AS “AKCIJU KOMERCBANKA “BALTIKUMS””

CONSOLIDATED AND BANK’S ANNUAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2006

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2006 proved to be the most successful year in the history of AS “Akciju komercbanka “Baltikums”’ (thereafter the Bank or Komercbanka Baltikums) since its inception back in 2001. The year was marked by rapid growth in the Bank’s major financial indicators. The Bank not only reached the planned financial figures, but substantially exceeded them. Komercbanka Baltikums remained consistent in keeping to improve its annual financial indicators. As a result, the Bank’s 2006 net profit exceeded 1 million LVL. The Bank’s assets amounted to 60 million LVL (a rise of 47% on an annual basis). The clients’ deposits reached a record 38 million LVL, accounting for 2/3 of the Bank’s assets. The results achieved by the Bank have once again confirmed the appropriateness of a chosen strategy based on a specialisation, namely trade and shipping financing as well as wealth management.

Komercbanka Baltikums’s loan portfolio as of the end of the reporting period amounted to 17 million LVL. A balanced and well-thought-out policy in the area of of corporate financing, one of the bank’s major priorities, became a prerequisite for the portfolio’s high credit quality with the share of bad loans remaining symbolic. In the field of clients’ financing a successful cooperation with SEB Unibanka continued through the credit line extended by this bank. In addition Komercbanka Baltikums was actively cooperating with other Latvian banks in the area of syndicated financing.

In accordance with the previously developed strategy, Komercbanka Baltikums substantially raised its equity in 2006. Over the course of 2006 the Bank carried out two new share issues. This allowed to raise a share capital up to 7.5 million LVL. In the early 2007 an additional share issue was carried out, thus raising the Bank’s capital to 10.4 million LVL.

The Bank was continuing to develop a successfully launched long-term funding program by issuing notes. In 2006 the Bank placed the second issue of its notes for the amount of 5 million EUR and began preparations for placing the third issue (which was successfully placed in the early 2007 for the total amount of 10 million EUR). In turn, the first issue for the amount of 3.9 million EUR was redeemed in 2006. Raising funds through the issuance of notes allows the Bank to increase its loan portfolio and strengthen its position in the chosen niche.

In 2006, the Bank substantially optimized the structure of its client base concentrating on both servicing the existing clients and attracting the new ones. Considerable success was achieved thanks to cooperation with other holding’s companies based in Russia, Ukraine and Kazakhstan. Notwithstanding significant growth of customer base, the Bank continouosly implements close monitoring of the customers activities by implementing “Know-Your-Client” and “Know-the-Business-of-Your-Client” principles.

The Bank continued to expand its network of correspondent banks. In 2006 it opened correspondent accounts with American Express Bank (New York, USA), American Express Bank GMBH (Frankfurt/Main, Germany), Bank of China (Beijing, China) and Sberbank (Russia, Moscow). We are confident that this is yet another evidence of the Bank’s overall positive development.

During 2006 a restructuring process was initiated within the Baltikums Holding. In August, the Bank’s subsidiary IPAS “Baltikums Asset Management” acquired 93.5% of AS “Baltikums Dzīvība”’s shares for the the total amount of 2.4 million LVL. In turn, in September 2006 the Bank itself acquired 100% of SIA “Nord Real Estate”’s shares for the amount of 0.2 million LVL. As a result, the consolidated financial statements as of 31 December 2006 contains the Bank’s and its four subsidiaries’ financial results as well as the subsidiary of the Bank’s subsidiary’ financial results.

In January 2007 the Bank’s subsidiary IPAS “Baltikums Asset Management” acquired 49% of AS „Baltikums Apdrošināšanas Grupa”’s shares. This transaction is a logical step on the part of AS „Baltikums Apdrošināšanas Grupa”’s un AS „Baltikums Bankas Grupa”’s shareholders in their efforts to restructure the Baltikums Holding through the consolidation of its financial and insurance companies under the umbrella of AS „Baltikums Bankas Grupa”. The mentioned consolidation allows to optimize the holding’s business activities.

In 2006 the Bank's subsidiary "Baltikums Asset Management" was continuing to develop its range of asset management, consulting as well as fund management services.

For 2007 Komercbanka Baltikums decided to concentrate its major efforts on further strengthening of its position in the chosen field of trade and shipping financing and expanding a range of investment and wealth management services and products as well as development of private banking.

Achieving considerable success was largely based on the high level of professionalism of the Bank's team of employees. The Bank will continue to pay great attention to professionalism, qualification and motivation of its employees as it believes that the team of professional and motivated employees is an important resource to operate in the chosen areas in the environment of competition.

We are grateful to all our clients for cooperation and trust and express our hope that we will continue to be successful partners in the years to come and gain together!

Aleksandrs Peškovs	Aldis Reims
Chairman of the Council	*Chairman of the Board*

26 March 2007

Supervisory Council as of 31 December 2006

Name	Position	Date of initial appointment
Aleksandrs Peškovs	Chairman of the Council	22 June 2001
Sergejs Peškovs	Member of the Council	22 June 2001
	Deputy Chairman of the Council	25 July 2002
Oļegs Čepuļskis	Member of the Council	22 June 2001
Andrejs Kočetkovs	Member of the Council	22 June 2001

There have been no changes in the Supervisory Council during the reporting year.

Management Board as of 31 December 2006

Name	Position	Date of initial appointment
Aldis Reims	Member of the Board	20 August 2001
	Acting Chairman of the Board	1 July 2002
	Chairman of the Board	25 April 2003
Dmitrijs Latiševs	Member of the Board	1 July 2002
	Deputy Chairman of the Board	25 April 2003
Leonarda Višņevska	Member of the Board	25 April 2003
Valdis Apaļka	Member of the Board	25 October 2005

There have been no changes in the Board during the reporting year.

On behalf of the Management of the Bank:

Aleksandrs Peškovs	Aldis Reims
Chairman of the Council	*Chairman of the Board*

26 March 2007

Riga

The Management of the Bank is responsible for the preparation of the financial statements of the Bank as well as for the preparation of the consolidated financial statements of the Bank and its subsidiaries ("the Group") from original accounting records for each financial year that present fairly the state of affairs of the Bank and the Group as of the end of the financial year and the results of its operations and cash flows for that year according to the accounting principles set forth in International Financial Reporting Standards as adopted by the EU.

The Management confirm that suitable accounting policies have been used and applied consistently and reasonable and prudent judgements and estimates have been made in the preparation of the Consolidated and Bank's financial statements on pages 8 to 54 for the year 2006. Management also confirms that the Consolidated and the Bank's financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the EU and that these financial statements are prepared on a going concern basis, and comply with the Financial and Capital Market Commission Regulations on The Preparation of Annual Reports and Annual Consolidated Accounts For Banks, Investment Brokerage Firms and Investment Management Companies in all material respects.

