group LVL'000	2005 Bank LVL'000
Profit before income tax	**33,937**	**33,968**	**22,052**	**28,497**
Theoretically calculated tax at tax rate of 15%	5, 091	5,095	3,382	4,275
Expenses not deductible for tax purposes	981	982	1,830	874
Non-taxable income	(777)	(777)	(1,431)	(1,525)
Relief for donations	(932)	(932)	(615)	(615)
Taxes expenses outside of Latvia	(22)	(22)	-	-
Effect of different tax rates in other countries	12	-	-	-
Tax charge	**4,353**	**4,346**	**3,092**	**3,009**
Prior year tax adjustment		-	38	38
Tax expenses outside of Latvia	80	80	18	18
Corporate income tax expense	3,981	3,974	2,744	2,661
Deferred tax expense	292	292	292	292
	4,353	**4,346**	**3,092**	**3,009**

Deferred tax has been calculated using the following temporary differences between book value and taxable value of assets and liabilities:

	31 December 2006 Group LVL'000	31 December 2006 Bank LVL'000	31 December 2005 Group LVL'000	31 December 2005 Bank LVL'000
Temporary difference on depreciation of property, plant and equipment	1,037	1,037	937	937
Revaluation reserve – property	710	710	731	731
Temporary difference on accruals for vacations and bonuses	(130)	(130)	(334)	(334)
Temporary differences from revaluation of other financial assets and liabilities	192	192	204	204
Deferred tax liability	**1,809**	**1,809**	**1,538**	**1,538**

12 CASH AND BALANCES WITH CENTRAL BANK

	31 December 2006 Group LVL'000	31 December 2006 Bank LVL'000	31 December 2005 Group LVL'000	31 December 2005 Bank LVL'000
Cash	3,606	3,566	4,458	4,434
Deposits with the Bank of Latvia	58,347	58,347	47,622	47,622
Total cash and deposits with the Bank of Latvia	**61,953**	**61,913**	**52,080**	**52,056**

Deposits with the Bank of Latvia represent the balance outstanding on correspondent account with the Bank of Latvia in LVL.

In accordance with the Bank of Latvia's regulations the Bank is required to maintain a compulsory reserve set at 8% of the average monthly balance (calculated at four intervals during the month) of the following items:

+ deposits from the public
- less liabilities against credit institutions
- less balance due to the State Treasury on its consolidated account with the Bank
+ bonds and other debt securities issued by the Bank.

The compulsory reserve is compared to the Bank's average monthly correspondent account balance in LVL. The Bank's average correspondent balance should exceed the compulsory reserve requirement. The Bank was in compliance with the aforementioned compulsory reserve requirement at the end of the reporting year.

13 BALANCES DUE FROM CREDIT INSTITUTIONS

	31 December 2006 Group LVL'000	31 December 2006 Bank LVL'000	31 December 2005 Group LVL'000	31 December 2005 Bank LVL'000
Demand placements with:				
Latvian commercial banks	4,500	4,500	3,857	3,857
OECD credit institutions	183,861	183,861	183,472	183,295
Non-OECD credit institutions	17,827	17,411	44,216	43,794
Total demand placements, net	**206,188**	**205,772**	**231,545**	**230,946**
Term placements with:				
Latvian commercial banks	9,903	9,903	18,446	18,446
OECD credit institutions	103,582	103,582	1,392	1,392
Non-OECD credit institutions	39,885	39,885	37,738	37,738
Total term placements	**153,370**	**153,370**	**57,576**	**57,576**
Total balances due from credit institutions	**359,558**	**359,142**	**289,121**	**288,522**

During 2006 the average interest rate received on balances due from credit institutions was 4.64% per annum (during 2005 - 4.43%). For syndicated loans average rate was 7.15% per annum.

	Up to 1 month LVL'000	1 to 3 months LVL'000	3 to12 months LVL'000	1 – 5 years LVL'000	Greater than 5 years LVL'000	Pledged LVL'000	Total LVL'000
31 December 2006							
Term placements with:							
Latvian commercial banks	9,120	-	100	-	-	683	9,903
OECD credit institutions	103,152	-	-	-	-	430	103,582
Non-OECD credit institutions	-	26,146	10,184	2,680	-	875	39,885
Total term placements	**112,272**	**26,146**	**10,284**	**2,680**	**-**	**1,988**	**153,370**
31 December 2005							
Term placements with:							
Latvian commercial banks	8,233	5,930	-	-	-	4,283	18,446
OECD credit institutions	-	-	-	-	-	1,392	1,392
Non-OECD credit institutions	28,926	1,186	5,929	-	-	1,697	37,738
Total term placements	**37,159**	**7,116**	**5,929**	**-**	**-**	**7,372**	**57,576**

The largest balances due from credit institutions as of 31 December 2006 were as follows:

	31 December 2006 Group LVL'000	31 December 2006 Bank LVL'000
Banco Bilbao Vizcaya Argentaria	49,696	49,696
Bayrische Hypo Vereins Bank	34,934	34,934
JP Morgan Chase Bank	32,502	32,502
Sudostroitelnij bank (Russia)	29,495	29,495
Sanpaolo IMI Bank	26,800	26,800
Bank of Montreal	21,440	21,440
Other	164,691	164,275
Total balances due from credit institutions	**359,558**	**359,142**
Of those:		
Total demand placements	**206,188**	**205,772**
Total term placements	**153,370**	**153,370**

As at 31 December 2006, term deposits and balances from banks and other financial institutions which individually comprised more than 10 % of deposits and balances from banks and other financial institutions represented balance with one institution (2005: 6) and amounted to 48,696 thousand LVL (2005: 197,719).

14 FINANCIAL ASSETS HELD FOR TRADING

	31 December 2006 Group LVL'000	31 December 2006 Bank LVL'000	31 December 2005 Group LVL'000	31 December 2005 Bank LVL'000
US government bonds	32,440	32,440	-	-
Russian government bonds	20	20	-	-
Brazilian government bonds	1	-	79	-
Ukrainian government bonds	-	-	9	-
Russian corporate bonds	341	341	378	378
Shares listed on the Moscow stock exchange	927	927	719	719
Shares listed on the Riga stock exchange	412	412	662	662
Investments in shares fund	1,684	1,238	-	-
Derivative financial assets	1,076	1,076	836	836
Total	**36,901**	**36,454**	**2,683**	**2,595**

15 FINANCIAL ASSETS AVAILABLE-FOR-SALE

Securities available-for-sale:

	31 December 2006 Group LVL'000	31 December 2006 Bank LVL'000	31 December 2005 Group LVL'000	31 December 2005 Bank LVL'000
Debt securities at fair value				
- US corporate bonds	538	538	595	595
Equity securities				
- Unlisted	1,313	239	1,046	199
Total securities available-for-sale	**1,851**	**777**	**1,641**	**794**

Unlisted available for sale equity securities include SWIFT shares, shares of Riga Stock Exchange and shares of Latvian companies.

16 LOANS AND ADVANCES TO NON-BANKING CUSTOMERS

Loans and advances to non-banking customers are comprised of the following:

	31 December 2006 Group LVL'000	31 December 2006 Bank LVL'000	31 December 2005 Group LVL'000	31 December 2005 Bank LVL'000
Private companies	285,272	284,310	196,490	189,047
Loans secured by securities	*9,409*	*8,938*	*41,078*	*32,736*
Loans to private individuals	89,185	89,185	60,895	60,375
Total gross loans and advances to non-banking customers	**374,457**	**373,495**	**257,385**	**249,422**
Specific loan impairment allowances (see Note 10)	(942)	(942)	(1,109)	(1,109)
Loans and advances to non-banking customers, net	**373,515**	**372,553**	**256,276**	**248,313**
Loans and advances secured by cash deposits	(1,129)	(1,129)	(3,476)	(3,476)
Loans and advances subject to credit risk, net	**372,386**	**371,424**	**252,800**	**244,837**

In 2006, the weighted average interest rates for loans were 8.45 % (2005: 8.41 %) and 7.32 % (2005: 9.09 %) for short-term and long-term loans, respectively.

Significant credit exposures

As at 31 December 2006 and 2005 the Bank had nil and 1 borrower or group of related borrowers, respectively, whose loan balances exceeded more than 10% of loans to customers. The gross value of these loans as of 31 December 2006 and 2005 were nil and LVL 28,926 thousand respectively.

16 LOANS AND ADVANCES TO NON-BANKING CUSTOMERS (continued)

According to regulatory requirements, the Bank is not allowed to have a credit exposure to one client or a group of related clients of more than 25% of its equity (see Note 34 for definition of equity). As of 31 December 2006 the Bank was in compliance with this requirement.

The amount of loans, for which interest is not accrued, is LVL 1,750 thousand as of 31 December 2006 (2005: LVL 5,846 thousand).

The loan maturity analysis for the Group is as follows:

	Up to 1 months LVL'000	1 to 3 months LVL'000	3 to 12 months LVL'000	1 to 5 years LVL'000	More than 5 years LVL'000	Pledged LVL'000	Total LVL'000
31 December 2006							
Commercial & industrial companies	30,596	6,859	42,451	91,238	107,669	5,530	284,343
Individuals	2,568	8,295	13,543	25,487	39,279	-	89,172
Total	**33,164**	**15,154**	**55,994**	**116,725**	**146,948**	**5,530**	**373,515**
31 December 2005							
Commercial & industrial companies	25,806	28,482	12,575	61,122	62,661	5,289	195,935
Individuals	1,465	5	6,611	17,796	34,464	-	60,341
Total	**27,271**	**28,487**	**19,186**	**78,918**	**97,125**	**5,289**	**256,276**

The following table presents information relating to the Group loans by major geographic areas:

	31 December 2006 LVL'000	31 December 2005 LVL'000
Latvia	248,094	180,116
Non-residents	125,421	76,160
Total	**373,515**	**256,276**

17 HELD-TO-MATURITY INVESTMENTS

Securities held-to-maturity:

	31 December 2006 Group LVL'000	31 December 2005 Group LVL'000
Listed debt securities – at amortized cost		
United States government bonds	18,121	32,737
Argentina government bonds – cost	*1,885*	*2,086*
Provision for impairment of Argentina government bonds	*(1,371)*	*(1,516)*
Carrying value of Argentina government bonds	514	570
US corporate bonds	5,335	4,123
IBRD	1,091	-
Great Britain corporate bonds	12,960	13,890
Luxemburg corporate bonds	5,301	11,782
Holland corporate bonds	2,694	2,984
Australian corporate bonds	3,752	4,151
France corporate bonds	5,247	5,186
Russian corporate bonds	2,491	2,757
Total securities held-to-maturity	**57,506**	**78,180**

Investment securities at 31 December 2006 have been split into available-for-sale and held-to-maturity based on whether management had positive intent and ability to hold certain securities until maturity at the date of purchase.

Given the fact that a restructuring of the 2031 Argentina Eurobond is not likely, management decided to swap the 2003 Eurobonds with 2031 Eurobonds in June 2002. Provision for impairment of the Eurobond 2031 has been made at 70% of their face value. Management considers that the estimates that have been used are prudent.

17 HELD-TO-MATURITY INVESTMENTS (continued)

Maturity analysis of held-to-maturity investments:

	Up to 1 month	1 to 3 months	3 to12 months	1 – 5 years	Greater than 5 years	Pledged	Total
31 December 2006							
United States government bonds	-	1,898	10,776	5,447	-	-	18,121
Argentina government bonds	-	-	-	-	514	-	514
International credit institutions (IBRD)	-	-	1,091	-	-	-	1,091
US corporate bonds	-	-	2,670	2,665	-	-	5,335
Great Britain corporate bonds	-	-	4,621	2,931	5,408	-	12,960
Luxemburg corporate bonds	-	-	2,688	2,613	-	-	5,301
Holland corporate bonds	-	-	-	-	2,694	-	2,694
Australian corporate bonds	-	-	-	-	3,752	-	3,752
French corporate bonds	-	-	-	5,247	-	-	5,247
Russian corporate bonds	-	-	1,638	853	-	-	2,491
Total	**-**	**1,898**	**23,484**	**19,756**	**12,368**	**-**	**57,506**
31 December 2005							
United States government bonds	-	-	-	-	-	32,737	32,737
Argentina government bonds	-	-	-	-	570	-	570
US corporate bonds	-	-	-	4,718	-	-	4,718
Great Britain corporate bonds	-	-	-	-	13,295	-	13,295
Luxemburg corporate bonds	-	-	-	11,782	-	-	11,782
Holland corporate bonds	-	-	-	-	2,984	-	2,984
Australian corporate bonds	-	-	-	-	4,151	-	4,151
Russian corporate bonds	-	-	-	2,757	-	-	2,757
French corporate bonds	-	-	-	5,186	-	-	5,186
Total	**-**	**-**	**-**	**24,443**	**21,000**	**32,737**	**78,180**