The Management is 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. It is also responsible for managing the Bank in compliance with the Law on Credit Institutions and other legislation of the Republic of Latvia and with regulations of the Financial and Capital Market Commission.

On behalf of the Supervisory Council and Management Board:

Aleksandrs Peškovs	Aldis Reims
Chairman of the Council	*Chairman of the Board*

26 March 2007

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Independent Auditors' Report

To the shareholders of AS "Akciju komercbanka "Baltikums""

Report on the Financial Statements

We have audited the accompanying financial statements of AS "Akciju komercbanka "Baltikums"", 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 8 to 54. We have also audited the accompanying consolidated financial statements of AS "Akciju komercbanka "Baltikums"" 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 8 to 54.

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.

KPMG

Opinion

In our opinion, the unconsolidated Bank's financial statements give a true and fair view of the financial position of the AS "Akciju komercbanka "Baltikums"" 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 AS "Akciju komercbanka "Baltikums"" and subsidiaries 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 2 to 3, 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
KPMG Baltics SIA
License No 55
Riga, Latvia
26 March 2007

Inga Lipsane
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.

CONSOLIDATED AND BANK’S INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2006

	Notes	2006		2005	
		Group LVL’000	**Bank LVL’000**	**Group LVL’000**	**Bank LVL’000**
Interest income	4	2 835	2 777	1 743	1 716
Interest expense	5	(965)	(974)	(594)	(601)
Net interest income		**1 870**	**1 803**	**1 149**	**1 115**
Fee and commission income	6	1 293	1 246	698	619
Fee and commission expense	7	(304)	(325)	(182)	(169)
Net fee and commission income		**989**	**921**	**516**	**450**
Net profit/loss from financial assets and liabilities valued at fair value	8	(12)	(73)	124	120
Net trading income from foreign exchange	9	311	314	176	176
Other operating income	10,11	147	56	28	28
Operating income		**3 305**	**3 021**	**1 993**	**1 889**
Gain from revaluation of investment property		238	-	-	-
Administrative expenses	12	(1 784)	(1 554)	(1 275)	(1 197)
Depreciation and amortisation	24, 25	(76)	(72)	(96)	(92)
Other operating expenses	13	(53)	(45)	(33)	(30)
Impairment of financial assets, net	14	3	3	31	31
Impairment of financial assets		(12)	(11)	(7)	(7)
Reversals of impairment of financial assets		15	14	38	38
Total operating expenses		**(1 672)**	**(1 668)**	**(1 373)**	**(1 288)**
Profit before income tax		**1 633**	**1 353**	**620**	**601**
Income tax expense	15	(222)	(221)	(96)	(95)
Profit for the period		**1 411**	**1 132**	**524**	**506**
Attributable to:					
Equity holders of the Bank		*1 393*	*1 132*	*524*	*506*
Minority interest		*18*	-	-	-
Profit for the period		**1 411**	**1 132**	**524**	**506**
Basic and diluted earnings per share	40	**0,229**	**0,186**	**0,103**	**0,099**

The accompanying notes on pages 15 to 54 form an integral part of these financial statements.

The financial statements on pages 8 to 54 have been authorised by the Management of the Bank for issue and signed on its behalf by:

Aleksandrs Peškovs	Aldis Reims
Chairman of the Council	*Chairman of the Board*

26 March 2007

CONSOLIDATED AND BANK'S BALANCE SHEET AS AT 31 DECEMBER 2006

Assets	Notes	2006		2005	
		Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Cash and balances with the Bank of Latvia	16	7 065	7 063	319	319
Due from credit institutions on demand	17	21 874	21 864	17 301	17 301
Trading assets	18	10 270	9 574	6 468	6 468
Fixed income securities		*9 665*	*9 515*	*6 468*	*6 468*
Investments in non-fixed income securities		*546*	-	-	-
Derivatives		*59*	*59*	-	-
Financial assets at fair value through profit or loss	19	15	-	98	-
Fixed income securities		*15*	-	*98*	-
Available-for-sale financial assets	20	1 931	10	1	1
Fixed income securities		*1 921*	-	-	-
Investments in non-fixed income securities		*10*	*10*	*1*	*1*
Loans and receivables	21	16 863	16 293	14 024	13 886
Held to maturity financial investments	22	43	43	2 000	2 000
Investments in subsidiaries	23	-	4 598	-	530
Intangible assets	24	237	82	72	67
Property, Plant and Equipment	25	108	97	65	58
Investment property	26	1 111	-	-	-
Other assets	27	376	362	282	262
Prepayments and accrued income		140	116	31	27
Total assets		**60 033**	**60 102**	**40 661**	**40 919**

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Chairman of the Council

Aldis Reims
Chairman of the Board

26 March 2007

Liabilities and Equity	**Notes**	**2006**		**2005**	
		Group LVL'000	**Bank LVL'000**	**Group LVL'000**	**Bank LVL'000**
Balances due to credit institutions on demand	28	6 149	6 149	1 090	1 090
Financial liabilities held for trading		-	-	1	1
Derivatives		-	-	*1*	*1*
Financial liabilities carried at amortized cost		43 568	44 824	33 100	33 374
Balances due to credit institutions on term	*29*	*2 151*	*1 770*	*9 994*	*9 994*
Customers deposits	30	*37 904*	*39 527*	*20 418*	*20 692*
Notes payable	31	*3 513*	*3 527*	*2 688*	*2 688*
Financial liabilities pledged in repo transactions		-	-	665	665
Deferred income and accrued expenses	32	127	123	26	26
Provisions	33	23	14	9	9
Tax liabilities	34	127	127	29	29
Other liabilities	35	183	181	28	18
Liabilities to policyholders	36	731	-	-	-
Total liabilities		**50 908**	**51 418**	**34 948**	**35 213**
Shareholders' equity					
Share capital	37	7 450	7 450	5 100	5 100
Reserve capital	37	17	17	17	17
Retained earnings		91	85	72	84
Profit for the year:		1 411	1 132	524	506
Attributable to:					
Equity holders of the Bank		*1 393*	-	-	-
Minority interest		*18*	-	-	-
Minority interest		156	-	-	-
Total shareholders' equity		**9 125**	**8 684**	**5 713**	**5 707**
Total liabilities and shareholders' equity		**60 033**	**60 102**	**40 661**	**40 919**
Off-balance items					
Contingent liabilities					
Guarantees		3	3	15	15
Financial commitments					
Commitments	39	6 881	6 881	2 664	2 664

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26 March 2007

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS’ EQUITY AS AT 31 DECEMBER 2006

	Share capital LVL’000	Reserve capital and other reserves LVL’000	Retained earnings LVL’000	Minority interest	Total LVL’000
Balance as at 31 December 2004	**5 100**	**17**	**472**	**-**	**5 589**
Dividends paid	-	-	(400)	-	(400)
Profit for the year	-	-	524	-	524
Balance as at 31 December 2005	**5 100**	**17**	**596**	**-**	**5 713**
Dividends paid	-	-	(505)	-	(505)
Profit for the year	-	-	1 393	18	1 411
Minority interest	-	-	-	156	156
Issue of share capital	2 350	-	-	-	2 350
Balance as at 31 December 2006	**7 450**	**17**	**1 484**	**174**	**9 125**

The accompanying notes on pages 15 to 54 form an integral part of these financial statements.