18 ACCRUED INCOME AND PREPAYMENTS

Prepayments and accrued income are comprised of the following:

	31 December 2006 Group LVL'000	31 December 2006 Bank LVL'000	31 December 2005 Group LVL'000	31 December 2005 Bank LVL'000
Accrued interest income from loans	1,926	1,826	929	823
Accrued interest income on balances due from banks	1,095	1,095	233	233
Accrued income from forward deals	-	-	266	266
Other accrued income	80	79	16	16
Prepaid expenses	724	641	531	571
	3,825	3,641	1,975	1,909
Provision for accrued income	-	-	(73)	(73)
Total	**3,825**	**3,641**	**1,902**	**1,836**

19 PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment (PPE) of the Bank is comprised as follows:

	Buildings	Unfinished construction	Vehicles	Office equipment	Advance payments for PPE	Leasehold improvements	Total PPE
Historical cost or revaluation							
31 December 2005	**11,169**	**681**	**1,705**	**5,799**	**69**	**210**	**19,633**
Additions	-	3,803	125	492	2,195	-	6,615
Disposals	-	-	(269)	(618)	(1)	(48)	(936)
Transfers	-	208	292	236	(736)	-	-
31 December 2006	**11,169**	**4,692**	**1,853**	**5,909**	**1,527**	**162**	**25,312**
Accumulated depreciation							
31 December 2005	**268**	**-**	**674**	**3,772**	**-**	**146**	**4,860**
Charge for the period	254	-	357	803	-	36	1,450
Disposals	-	-	(132)	(572)	-	(21)	(725)
31 December 2006	**522**	**-**	**899**	**4,003**	**-**	**161**	**5,585**
Net book value							
31 December 2005	**10,901**	**681**	**1,031**	**2,027**	**69**	**64**	**14,773**
31 December 2006	**10,647**	**4,692**	**954**	**1,906**	**1,527**	**1**	**19,727**

PPE of the Group is comprised as follows:

	Buildings	Unfinished construction	Vehicles	Office equipment	Advance payments for PPE	Leasehold improvements	Total PPE
Historical cost or revaluation							
31 December 2005	**11,169**	**690**	**1,734**	**6,256**	**71**	**295**	**20,215**
Additions	-	3,803	125	544	2,197	-	6,669
Disposals	-	(10)	(299)	(733)	(3)	(89)	(1,134)
Transfers	-	208	292	236	(736)	-	-
31 December 2006	**11,169**	**4,691**	**1,852**	**6,303**	**1,529**	**206**	**25,750**
Accumulated depreciation							
31 December 2005	**268**	**-**	**683**	**4,127**	**-**	**190**	**5,268**
Charge for the period	254	-	361	815	-	36	1,466
Disposals	-	-	(150)	(575)	-	(21)	(746)
31 December 2006	**522**	**-**	**894**	**4,367**	**-**	**205**	**5,988**
Net book value							
31 December 2005	**10,901**	**690**	**1,051**	**2,129**	**71**	**105**	**14,947**
31 December 2006	**10,647**	**4,691**	**958**	**1,936**	**1,529**	**1**	**19,762**

The assets stated above are held for the Group's own use.

20 INTANGIBLE ASSETS

Intangible assets of the Bank are comprised as follows:

	Goodwill	Software	Work in progress	Advance payments for software	Trade marks	Total
Historical Cost						
Balance at 31 December 2005	**987**	**4,851**	**181**	**278**	**5**	**6,302**
Additions	-	128	53	304	1	486
Disposals	(42)	(157)	-	(3)	-	(202)
Transfers	-	223	-	(229)	6	-
Impairment loss	(194)	-	-	-	-	(194)
Balance at 31 December 2006	**751**	**5,045**	**234**	**350**	**12**	**6,392**
Amortization						
Balance at 31 December 2005	**-**	**2,104**	**-**	**-**	**-**	**2,104**
Amortization charge for the year	-	734	-	-	2	736
Disposals	-	(156)				(156)
Balance at 31 December 2006	**-**	**2,682**	**-**	**-**	**2**	**2,684**
Net book value						
At 31 December 2005	**987**	**2,747**	**181**	**278**	**5**	**4,198**
At 31 December 2006	**751**	**2,363**	**234**	**350**	**10**	**3,708**

Intangible assets of the Group are comprised as follows:

	Goodwill	Software	Work in progress	Advance payments for software	Trade marks	Total
Historical Cost						
Balance at 31 December 2005	**987**	**4,852**	**181**	**277**	**5**	**6,302**
Additions	-	130	53	304	1	488
Disposals	(42)	(157)	-	(3)	-	(202)
Transfers	-	223	-	(229)	6	-
Impairment loss	(194)	-	-	-	-	(194)
Balance at 31 December 2006	**751**	**5,048**	**234**	**349**	**12**	**6,394**
Amortization						
Balance at 31 December 2005	**-**	**2,104**	**-**	**-**	**-**	**2,104**
Amortization charge for the year	-	734	-	-	2	736
Disposals	-	(156)	-	-	-	(156)
Balance at 31 December 2006		**2,682**	**-**	**-**	**2**	**2,684**
Net book value						
At 31 December 2005	**987**	**2,748**	**181**	**277**	**5**	**4,198**
At 31 December 2006	**751**	**2,366**	**234**	**349**	**10**	**3,710**

21 INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES

As of 31 December 2006 and 2005, the Bank's investments in subsidiaries and associated companies are comprised of the following:

Company	Industry	Legal address	Amount of ownership (%)	Amount of investment	Amount of ownership (%)	Amount of investment
			31 December 2006		31 December 2005	
RB Securities Ltd	Financial Services	Stasinou Street,1 Mitsi Building, 2nd floor, office 5, Plateia Elefttherias, P.C. 1060, Nicosia, Cyprus	99.99%	7,700	99.99%	7,700
SIA "RB Investments"	Investments	Brivibas iela 39, 7th floor, Riga, Latvia	100%	5,000	100%	2,000
SIA "Centrus"	Construction	Brivibas iela 54. Riga, Latvia	-	-	100%	246
A/s "RB Securities Latvia" IBS	Financial Services	Brivibas iela 54-412 . Riga, Latvia	100%	455	100%	455
A/s "RB Asset management" IPS	Financial Services	Brivibas iela 54-406. Riga, Latvia	100%	700	100%	700
SIA "RB Drošība"	Security services	Brivibas iela 54. Riga, Latvia	100%	50	100%	2
SIA "RB Vidzeme"	Agriculture	Brivibas iela 39, 7th floor. Riga, Latvia	100%	50	100%	50
Total investments in subsidiaries				**13,955**		**11,153**
Alphyra Rietumu Financial Services Limited	Financial services	4 Heather Road, Sandyford Industrial Estate, Dublin 18, Ireland	*49%*	*258*	*49%*	*258*
Impairment loss allowance on investment in Alphyra Financial Services Limited				*(258)*		*-*
Net investment in Alphyra Rietumu Financial Services Limited				-		258
Total investments in associated companies				**-**		**258**
Investments in subsidiaries and associated entities				**13,955**		**11,411**

In 2006 the Bank increased the share capital of RB Investments SIA by LVL 3,000 thousand and RB Drošība by LVL 48 thousand. The Bank disposed of the total investment in SIA"Centrus" for LVL 314 thousand in 2006.

In 2006 The Bank recorded impairment loss from its investment in Alphyra Rietumu Financial Services Ltd. capital of LVL 258 thousand and sold the investment in Alphyra Rietumu Financial Services in February of 2007.

22 OTHER ASSETS

Other assets are comprised of the following:

	31 December 2006 Group LVL'000	31 December 2006 Bank LVL'000	31 December 2005 Group LVL'000	31 December 2005 Bank LVL'000
Traveler cheques	56	56	96	96
Advances for goods and services	94	94	88	88
Recoverable VAT	609	609	305	305
Other assets	2,709	1,931	2,540	664
Cash advances to employees	27	27	5	5
	3,495	**2,717**	**3,034**	**1,158**
Allowance on other assets (Note 10)	(133)	(133)	(11)	(11)
Total	**3,362**	**2,584**	**3,023**	**1,147**

23 BALANCES DUE TO OTHER BANKS

Demand balances due to banks are comprised of the following:

	31 December 2006 Group LVL'000	31 December 2006 Bank LVL'000	31 December 2005 Group LVL'000	31 December 2005 Bank LVL'000
Balances due to credit institutions registered in Latvia	94	94	43	43
Balances due to credit institutions registered in OECD countries	1,114	1,114	630	630
Balances due to credit institutions registered in non-OECD countries	3,392	3,392	14,002	14,002
Total demand deposits	**4,600**	**4,600**	**14,675**	**14,675**
Total term deposits	**120,887**	**120,887**	**6,011**	**6,011**
Total balances due to other banks	**125,487**	**125,487**	**20,686**	**20,686**

The largest amounts due to banks were as follows:

	31 December 2006 Group LVL'000	31 December 2006 Bank LVL'000
EBRD	28,112	28,112
Raiffeisen Viena	8,082	8,082
Dresdner Bank	6,325	6,325
Commerzbank AG	6,325	6,325
DZ Bank AG	6,325	6,325
LRP Landesbank	6,325	6,325
Total	**61,494**	**61,494**

24 BALANCES DUE TO CUSTOMERS

	31 December 2006 Group LVL'000	31 December 2006 Bank LVL'000	31 December 2005 Group LVL'000	31 December 2005 Bank LVL'000
Demand deposits from				
State enterprises	52	52	5	5
Private companies	33,581	37,448	23,925	27,029
Individuals	45,485	45,485	36,616	36,616
Private companies non-residents	403,052	409,273	419,758	419,576
Individuals non-residents	41,325	41,325	36,076	36,076
Total demand deposits	**523,495**	**533,583**	**516,380**	**519,302**
Term deposits				
Private companies	6,770	6,770	2,466	2,466
Individuals	26,655	26,655	8,435	8,435
Private companies non-residents	77,024	77,024	31,974	31,974
Individuals non-residents	25,197	25,197	10,749	10,749
Total term deposits	**135,646**	**135,646**	**53,624**	**53,624**
Total balances due to customers	**659,141**	**669,229**	**570,004**	**572,926**

The maturity profile of balances due to customers was follows:

	Up to 1 month LVL'000	1 to 3 months LVL'000	3 to12 months LVL'000	1 to 5 years LVL'000	Greater than 5 year LVL'000	Pledged LVL'000	Total LVL'000
31 December 2006							
Private companies	2,569	3,138	589	360	114	-	6,770
Individuals	5,163	8,526	9,762	2,775	429	-	26,655
Non-residents	45,109	9,940	41,945	5,227	-	-	102,221
	52,841	**21,604**	**52,296**	**8,362**	**543**	**-**	**135,646**
31 December 2005							
Private companies	460	910	880	105	111	-	2,466
Individuals	1,417	1,287	2,717	3,007	7	-	8,435
Non-residents	17,734	7,469	14,391	3,129	-	-	42,723
Total	**19,611**	**9,666**	**17,988**	**6,241**	**118**	**-**	**53,624**

In 2006 the weighted average interest rate on term deposits was 2.30% and 3.98% (2005: 2.59% and 5.61%) for short and long-term deposits respectively.

As of 31 December 2006, the Group maintained customer deposit balances of LVL 16,036 thousand (2005: LVL 15,123 thousand) which were blocked by the Group as collateral for loans and off-balance sheet credit instruments granted by the Bank.

25 AMOUNTS PAYABLE UNDER REPURCHASE AGREEMENTS

As of 31 December 2006 the following amounts are payable under repurchase agreements:

	31 December 2006 Group LVL'000	31 December 2006 Bank LVL'000	31 December 2005 Group LVL'000	31 December 2005 Bank LVL'000
Amounts payable under repurchase agreements	32,321	32,321	32,574	32,574
Total	**32,321**	**32,321**	**32,574**	**32,574**

Securities pledged as collateral under repurchase agreement are US Treasuries in the amount of LVL 32,440 thousand (2005: LVL 32,737 thousand).

26 DEFERRED INCOME AND ACCRUED EXPENSE

	31 December 2006 Group LVL'000	31 December 2006 Bank LVL'000	31 December 2005 Group LVL'000	31 December 2005 Bank LVL'000
Deferred income	776	776	77	77
Accrued interest expense on deposits	1,381	1,365	369	369
Other	1,256	925	3,064	2,466
Total	**3,413**	**3,066**	**3,510**	**2,912**

27 TAX LIABILITIES

	31 December 2006 Group LVL'000	31 December 2006 Bank LVL'000	31 December 2005 Group LVL'000	31 December 2005 Bank LVL'000
Current tax liability	544	542	227	224
Deferred tax liability (see Note 11)	1,809	1,809	1,538	1,538
Total	**2,353**	**2,351**	**1,765**	**1,762**

28 PAID-IN SHARE CAPITAL

As of 31 December 2006 the authorized issued share capital comprised of 22,500,000 (2005: 22,500,000) shares with a par value of LVL 1 per share, paid share capital comprised of 22,500,000 (2005: 22,500,000) shares. The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the shareholders of the Bank. The shares are distributed as follows:

	31 December 2006 LVL'000	31 December 2005 LVL'000
Companies non-residents	7,450	-
Private persons	15,050	22,500
Total	**22,500**	**22,500**

The largest shareholders of the Bank as of 31 December 2006:

	31 December 2006 Paid capital LVL' 000	31 December 2006 Percentage holding
Leonid Esterkin	7,450	33.11
Boswell (International) Consulting Limited	7,450	33.11
Arkady Suharenko	3,900	17.33
Others	3,700	16.45
Total	**22,500**	**100**

29 EARNINGS PER SHARE

Basic earnings per share are calculated by dividing the net profit attributable to shareholders by the weighted average number of ordinary shares in issue during the year, excluding the average number of ordinary shares purchased by the Bank and held as treasury shares.

	2006 Bank	2005 Bank
Net profit attributable to shareholders	**29,622,000**	**25,488,000**
Ordinary shares as at 1 January	22,500,000	20,757,375
Purchase of treasury shares	-	-
Number of ordinary shares issued during the year	-	1,742,625
Ordinary shares as at 31 December	22,500,000	22,500,000
Weighted average number of ordinary shares outstanding during the year	**22,500,000**	**21,338,250**
Basic earnings per share (expressed in LVL per share)	**1.32**	**1.19**

The Bank has no dilutive potential shares and therefore diluted earnings per share are the same as basic earnings per share.

30 MEMORANDUM ITEMS

Funds under trust management represent securities and other assets managed and held by the Group on behalf of customers. The Group earns commission income for holding such securities. The Group is not subject to interest, credit, liquidity and currency risk with respect of these securities in accordance with the agreements with customers. All securities are stated at their market value. As at 31 December 2006 the Group held securities and other assets on behalf of customers as custodian and assets under management in the amount of LVL 82,333 thousand.

Legal Proceedings. As of 31 December 2006 there were 3 legal proceedings outstanding against the Group. Total amount disputed in these proceedings is LVL 896 thousand. Provisions are made for claims where management on the basis of professional advice to the Group, considers that it is likely that a loss may eventuate. (2005: 1 outstanding legal proceedings against the Bank).

Credit related commitments. The primary purpose of credit commitments issued to customers is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit, which represent irrevocable assurances that the Group will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Cash requirements under guarantees and standby letters of credit are considerably less than the amount of the commitment because the Group does not generally expect the third party to draw funds under the agreement.

Contingencies. One of the Bank's subsidiaries, RB Securities Limited (''the subsidiary'') had been transacting with Refco Capital Markets Ltd for brokerage and asset management services for its customers for a number of years, and acted as a custodian of customers' securities. In. October 2005 Refco Capital Markets Ltd filed for Chapter 11 bankruptcy. As at 31 December 2005, customers' assets held in custody at Refco Capital Markets Ltd were US$ 62 million, which were frozen.

The subsidiary signed an agreement with a third party dated 17 October 2006 to settle the claims of customers against Refco Capital Markets Ltd., the ultimate settlement of which is under discussion as at 31 December 2006. However, management does not anticipate and has not recorded any losses to the Group, as a result of this settlement.

As at 31 December 2006 management of the subsidiary is not aware of any legal claims outstanding against the Group in respect of Refco Capital Markets Ltd. Management believes that under agreements with customers, customers bear reflect the risk of default by a third party, not the subsidiary.

Management of the Bank do not believe there is a risk arising to the Bank from the activities of the subsidiary. Management have not recognized a provision in the Bank and Group financial statements from transactions with Refco Capital Markets Ltd.

31 CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of the following:

	31 December 2006 Group LVL'000	31 December 2006 Bank LVL'000	31 December 2005 Group LVL'000	31 December 2005 Bank LVL'000
Cash	3,606	3,566	4,458	4,434
Balances due from the Bank of Latvia	58,347	58,347	47,622	47,622
Demand deposits due from other banks	206,188	205,772	231,544	230,946
(Demand deposits due to other banks)	(4,600)	(4,600)	(14,675)	(14,675)
Total	**263,541**	**263,085**	**268,949**	**268,327**

32 RELATED PARTY TRANSACTIONS

Related parties are defined as shareholders who have significant influence over the Bank, companies in which they have a controlling interest, 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 associated companies.

Loans and advances issued to related parties were as follows:

	31 December 2006 Amount LVL'000	31 December 2005 Amount LVL'000
Loans:		
Loans at the beginning of year	6,144	2,404
Loans to management and directors issued during year	132,178	45,354
Transfers	461	(344)
Loan repayment during the year	(134,917)	(41,270)
Loans to management as at end of year	3,866	6,144
Interest income earned	366	274
Deposits		
Deposits at the beginning of year	4,926	2,826
Deposits received during year	1,816,608	504,443
Transfers	(8)	(396)
Deposits repaid during the year	(1,811,269)	(501,947)
Deposits at the end of year	10,257	4,926
Interest expense on deposits	506	212
Guarantees and credit lines issued by the Group for management and Directors	1,477	27,289

No impairment losses have been recognized in respect of loans or guarantees given to related parties (2005: nil).