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Aleksandrs Peškovs
Chairman of the Council

Aldis Reims
Chairman of the Board

26 March 2007

BANK’S STATEMENT OF CHANGES IN SHAREHOLDERS’ EQUITY AS AT 31 DECEMBER 2006

	Share capital LVL’000	Reserve capital and other reserves LVL’000	Retained Earnings LVL’000	Total LVL’000
Balance as at 31 December 2004	**5 100**	**17**	**484**	**5 601**
Dividends paid	-	-	(400)	(400)
Profit for the year	-	-	506	506
Balance as at 31 December 2005	**5 100**	**17**	**590**	**5 707**
Dividends paid	-	-	(505)	(505)
Profit for the year	-	-	1 132	1 132
Issue of share capital	2 350	-	-	2 350
Balance as at 31 December 2006	**7 450**	**17**	**1 217**	**8 684**

The accompanying notes on pages 15 to 54 form an integral part of these financial statements.

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Aleksandrs Peškovs
Chairman of the Council

Aldis Reims
Chairman of the Board

26 March 2007

CONSOLIDATED AND BANK'S CASH FLOWS STATEMENT AS AT 31 DECEMBER 2006

	Notes	2006		2005	
		Group	Bank	Group	Bank
		LVL'000	LVL'000	LVL'000	LVL'000
Cash flow from operating activities					
Profit before income tax		1 633	1 353	620	601
Depreciation and amortisation		76	72	96	92
Impairment of financial assets, net		(3)	(3)	(31)	(31)
Unrealized loss from foreign exchange		328	327	390	390
Profit from the sale of PPE		(2)	-	(24)	(24)
Investment property and other revaluation		(191)	22	8	8
Changes in cash and cash equivalents from operating activities before changes in assets and liabilities		**1 841**	**1 771**	**1 059**	**1 036**
Changes in loans and receivables		(2 784)	(2 404)	(3 466)	(3 570)
Changes in financial assets classified as available–for-sale		617	(9)	-	-
Changes in financial assets classified as trading assets		(3 802)	(3 106)	(1 643)	(1 737)
Changes in financial assets classified at fair value through profit or loss		83	-	(98)	-
Changes in financial assets classified as held-to-maturity financial assets		(43)	(43)	-	-
Changes in prepayments and accrued income		(84)	(89)	(18)	(24)
Changes in other assets		(83)	(100)	(59)	(76)
Changes in other customer deposits		15 178	16 528	2 468	2 619
Changes in financial liabilities held for trading		(1)	(1)	1	(6)
Changes in other and tax liabilities		81	169	(45)	(39)
Changes in deferred income and accrued expense		97	97	(1)	(4)
Changes in cash and cash equivalents from/used in operating activities before tax		**11 100**	**12 813**	**(1 802)**	**(1 801)**
Corporate income tax paid		(124)	(124)	(108)	(108)
Changes in cash and cash equivalents from/used in operating activities		**10 976**	**12 689**	**(1 910)**	**(1 909)**
Cash flow from investing activities					
Acquisition of PPE and intangible assets		(130)	(126)	(48)	(45)
Proceeds from sale of PPE		7	-	1 019	1 019
Acquisition of subsidiaries net of cash acquired		(2 331)	(4 068)	(20)	(22)
Net cash used in/received from investing activities		**(2 454)**	**(4 194)**	**951**	**952**
Proceeds from share issue		2 350	2 350	-	-
Proceeds from issue of notes		3 513	3 527	-	-
Redemption of notes		(2 710)	(2 710)	-	-
Dividends paid		(505)	(505)	(400)	(400)
Net cash from/used in financing activities		**2 648**	**2 662**	**(400)**	**(400)**
Net changes in cash and cash equivalents		**11 170**	**11 157**	**(1 359)**	**(1 357)**
Cash and cash equivalents at the beginning of the year		**10 178**	**10 178**	**11 927**	**11 925**
Loss from foreign exchange revaluation		(328)	(327)	(390)	(390)
Cash and cash equivalents at the end of the year		**21 020**	**21 008**	**10 178**	**10 178**

The accompanying notes on pages 15 to 54 form an integral part of these financial statements.

The financial statements on pages 8 to 54 have been authorised by the Management of the Bank for issue and signed on its behalf by:

Aleksandrs Peškovs
Chairman of the Council

Aldis Reims
Chairman of the Board

26 March 2007

1. GENERAL INFORMATION

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(1) Statement of Compliance

The Bank's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) and its interpretations as adopted by the European Union, and regulations of the Financial and Capital Market Commission in force as at the balance sheet date.

(2) Basis for preparation of the financial statements

The Bank maintains its accounting records in accordance with the legislation of the Republic of Latvia. The Bank's financial year corresponds to the calendar year. These financial statements are presented in the currency of the Republic of Latvia – lat (LVL), which is the Group's functional currency.

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

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. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these 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.

Judgements 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.

The accounting policies used in the preparation of the financial statements are consistent with those used in the financial statements for the year ending 31 December 2005. The Bank implemented a new Regulation (dated February 24, 2006) on the preparation of financial statements issued by Financial and Capital Market Commission. As a result balance sheet items such as due from and due to credit institutions and loans and deposits have been reclassified, respectively.

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

(3) Foreign currency translation

All assets and liabilities and off-balance sheet claims and liabilities in foreign currencies are revalued in lats using the end of period exchange rates determined by the Bank of Latvia. Gains and losses arising from revaluation are included in the profit and loss statement for the period, except differences arising on the retranslation of available-for-sale equity instruments.