All transactions with related parties have been carried out at length arm's principle.

As of 31 December 2006, the Bank was in compliance with the regulations under the Law On Credit Institutions requiring that the total of non-zero risk credit exposures to related parties may not exceed 15% of the Bank's equity, as defined in Note32.

33 FOREIGN EXCHANGE EXPOSURES

The following table provides analysis of the Bank's assets, liabilities and applicable memorandum items by currency as of 31 December 2006:

	Assets	Liabilities	Net future open position	31 December 2006 Open position	31 December 2006 Percent of share capital	31 December 2005 Open position	31 December 2005 Percent of share capital
USD	478,003	477,124	(361)	518	0.61	(1,412)	(2.32)
RUB	14,336	13,281	(267)	788	0.93	597	0.98
GBP	12,619	12,515	-	104	0.12	(3)	-
LTL	177	15	-	162	0.19	(15)	(0.02)
Other (short)	2,334	2,401	(40)	(67)	(0.08)	(146)	(0.24)
Other (long)	2,498	2,323	-	175	0.21	227	0.37
Total	**509,967**	**507.659**	**(668)**	**1,680**	**1.99**	**(752)**	**(1.23)**
Total short position					**(67)**		**(1,576)**
Total long position					**1,747**		**824**
Total open position					**2,07%**		**2.59%**
Capital requirement for foreign currency exchange risk					**478**		**174**

The Bank seeks to match assets and liabilities denominated in foreign currencies in order to avoid foreign currency exposures.

As of 31 December 2006, the Bank was in compliance with the Law on Credit Institutions regulatory requirements requiring that open positions in any individual foreign currency may not exceed 10% of Bank's equity (see Note 35 for the definition of Bank's equity under the Finance and Capital Markets Commission guidelines), and that the total foreign currency open position may not exceed 20% of the Bank's equity.

34 CAPITAL ADEQUACY

Capital adequacy refers to the sufficiency of the Bank's capital resources to cover the credit risks and similar risks arising from the portfolio of assets of the Bank and the memorandum items exposures of the Bank.
Based on the requirements set forth by the Finance and Capital Market Commission in respect to share capital of banks, the Bank's share capital to be utilized in the capital adequacy ratio as of 31 December 2006 has been calculated as follows:

Tier 1	
- paid-in share capital	22,500
- share premium	4,809
- reserve capital	16
- accumulated profit	34,581
- less: treasury shares	-
- profit of the year 2006	29,622
Deductions from the capital base	
Intangible assets	(3,708)
Dividends declared	(7,425)
Total Tier 1	**80,395**
70% of property revaluation reserve	3,236
Assets available-for-sale revaluation reserve	-
Total Tier 2	**3,236**
Equity to be utilized for the capital adequacy calculation in accordance with the guidelines of the Finance and Capital Market Commission	**83,631**

34 CAPITAL ADEQUACY (continued)

Based on the requirements set forth by the Basle agreement in respect to share capital, the Group's share capital to be utilized in the capital adequacy ratio as of 31 December 2006 has been calculated as follows:

Tier 1	
- paid-in share capital	22,500
- share premium	4,809
- reserve capital	16
- reserve	738
- accumulated profit	33,888
- less: treasury shares	-
- profit of the year 2006	29,584
Deductions from the capital base	
Intangible assets	(3,710)
Dividends declared	(7,425)
Total Tier 1	**80,400**
70% of property revaluation reserve	3,236
Total Tier 2	**3,236**
Equity to be utilized for the capital adequacy calculation under the Basle Agreement	**83,636**

As of 31 December 2006, the Bank was in compliance with the Law On Latvian Credit Institutions and the requirements of the Finance and Capital Market Commission in respect to capital adequacy and the minimum equity level. The calculation of capital adequacy according to the Finance and Capital Market Commission requirements is presented in the following table:

	Assets 31 December 2006	**Risk weighting %**	**Risk weighted assets**
Balance sheet items			
Cash and deposits with the Bank of Latvia	61,913	0%	-
Balances due from governments and central banks within A zone countries	18,121	0%	-
Loans and advances secured by deposits and A zone government bonds	28,647	0%	-
Balances due from credit institutions within A zone countries	329,307	20%	65,861
Loans fully secured by mortgage on occupied residential property which is rented or is occupied by the borrower	16,552	50%	8,276
Accrued income and prepayments	874	100%	874
Balances due from governments and central banks within B zone countries	514	100%	514
Balances due from credit institutions within B zone countries	32,142	100%	32,142
Claims on other borrowers, which are not credit institutions, central governments, central banks, municipalities, EU international development banks, excluding claims with lower risk	368,299	100%	368,299
Shares and other non-fixed income securities and investments in subsidiaries	14,194	100%	14,194
Property and equipment	19,727	100%	19,727
Other assets	2,584	100%	2,584
Total assets	**892,874**		**512,471**
Memorandum items			
Letters of credit	-	20%	-
Letters of credit with zero risk weighted	12,881	0%	-
Credit commitments	57,504	50%	28,752
Credit commitments with zero risk weighted	930	0%	-
Outstanding guarantees with 100% risk weighted	9,687	100%	9,687
Outstanding guarantees with zero risk weighted	1,095	0%	-
Total assets and memorandum items for capital adequacy			**550,910**
Capital requirement for credit risk of banking book			**44,073**
Capital requirement for position risk of trading book			**498**
Capital requirement for deal partners			**11**
Capital requirement for foreign currency exchange risk			**478**
Capital charges covered by own funds			**38,571**
Capital adequacy ratio			**14.85%**

34 CAPITAL ADEQUACY (continued)

A zone comprises countries which are full members of the OECD and which had not restructured their external debt during the last 5 years and which have concluded special lending arrangements with the IMF associated with the Fund's General Arrangements to Borrow.

As of 31 December 2006 Bank's capital adequacy according to the Finance and Capital Market Commission's requirements was 14.85%. The Law On Credit Institutions and Finance and Capital Market Commission's requirements in respect of minimum capital adequacy are 8%.

The capital adequacy of the Group under the Basle agreement as of 31 December 2006 is calculated as follows:

	Assets As of 31 December 2006	Weighted Risk %	Risk Weighted Assets
Balance sheet items			
Cash and deposits with the Bank of Latvia	61,953	0%	-
Claims on OECD central governments and central banks	18,121	0%	-
Loans and advances secured by deposits and OECD countries government bonds	28,647	0%	-
Balances due from credit institutions within OECD area	329,307	20%	65,861
Balances due from credit institutions within non-OECD area	29,026	20%	5,805
Loans fully secured by mortgage on occupied residential property which is rented or is occupied by the borrower	16,552	50%	8,276
Claims on other borrowers, which are not credit institutions, central governments, central banks, municipalities, EU international development banks, excluding claims with lower risk	369,261	100%	369,261
Claims on central governments outside the OECD (unless denominated in national currency)	514	100%	514
Balances due from credit institutions within OECD area (with term 1 year and more)	3,532	100%	3,532
Shares and other non-fixed income securities and investments in subsidiaries	1,623	100%	1,623
Property and equipment	19,762	100%	19,762
Accrued income and prepayments	1,058	100%	1,058
Other assets	3,362	100%	3,362
Total assets	**882,718**		**479,054**
Memorandum items			
Letters of credit	-	20%	-
Letters of credit with zero risk weighted	12,881	0%	-
Credit commitments	56,904	50%	28,452
Credit commitments with zero risk weighted	930	0%	-
Outstanding guarantees with 100% risk weighted	9,687	100%	9,687
Outstanding guarantees with zero risk weighted	1,095	0%	-
Total assets and memorandum items for capital adequacy			**517,193**
Capital requirement for credit risk of banking book			**41,375**
Capital requirement for position risk of trading book			**570**
Capital requirement for deal partners			**11**
Capital requirement for foreign currency exchange risk			**479**
Capital charges covered by own funds			**41,201**
Capital adequacy ratio			**15.77%**

The Group's risk based capital adequacy as of 31 December 2006 was 15.77% which is above the minimum ratio of 8% recommended under the Basle agreement.

35 ASSETS, LIABILITIES AND SHAREHOLDER'S EQUITY BY MATURITY PROFILE

The table below allocates the Group's assets, liabilities and shareholder's equity to maturity groupings based on the time remaining from the balance sheet date to the contractual maturity dates. The maturity profile based on the balances as of 31 December 2006 was the following:

LVL'000	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	More than 5 years	Pledged	Total
Assets							
Cash and balances with central banks	61,953	-	-	-	-	-	61,953
Balances due from credit institutions	318,460	26,146	10,284	2,680	-	1,988	359,558
Financial assets held for trading	4,461	-	-	-	-	32,440	36,901
Financial assets available-for-sale	1,313	-	-	-	-	538	1,851
Loans to non-banking customers	33,164	15,154	55,994	116,725	146,948	5,530	373,515
Held-to-maturity investments	-	1,898	23,484	19,756	12,368	-	57,506
Accrued income and deferred expenses	2,269	639	70	847	-	-	3,825
Property, plant and equipment	-	-	-	-	19,762	-	19,762
Intangible assets	-	-	-	-	3,710	-	3,710
Investments in subsidiaries	-	-	-	-	310	-	310
Other assets	3,270	22	1	69	-	-	3,362
Total assets	**424,890**	**43,859**	**89,833**	**140,077**	**183,098**	**40,496**	**922,253**
Less prepaid expenses	**(724)**						**(724)**
Total assets for calculation of liquidity	**424,166**	**43,859**	**89,833**	**140,077**	**183,098**	**40,496**	**921,529**
Liabilities							
Balances due to other banks	4,600	333	78,386	42,168	-	-	125,487
Balances due to customers	576,336	21,604	52,296	8,362	543	-	659,141
Amounts payable under repurchase agreements	32,321	-	-	-	-	-	32,321
Deferred income and accrued expense	3,413	-	-	-	-	-	3,413
Current tax liability	-	544	-	-	-	-	544
Deferred tax liability	-	-	-	-	1,809	-	1,809
Other liabilities	849	-	1,890	641	-	-	3,380
Total shareholders' equity	-	-	-	-	96,158	-	96,158
Total liabilities and shareholders' equity	**617,519**	**22,481**	**132,572**	**51,171**	**98,510**	**-**	**922,253**
Net liquidity	**(192,629)**	**21,378**	**(42,739)**	**88,906**	**84,588**	**40,496**	**-**
Total liquidity	**(192,629)**	**(171,251)**	**(213,990)**	**(125,084)**	**(40,496)**	**-**	**-**

35 ASSETS, LIABILITIES AND SHAREHOLDER'S EQUITY BY MATURITY PROFILE (continued)

The table below allocates the Group's assets, liabilities and shareholder's equity to maturity groupings based on the time remaining from the balance sheet date to the contractual maturity dates. The comparative figures in this disclosure as of 31 December 2005 have not been adjusted to conform to changes in presentation in the current year. The maturity profile based on the balances as of 31 December 2005 was the following:

LVL'000	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	More than 5 years	Pledged	Total
Assets							
Cash and deposits with the Bank of Latvia	52,080	-	-	-	-	-	52,080
Balances due from credit institutions	268,703	7,116	5,930	-	-	7,372	289,121
Loans and advances to non-banking customers	27,271	28,487	19,186	78,918	97,125	5,289	256,276
Derivative assets	-	-	-	836	-	-	836
Government bonds and other fixed income securities	-	-	-	24,073	21,836	33,332	79,241
Shares and other non-fixed income securities	1,380	-	-	-	1,047	-	2,427
Investments in subsidiaries and associates	-	-	-	-	146	-	146
Intangible assets	-	-	-	-	4,198	-	4,198
Property and equipment	-	-	-	-	14,947	-	14,947
Prepayments and accrued interest	1,902	-	-	-	-	-	1,902
Other assets	2,284	154	137	448	-	-	3,023
Total assets	**353,620**	**35,757**	**25,253**	**104,275**	**139,299**	**45,993**	**704,197**
Less prepaid expenses	**(571)**						**(571)**
Total assets for calculation of liquidity	**353,049**	**35,757**	**25,253**	**104,275**	**139,299**	**45,993**	**703,626**
Liabilities							
Balances due to other banks	14,769	-	-	1,617	-	4,300	20,686
Due to customers	535,991	9,666	17,988	6,241	118	32,574	602,578
Derivative financial instruments	-	110	-	-	-	-	110
Other liabilities	3,606	-	-	-	-	-	3,606
Deferred income and accrued expense	2,437	-	1,890	948	-	-	5,275
Total shareholders' equity	-	-	-	-	71,942	-	71,942
Total liabilities and shareholders' equity	**556,803**	**9,776**	**19,878**	**8,806**	**72,060**	**36,874**	**704,197**
Net liquidity	**(203,183)**	**25,981**	**5,375**	**95,469**	**67,239**	**9,119**	**-**
Total liquidity	**(203,183)**	**(177,202)**	**(171,827)**	**(76,358)**	**(9,119)**	**-**	**-**