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

	As of 31 December 2005	As of 31 December 2006
EUR	0.7028	0.7028
GBP	1.0210	1.0480
LTL	0.2040	0.2040
RUB	0.0206	0.0203
UAH	0.1170	0.1060
USD	0.5930	0.5360

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

(4) Basis of consolidation

In 2003 the Bank acquired 100% of the share capital in IPAS "Baltikums Asset Management" and SIA "Baltikums Līzings". In 2005 the Bank acquired 99.24% of the share capital in AS "Pirmais atklātais pensiju fonds". The consolidated accounts as of 31 December 2005 include the financial statements of the Bank and the three subsidiaries. In 2006 The Bank's subsidiary, IPAS "Baltikums Asset Management", acquired 93.46 % of the share capital in AAS "Baltikums Dzīvība" and the Bank acquired 100% of the share capital in "Nord Real Estate". Consolidated financial statements as of 31 December 2006 include financial statements of the Bank and financial statements of the aforementioned companies.

Subsidiaries are those enterprises controlled by the Bank. Control exists when the Bank has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. Subsidiaries are consolidated from the date on which effective control is transferred to the Group and are no longer consolidated from the date of disposal. 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. The excess of the cost of acquisition over the net fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary acquired is recorded as 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.

Intra-group balances and transactions, and any unrealised gains arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

(5) Financial instruments

a) Classification:

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

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

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

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

b) Recognition

Financial instruments are recognized in the balance sheet on a settlement date basis. Loans and receivables are recognised on the date that they are originated.

c) Measurement

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

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

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

(d) Fair value measurement principles

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

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

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

(e) Gains and losses on subsequent measurement

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

(f) Derecognition

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

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

(6) Interest income and expenses

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

(7) Fee and commission income

Fee and commission income is recognised when earned or incurred.

(8) Investments

Subsidiaries

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

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

(9) Loans

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

The Bank mainly grants commercial and industrial loans to customers.

(10) Impairment

At each date of the preparation of financial statements the Group assesses whether there is objective evidence that financial assets not carried out at fair value through profit and loss are impaired. The Group considers evidence of impairment at both a specific and collective level. All individually significant financial assets are assessed for specific impairment. If any such indication exists, the assets' recoverable amounts are estimated.

Calculation of recoverable amount

The recoverable amount of the financial assets not carried out at fair value through profit and loss is calculated as the present value of expected future cash flows, discounted at the original effective interest rate inherent in the asset. The recoverable amount of the financial assets carried out at fair value through profit and loss is their fair value.

Reversals of impairment

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

(11) Interest bearing borrowings

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

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

(12) Depreciation and amortisation of Property, Plant and Equipment and intangible assets

Property, Plant and Equipment (thereafter PPE) and intangible assets are recorded at cost, less accumulated depreciation and impairment loss. Depreciation is calculated on a straight-line basis. Based on the useful lives of PPE, the following rates are applied:

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

Gains and losses on disposals of PPE are recognised in the profit and loss statement in the period of disposal. Useful lives, residual values and depreciation methods are reviewed annually.

(13) Goodwill

Goodwill arises on the acquisition of subsidiaries. Goodwill is the difference between the buyer's investment and net assets acquired. Goodwill is recognized at the acquisition cost, and testing on impairment of goodwill is done at least once a year. Goodwill is measured at cost less accumulated impairment losses.

(14) Investment property

Investment property is property held to earn rental income or for capital appreciation or for both.
Investment property is stated at its fair value at the balance sheet date with any change therein recognised in profit or loss for the period in which they arise

(15) Cash and cash equivalents

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

(16) Capital adequacy calculation

According to the requirements of the Financial and Capital Market Commission, the capital adequacy ratio should be maintained at least at 8%. As of 31 December 2006, the Bank was in compliance with the law "On Credit Institutions" and the requirements of the Financial and Capital Market Commission for capital adequacy and minimum equity.

(17) Off-balance sheet items

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

(18) Corporate income tax

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

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

Deferred tax assets are only recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. Deferred tax assets are reduced by the amount that is not probable that the related tax benefit will be realized.

(19) Provisions

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

(20) Assets under management

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

(21) *Repo* transactions

Repo transactions are recognized as financing transactions.

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

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

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

(22) Segment reporting

Segment results include revenue and expenses directly attributable to a segment and the relevant proportion of revenue and expenses that can be allocated to a segment, whether from external transactions or from transactions with other segments of the Group. Inter segment transfer pricing is based on cost plus an appropriate margin, as specified by the Group policy. Segment assets and liabilities comprise those operating assets and liabilities that are directly attributable to the segment or can be allocated to the segment on a reasonable basis.

(23) Net profit from insurance

Net profit from insurance includes earned insurance premiums, changes in life insurance reserves less reinsurer’s part in such changes in life insurance reserves, and insurance claims paid less reinsurer’s part in such insurance claims paid.

Net premiums earned are calculated as premiums underwritten less the amounts ceded to reinsurers and changes in unearned premium reserves. For life insurance policies with regular premium payments, premiums underwritten are equal to the total premium for the current year irrespective of the premium payment term. Premiums underwritten are decreased by the premiums cancelled and terminated over the accounting year. Insurance receivables (the difference between underwritten and received premiums) are recognised in other assets on the balance sheet. For life insurance policies with irregular premium payments, premiums underwritten are recognised when received and are equal to premiums received.

Claims paid are calculated as claims paid less reinsurers’ share in claims paid and the change in non-life insurance claim reserves.

The Group continuously holds investment assets to cover liabilities that result from insurance contracts. Investment assets include investment securities, classified as valued at fair value with changes in the value recognised in the profit and loss account, and investment properties. Income from investment assets is included in the profit and loss account. Insurance sales commissions that are paid to insurance sales agents and brokers are included in expenses for the period when they occur. Administrative expenses, including the payments to the Financial and Capital Market Commission and in the Insured Protection Fund, as well as depreciation, are included in the respective positions of the profit and loss account.

(24) Liabilities to policyholders

Insurance liabilities arising in respect of life and accident insurance contracts comprise the reserves for life insurance, the reserves for unearned premiums and unexpired risks and the reserves for outstanding claims. The determination of the amount of insurance liabilities requires the application of management's judgment and assumptions. Principal assumptions are described in the respective note to the accounts.

The reserves for life insurance represents the current obligations to policyholders relating to life insurance contracts. The reserves for life insurance is stated based on actuarial calculations for each life insurance agreement. For insurance agreements with guaranteed and fixed terms the prospective method is used (the reserves equals the difference between the present value of the insurer's liabilities and the present value of future premium income). The retrospective method is used for long term insurance contracts without fixed terms (the reserves equals the accumulated premiums and accumulated guaranteed interests less deductions defined in insurance contacts).

The reserves for life insurance also includes a reserves for claims for life insurance.

The reserves for unearned premiums and unexpired risks represents deferred income arising on non-life insurance contracts in respect of that part of the gross written premium attributable to the period from the balance sheet date to the date of expiry of the insurance agreement to cover all claims and expenses in accordance with insurance agreements in force.

The reserves for claims represents the amount of outstanding non-life insurance claims reported but not settled and estimated as incurred but not reported. The reserves for claims includes the direct loss adjustment expense, which will be incurred on settlement of claims incurred in the reporting and prior years.

(25) Reclassification

When necessary, the corresponding numbers for the previous financial year are adjusted to confirm with the current year presentation.

(26) New 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 financial statements:

- IFRS 7 *Financial Instruments: Disclosures and the Amendment to IAS 1 Presentation of Financial Statements: Capital Disclosures* require extensive disclosures about the significance of financial instruments for an entity's financial position and performance, and qualitative and quantitative disclosures on the nature and extent of risks. IFRS 7 and amended IAS 1, which become mandatory for the Bank's 2007 financial statements, will require extensive additional disclosures with respect to Bank's financial instruments and share capital.
- 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 Bank's 2007 financial statements, is not expected to have any impact on the financial statements.

- IFRIC 8 *Scope of IFRS2 Share-based Payment* addresses the accounting for share-based payment transactions in which some or all of goods or services received cannot be specifically identified. IFRIC 8 will become mandatory for the Bank's 2007 financial statements, with retrospective application required. The Bank has not yet determined the potential effect of the interpretation.
- IFRIC 9 *Reassessment of Embedded Derivatives* requires that a reassessment of whether embedded derivative should be separated from the underlying host contract should be made only when there are changes to the contract. IFRIC 9, which becomes mandatory for the Bank's 2007 financial statements, is not expected to have any impact on the 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 Bank's 2007 financial statements, and will apply to goodwill, investments in equity instruments, and financial assets carried at cost prospectively from the date that the Bank first applied the measurement criteria of IAS 36 and IAS 39 respectively.
- 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. IFRIC 11 is not relevant to the Bank's operations as the Bank has not entered into any share-based payments arrangements.
- 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. IFRIC 12 is not relevant to the Bank's operations as the Bank has not entered into any service concession arrangements.

3. RISK MANAGEMENT

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

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

(1) Credit risk

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

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

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

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

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

(2) Foreign exchange risk

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

The Bank continuously monitors the open positions of foreign currencies and regularly assesses the structure of assets and liabilities by currency. In order to improve the currency structure of its balance sheet, the Bank issued bonds in EUR currency, taking into account the increasing share of EUR denominated assets.

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

(3) Interest rate risk

Interest rate risk is the risk of potential losses the Bank may incur as a result of interest rate fluctuations.
For the purpose of controlling the interest rate risk, the Asset and Liability Committee performs regular analysis of assets and liabilities by maturity and type of interest.

(4) Liquidity risk

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

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

(5) Country risk

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

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

(6) Operational risks

The Bank's organizational structure, precise job specifications, clear division of responsibilities as well as control procedures allow the Bank to monitor operational risks. The Bank has also developed an action plan for various crisis situations. The Bank has set up an independent "Internal audit service" (IAS) with its main functions to ensure that the Bank's activities comply with existing legislation, approved plans, policies and other internal Bank documents and to monitor the compliance of the Bank's department activities with internal control procedures.

(7) Reputational risk

The Bank recognizes the importance of preventing of money laundering and preventing of terrorism financing. Reputation risk management department was set up in the Bank to implement an internal control system, which monitors the timely control of clients and their business partners. IAS regularly monitors execution of money laundering and terrorism financing prevention policy and procedures.

4. INTEREST INCOME

	2006		2005	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Credit institutions	582	582	228	228
Loans to non-bank customers	1 494	1 474	1 123	1 099
Fixed income securities	734	702	384	381
Other	25	19	8	8
	2 835	**2 777**	**1 743**	**1 716**

5. INTEREST EXPENSE

	2006		2005	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Credit institutions	167	172	162	162
Customers deposits	374	374	213	220
Amortisation of securities premiums	26	26	30	30
Notes payable	341	341	154	154
Other	57	61	35	35
	965	**974**	**594**	**601**

6. FEE AND COMMISSION INCOME

	2006		2005	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Payment transactions	816	816	369	369
Corporate banking credits	273	271	144	144
Securities transactions	24	24	34	11
Account servicing	50	50	29	29
Trust operation	34	19	22	1
Management of investment funds and plans	30	-	35	-
Other	66	66	65	65
	1 293	**1 246**	**698**	**619**

7. FEE AND COMMISSION EXPENSE

	2006		2005	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Correspondent accounts	209	209	113	113
Cash transactions, payment card transaction	39	39	48	48
Customer acquisition and distribution of fund shares	40	62	13	-
Securities transactions	16	15	8	8
	304	**325**	**182**	**169**

8. NET PROFIT (LOSS) FROM FINANCIAL ASSETS AND LIABILITIES VALUED AT FAIR VALUE

	2006		2005	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
(Loss) from trading on financial assets and liabilities valued at fair value recognised in the profit and loss account	(8)	-	-	-
Gain/(loss) on revaluation from financial assets and liabilities valued at fair value recognised in the profit and loss account	4	-	(4)	-
Net profit/loss from financial assets and liabilities valued at fair value recognised in the profit and loss account	**(4)**	-	**(4)**	-
Profit/ (loss) from trading on financial assets and liabilities held for trading	(9)	(9)	148	148
Gain/(loss) on revaluation from financial assets and liabilities held for trading	1	(64)	(20)	(28)
Net profit/loss from financial assets and liabilities held for trading	**(8)**	**(73)**	**128**	**120**
	(12)	**(73)**	**124**	**120**

9. NET TRADING INCOME FROM FOREIGN EXCHANGE

	2006		2005	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Net gain on foreign exchange trading	639	641	566	566
(Loss) on foreign exchange revaluation	(328)	(327)	(390)	(390)
	311	**314**	**176**	**176**

10. OTHER OPERATING INCOME

	2006		2005	
	Group LVL'000	**Bank LVL'000**	**Group LVL'000**	**Bank LVL'000**
Net profit from insurance (Note 11)	27	-	-	-
Penalties received	29	29	2	2
Fee on real estate management	81	-	-	-
Gain on sale of a building	-	-	24	24
Dividends received	-	15	-	-
Other	10	12	2	2
	147	**56**	**28**	**28**

11. NET PROFIT FROM INSURANCE

The following table reflects net profit of the Group's life insurance company from insurance before investment income and operating expenses:

	2006
	Group LVL'000
Earned permiums	
Gross premiums underwritten	79
Changes in unearned premium and unpredictable risk net reserves (Note 36)	18
Net earned premiums	**97**
Other technical income, net	1
Net claims incurred	
Change in the life insurance net reserves (Note 36)	13
Gross claims	(87)
Change in reserves for deferred non-life insurance claims (Note 36)	5
Net claims incurred	**(69)**
Other technical expenses, net	(2)
Net profit from insurance	**27**

12. ADMINISTRATIVE EXPENSES

	2006		2005	
	Group LVL'000	**Bank LVL'000**	**Group LVL'000**	**Bank LVL'000**
Remuneration to the Council and Board	233	162	164	141
Salaries and remuneration to the staff	577	499	447	429
Social tax expense	179	148	140	130
Other staff costs	45	44	25	25
Communications and transport	123	109	117	111
Professional services	246	231	129	118
Rent, utilities and maintenance	250	244	162	156
Network	39	39	49	49
Advertising and marketing	28	28	29	27
Taxes	31	31	5	5
Insurance	5	5	1	1
Other	28	14	7	5
	1 784	**1 554**	**1 275**	**1 197**

The average number of employees in the Bank in 2006 was 67 (2005: 65).