36 INTEREST RATE RISK ANALYSIS

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The length of time for which the rate of interest is fixed on a financial instrument therefore indicates to what extent it is exposed to interest rate risk. The Bank seeks to control this risk through the activities of the Bank's Treasury, Treasury policy and Asset and Liability committee.

Maturity profile of assets, liabilities and shareholders' equity of the Group as at 31 December 2006 was as follows:

LVL'000	Up to 1 month	1 - 3 months	3 – 12 months	1 - 5 years	More than 5 years	Non-interest bearing	Total
Assets							
Cash and balances with central banks	58,347	-	-	-	-	3,606	61,953
Balances due from other banks	302,621	26,146	10,284	2,680	-	17,827	359,558
Financial assets held for trading	32,802	-	-	-	-	4,099	36,901
Financial assets available-for-sale	-	-	-	-	-	1,851	1,851
Loans to non-banking customers	36,944	15,154	55,994	116,725	146,948	1,750	373,515
Held-to-maturity investments	-	1,898	23,484	19,756	11,854	514	57,506
Accrued income and deferred expenses	-	-	-	-	-	3,825	3,825
Property, plant and equipment	-	-	-	-	-	19,762	19,762
Intangible assets	-	-	-	-	-	3,710	3,710
Investments in subsidiaries	-	-	-	-	-	310	310
Other assets	-	-	-	-	-	3,362	3,362
Total assets	**430,714**	**43,198**	**89,762**	**139,161**	**158,802**	**60,616**	**922,253**
Liabilities							
Balances due to other banks	1,990	333	78,386	42,168	-	2,610	125,487
Financial liabilities at amortised cost	38,952	21,604	52,296	8,362	543	537,384	659,141
Amounts payable under repurchase agreements	32,321	-	-	-	-	-	32,321
Deferred income and accrued expense	-	-	-	-	-	3,413	3,413
Tax liabilities	-	-	-	-	-	2,353	2,353
Other liabilities	-	-	-	-	-	3,380	3,380
Total shareholders' equity	-	-	-	-	-	96,158	96,158
Total liabilities and shareholders' equity	**73,263**	**21,937**	**130,682**	**50,530**	**543**	**645,298**	**922,253**
Interest sensitivity gap	**357,451**	**21,261**	**(40,920)**	**88,631**	**158,259**	**(584,682)**	**-**

36 INTEREST RATE RISK ANALYSIS (continued)

The comparative figures in this disclosure as of 31 December 2005 have not been adjusted to conform to changes in presentation in the current year. Maturity profile of assets, liabilities and shareholders' equity of the Group as at 31 December 2005 was as follows:

LVL'000	Up to 1 month	1 - 3 months	3 – 12 months	1 - 5 years	More than 5 years	Non-interest bearing	Total
Assets							
Cash and deposits with the Bank of Latvia	47,622	-	-	-	-	4,458	52,080
Balances due from credit institutions	222,655	7,116	5,930	-	-	53,420	289,121
Loans and advances to non-banking customers	26,714	28,487	19,186	78,918	97,125	5,846	256,276
Derivative assets	-	-	-	-	-	836	836
Government bonds and other fixed income securities	-	-	-	56,810	21,861	570	79,241
Shares and other non-fixed income securities	-	-	-	-	-	2,427	2,427
Investments in subsidiaries and associates	-	-	-	-	-	146	146
Intangible assets	-	-	-	-	-	4,198	4,198
Property and equipment	-	-	-	-	-	14,947	14,947
Other assets	-	-	-	-	-	3,023	3,023
Prepayments and accrued income	-	-	-	-	-	1,902	1,902
Total assets	**296,991**	**35,603**	**25,116**	**135,728**	**118,986**	**91,773**	**704,197**
Liabilities							
Balances due to credit institutions	14,638	-	-	1,617	-	4,431	20,686
Deposits from the public	108,196	9,666	17,988	6,241	118	460,369	602,578
Derivatives	-	-	-	-	-	110	110
Other liabilities	-	-	-	-	-	3,606	3,606
Deferred income and accrued expense	-	-	-	-	-	5,275	5,275
Total shareholders' equity	-	-	-	-	-	71,942	71,942
Total liabilities and shareholders' equity	**122,834**	**9,666**	**17,988**	**7,858**	**118**	**545,733**	**704,197**
Interest sensitivity gap	**174,157**	**25,937**	**7,128**	**127,870**	**118,868**	**(453,960)**	**-**

37 AVERAGE EFFECTIVE INTEREST RATES

The table below displays the Group's interest bearing assets and liabilities as at 31 December 2006 and their corresponding average effective interest rates as at that date. These interest rates are an approximation of the yields to maturity of these assets and liabilities.

	Value LVL'000	2006 Average Effective Interest Rate	Value LVL'000	2005 Average Effective Interest Rate
Assets				
Balances due from credit institutions	400,078	4.01	283,323	3.39
Investments	56,992	5.01	79,507	4.38
Financial instruments held for trading	32,802	3.04	-	-
Loans to customers	371,765	7.47	250,430	6.65
Total interest bearing assets	**861,637**	**5.51**	**613,260**	**4.85**
Liabilities				
Deposits and balances from banks	120,887	3.65	16,255	3.40
Current accounts and deposits from customers	154,078	3.51	172,209	2.32
Total interest bearing liabilities	**276, 955**	**3.55**	**188,464**	**2.33**