13. OTHER OPERATING EXPENSES

	2006		2005	
	Group LVL'000	**Bank LVL'000**	**Group LVL'000**	**Bank LVL'000**
Membership fees	19	15	13	10
Fee on real estate management	22	-	-	-
Other	12	30	20	20
	53	**45**	**33**	**30**

14. IMPAIRMENT OF FINANCIAL ASSETS, NET

Impairment of financial assets by the Bank

	Loans LVL'000
Total allowance as of December 31, 2005	**13**
Increase in allowances	11
Release of previously established allowances	(14)
Total allowance as of December 31, 2006	**10**

Impairment of financial assets by the Group

	Loans LVL'000	**Other assets LVL'000**	**Total LVL'000**
Total allowance as of December 31, 2005	**33**	**1**	**34**
Increase in allowances	12	-	12
Release of previously established allowances	(15)	-	(15)
Change of allowance due to write-offs	(3)	-	(3)
Total allowance as of December 31, 2006	**27**	**1**	**28**

15. CORPORATE INCOME TAX

	2006		2005	
	Group LVL'000	**Bank LVL'000**	**Group LVL'000**	**Bank LVL'000**
Tax adjustment for 2004	-	-	7	7
Current year tax expense	221	221	89	88
Deferred tax	1	-	-	-
	222	**221**	**96**	**95**

The table below shows the reconciliation between the current tax expense and theoretically calculated tax amount using basic tax rate, which was 15% in 2006 and 2005.

	2006		2005	
	Group LVL’000	**Bank LVL’000**	**Group LVL’000**	**Bank LVL’000**
Profit before tax	1 615	1 353	620	601
Theoretically calculated tax at rate 15%	242	203	93	90
Non-deductible expenses, net	5	5	4	4
Other temporary differences, net	(25)	13	(7)	(6)
Effect of tax losses utilized	-	-	(1)	-
Current year tax expense	**222**	**221**	**89**	**88**

16. CASH AND BALANCES WITH THE BANK OF LATVIA

	2006		2005	
	Group LVL’000	**Bank LVL’000**	**Group LVL’000**	**Bank LVL’000**
Cash	282	280	193	193
Balance with the Bank of Latvia	6 783	6 783	126	126
	7 065	**7 063**	**319**	**319**

According to the regulations of the Financial and Capital Markets Commission, the total amount of funds on the account with the Central Bank should not be less than the amount of the obligatory reserves calculated from the average amount of customer deposits during the month. During 2006 the Bank complied with these requirements.

17. DUE FROM CREDIT INSTITUTIONS ON DEMAND

	2006		2005	
	Group LVL’000	**Bank LVL’000**	**Group LVL’000**	**Bank LVL’000**
Credit institutions registered in Latvia	11 193	11 182	2 084	2 084
Credit institutions registered in OECD countries	8 944	8 944	13 552	13 552
Credit institutions of other countries	1 737	1 738	1 665	1 665
	21 874	**21 864**	**17 301**	**17 301**

As at 31 December 2006, the Bank had correspondent accounts with 39 Banks (2005: 31). As at 31 December 2006 the largest account balances the Bank had due from Hansabanka (LVL 5 360 thousand) and Raiffeisen Zentralbank Oesterreich (LVL 5 597 thousand). As at 31 December 2005 the largest account balance was with Deutsche Bank AG (LVL 10 806 thousand) and Raiffeisen Zentralbank Oesterreich (LVL 1 984 thousand).

As at 31 December 2006 and 2005 the Bank had amounts due from 3 banks and 3 financial institutions, respectively, which exceeded 10% of total due from credit institutions. The aggregate value of these balances as of 31 December 2006 and 2005 were LVL 15 132 thousand and LVL 15 300 thousand respectively.

The average effective interest rate on due amounts from credit institutions was 3.05% in 2006 (2005: 2.90%).

18. TRADING ASSETS

	2006		2005	
	Group LVL’000	Bank LVL’000	Group LVL’000	Bank LVL’000
Fixed income securities				
Latvian government debt securities	112	-	1 708	1 708
Eurobonds issued by Latvian credit institutions	752	714	719	719
Eurobonds issued by companies and credit institutions of other countries	8 801	8 801	4 041	4 041
Investments in non-fixed income securities				
Shares of private non-financial companies	442	-	-	-
Investments in mutual funds	104	-	-	-
Derivatives	59	59	-	-
Total trading assets	**10 270**	**9 574**	**6 468**	**6 468**

As on December 31, 2005 the Bank had 8 foreign exchange forward contracts outstanding with the total nominal value of LVL 4 305 thousand in assets and LVL 4 304 thousand in liabilities. Fair value of the contracts was minus LVL 1 thousand. As on December 31, 2006 the Bank had 31 foreign exchange forward contract outstanding with the total nominal value of LVL 19 620 thousand in assets and LVL 19 679 thousand in liabilities. Fair value of the contracts was LVL 59 thousand.

19. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2006		2005	
	Group LVL’000	Bank LVL’000	Group LVL’000	Bank LVL’000
Fixed income securities				
Latvian government debt securities	15	-	81	-
Investments in non-fixed income securities				
Investments in mutual fund “Valsts obligāciju fonds”	-	-	17	-
Total financial assets at fair value through profit or loss	**15**	**-**	**98**	**-**

20. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2006		2005	
	Group LVL’000	Bank LVL’000	Group LVL’000	Bank LVL’000
Fixed income securities				
Debt securities issued by private companies	1 920	-	-	-
Debt securities issued by financial institutions	1	-	-	-
Investments in non-fixed income securities				
SWIFT shares	10	10	1	1
Total financial assets available for sale	**1 931**	**10**	**1**	**1**

21. LOANS AND RECEIVABLES

(a) Loans	2006		2005	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Financial institutions	1 087	1 086	1 859	1 906
Private companies	14 721	14 185	11 525	11 345
Individuals	1 082	1 032	673	648
Total loans	**16 890**	**16 303**	**14 057**	**13 899**
Loan loss impairment (Note 14)	(27)	(10)	(33)	(13)
Net loans	**16 863**	**16 293**	**14 024**	**13 886**

(b) Analysis of loans by type	2006 Bank LVL'000	2005 Bank LVL'000
Loan portfolio		
Commercial loans	7 911	6 486
Industrial loans	4 502	3 417
Payment cards loans	36	57
Mortgage loans	934	526
Other loans	439	59
Accrued interest	153	89
Total Loan portfolio	**13 975**	**10 634**
Securities loans		
Reverse repo	485	2 307
Other loans *(buy/sellback)*	1 841	957
Accrued interest	2	1
Total securities loans	**2 328**	**3 265**
Total loans	**16 303**	**13 899**
Impairment losses (Note 14)	(10)	(13)
Loans net	**16 293**	**13 886**

(c) Average loans balance:	Bank Loan portfolio LVL'000	Bank Securities loans LVL'000
I quarter 2005	9 021	2 588
II quarter 2005	10 016	4 483
III quarter 2005	9 429	4 996
IV quarter 2005	11 247	4 163
I quarter 2006	10 665	3 789
II quarter 2006	15 020	2 747
III quarter 2006	12 309	2 070
IV quarter 2006	15 174	2 425

(d) Geographical segmentation of the loans

	2006 Bank LVL'000	2005 Bank LVL'000
Loans to residents of Latvia	4 746	5 891
Loans to residents of OECD countries	5 753	5 002
Loans to residents of the other countries	5 649	2 916
Accrued interest	155	90
Total loans	**16 303**	**13 899**
Impairment assets (Note 14)	(10)	(13)
Loans net	**16 293**	**13 886**

Loans amounting to LVL 2 566 thousand were pledged as a collateral for an interbank loan. The average interest rate on the loan portfolio was 10.13% in 2006 (2005 – 9.73%). The average interest rate on securities loans was 5.44% in 2006 (2005 – 3.01%).

As at 31 December 2006 the Bank had none and at 31 December 2005 the Bank had one group of related borrowers, whose loan balances exceeded 10% of loans to customers. The gross value of these loans as of 31 December 2005 was LVL 2 991. The major part of these loans (82% in 2005) were classified as risk-free loans collateralized by Latvian Government bonds.

22. HELD-TO-MATURITY FINANCIAL INVESTMENTS

	2006		2005	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Term deposits due from registred in Latvia credit institutions	43	43	2 000	2 000
Total held-to-maturity financial investments	**43**	**43**	**2 000**	**2 000**

23. INVESTMENTS IN SUBSIDIARIES

In 2003 the Bank acquired 100% of the share capital in IPAS "Baltikums Asset Management" and SIA "Baltikums Līzings". In 2005 the Bank acquired 99.24% of the share capital in AS "Pirmais atklātais pensiju fonds". In 2006 The Bank's subsidiary, IPAS "Baltikums Asset Management", acquired 93.46 % of the share capital in AAS "Baltikums Dzīvība" and the Bank acquired 100% of the share capital in "Nord Real Estate".

The cost to the Bank and the share in equity acquired is reflected in the table below:

Company	**Share in equity**	**2006 Cost LVL'000**	**2005 Cost LVL'000**
SIA "Baltikums Līzings"	100.00 %	345	345
IPAS "Baltikums Asset Management"	100.00 %	4 016	154
AS "Pirmais atklātais pensiju fonds"	99.24 %	31	31
SIA "Nord Real Estate"	100.00%	206	-
		4 598	**530**

The core operations of SIA "Baltikums Līzings" are financial leasing and lending. At the end of the reporting year the leasing portfolio balance of "SIA Baltikums Līzings" in comparison to the total assets of the Group was immaterial. For the year ended 31 December 2006 the profit of SIA Baltikums Līzings was LVL 1 thousand (for 2005: profits of LVL 10 thousand). On 31 December 2006 the equity and reserves of SIA "Baltikums Līzings" were LVL 336 thousand (LVL 334 thousand on 31 December 2005).

In 2006 the investment company "Baltikums Asset Management" managed three funds ("Baltic Index fonds", "Valsts obligāciju fonds" and "Internacionālo akciju fondu fonds"), two state funded pension plans as well as the assets of AS "Pirmais atklātais pensiju fonds". Total assets under management amounted to LVL 4.41 million (LVL 7.57 million in 2005). For the year ending 31 December 2006 net profit of IPAS "Baltikums Asset Management" was nil (for 2005: a profit of LVL 5 thousand). On 31 December 2006 the equity and reserves of IPAS "Baltikums Asset Management" were LVL 4 014 thousand (LVL 156 thousand on 31 December 2005).

In 2006 AS "Pirmais atklātais pensiju fonds" had established and managed three private pension plans. On 31 December 2006 net assets of the three plans amounted to LVL 134 thousand (LVL 150 thousand on 31 December 2005).

SIA "Nord Real Estate" balance sheet at the moment of the acquisition (September 2006) was as follows:

Balance sheet	**LVL'000**
Long-term investments	565
Loans to customers and debtors	7
Current assets	5
cash	*4*
Long-term liabilities	(382)
Current liabilities	(21)
Net assets aquired	**174**
Goodwill	32
Total consideration	206
Satisfied by cash	206
Net cash outflow arising on acquisition	
Cost of acquisition	206
Cash acquired	4
	202

The management of the Group assessed that there were no differences among preacquisition carrying amounts, fair values and recognized values on acquisition for net assets of the acquired subsidiary at the date of acquisition.

Acquisition of a Life Insurance Subsidiary

On July 14, 2006 IPAS "Baltikums Asset Management acquired 51% of AAS "Baltikums Dzīvība" share capital for LVL 1 284 thousand. On August 25, 2006 IPAS "Baltikums Asset Management increased its shareholding in AAS "Baltikums Dzīvība" to 93%, as the total investment reached LVL 2 353 thousand.

The amounts that were recognised as assets, liabilities and contingent liabilities of AAS "Baltikums Dzīvība" on the date of the acquisition were as follows:

Balance sheet	30.06.2006 LVL'000
Assets	
Cash and amounts due from credit institutions	109
Fixed income securities	2 061
Investments in non-fixed income securities	521
Loans and receivables	45
Held-to-maturity financial assets	115
Property, Plant and Equipment	5
Investment property	335
Technical reserves	(765)
Long-term liabilities	(14)
Current liabilities	(23)
Minority interest	(156)
Assets total	**2 233**
Goodwill	120
Total consideration	2 353
Satisfied by cash	2 353
Net cash outflow arising on acquisition	
Cost of acquisition	2 353
Cash and cash equivalents	224
	2 129

The management of the Group assessed that there were no differences among preacquisition carrying amounts, fair values and recognized values on acquisition for net assets of the acquired subsidiary at the date of acquisition.

After-tax profit of AAS "Baltikums Dzīvība" from the date of the acquisition for the reporting year ended on December 31, 2006 was LVL 270 thousand.

24. INTANGIBLE ASSETS

	Group LVL'000	Bank LVL'000
Historical cost		
As of 31 December 2004	**142**	**138**
Additions	23	21
As of 31 December 2005	**165**	**159**
Additions	52	52
Goodwill as a result of acquisition of subsidiaries (Note 23)	152	-
As of 31 December 2006	**369**	**211**
Amortisation		
As of 31 December 2004	**62**	**61**
Amortisation	31	31
As of 31 December 2005	**93**	**92**
Amortisation	39	37
As of 31 December 2006	**132**	**129**
Net book value		
As of 31 December 2004	**80**	**77**
As of 31 December 2005	**72**	**67**
As of 31 December 2006	**237**	**82**

The amounts of goodwill in the table above are shown at their gross amounts and there are no accumulated impairment losses
.

25. PROPERTY, PLANT AND EQUIPMENT

	Vehicles LVL’000		Office equipment LVL’000		Total LVL’000	
	Group	**Bank**	**Group**	**Bank**	**Group**	**Bank**
Historical cost						
As of 31 December 2004	**9**	**9**	**249**	**239**	**258**	**248**
Additions	-	-	28	24	28	24
Disposals	-	-	(5)	(5)	(5)	(5)
As of 31 December 2005	**9**	**9**	**272**	**258**	**281**	**267**
Additions	30	30	48	44	78	74
Additions as a result of acquisition of subsidiaries	-	-	11	-	11	-
Disposals	-	-	(15)	(6)	(15)	(6)
As of 31 December 2006	**39**	**39**	**316**	**296**	**355**	**335**
Depreciation						
As of 31 December 2004	**5**	**5**	**151**	**148**	**156**	**153**
Depreciation	2	2	63	59	65	61
Disposals	-	-	(5)	(5)	(5)	(5)
As of 31 December 2005	**7**	**7**	**209**	**202**	**216**	**209**
Depreciation charge for the year	2	2	35	33	37	35
Accumulated depreciation as a result of acquisition of subsidiaries	-	-	4	-	4	-
Disposals	-	-	(10)	(6)	(10)	(6)
As of 31 December 2006	**9**	**9**	**238**	**229**	**247**	**238**
Net book value						
As of 31 December 2004	**4**	**4**	**98**	**91**	**102**	**95**
As of 31 December 2005	**2**	**2**	**63**	**56**	**65**	**58**
As of 31 December 2006	**30**	**30**	**78**	**67**	**108**	**97**

26. INVESTMENT PROPERTY

The investment property of the Group consists of the following property items:

	2006		2005	
	Group LVL’000	Bank LVL’000	Group LVL’000	Bank LVL’000
Land and building on Sporta street, Riga	562	-	-	-
21 land plots in Latvia	549	-	-	-
	1 111	-	-	-

	2006		2005	
	Group LVL’000	Bank LVL’000	Group LVL’000	Bank LVL’000
As of 31 December 2005	**-**	**-**	**-**	**-**
Aquisition	873	-	-	-
Revaluation	238	-	-	-
As of 31 December 2006	**1 111**	**-**	**-**	**-**

Fair value of the investment property as on December 31, 2006 was determined based on the appraisal by an independent appraiser.

27. OTHER ASSETS

	2006		2005	
	Group LVL’000	Bank LVL’000	Group LVL’000	Bank LVL’000
Security deposit for Mastercard	88	88	93	93
Mastercard receivable	-	-	1	1
Cash with brokers for securities settlements	123	123	18	18
Unrealized gain from SPOT transactions	-	-	130	130
Taxes receivable	49	49	2	2
Other debtors	117	102	39	18
	377	**362**	**283**	**262**
Impairment loss (Note 14)	(1)	-	(1)	-
	376	**362**	**282**	**262**

28. BALANCES DUE TO CREDIT INSTITUTIONS ON DEMAND

	2006		2005	
	Group LVL’000	Bank LVL’000	Group LVL’000	Bank LVL’000
Credit institutions registered in Latvia	6 149	6 149	1 090	1 090
	6 149	**6 149**	**1 090**	**1 090**

The average interest rate on amounts due to credit institutions registered in Latvia in 2006 was 4.31% (2.50% in 2005), excluding long - term credit line from AS "SEB Latvijas Unibanka".

As at 31 December 2006 amounts due to credit institutions included LVL 3 514 thousand were attracted against the collateral of the Bank assets.

As at 31 December 2006 and 2005 the Bank had amounts due to 3 and 4 banks and financial institutions respectively, which exceeded 10% of total due to credit institutions. The gross value of these balances as at 31 December 2006 and 2005 was LVL 6 683 thousand and LVL 10 062 thousand respectively.

29. FINANCIAL LIABILITIES CARRIED AT AMORTISED COST: CREDIT INSTITUTIONS

	2006		2005	
	Group LVL'000	**Bank LVL'000**	**Group LVL'000**	**Bank LVL'000**
Credit institutions registered in Latvia	2 151	1 770	9 994	9 994
	2 151	**1 770**	**9 994**	**9 994**

Liabilities to credit institutions as on December 31, 2006 included a long-term loan in the amount of LVL 1 770 thousand with Libor + 1.25% interest rate (on December 31, 2005 – LVL 2 307 thousand, the same interest rate).

On December 31, 2006 liabilities to credit institutions in the amount of LVL 1 770 were secured with the pledge of the Bank's assets.

30. FINANCIAL LIABILITIES CARRIED AT AMORTISED COST: CUSTOMERS DEPOSITS

	2006		2005	
	Group LVL'000	**Bank LVL'000**	**Group LVL'000**	**Bank LVL'000**
Current accounts:				
Private financial institutions	1 616	3 212	679	856
Private enterprises	29 778	29 778	17 904	17 904
Private persons	789	789	440	440
	32 183	**33 779**	**19 023**	**19 200**
Term deposits:				
Private financial institutions	370	397	573	670
Private enterprises	4 610	4 610	231	231
Private persons	741	741	591	591
	5 721	**5 748**	**1 395**	**1 492**
Deposits total	**37 904**	**39 527**	**20 418**	**20 692**

The average term deposits rate was 3.73% in 2006 (3.42% in 2005). The average demand deposits rate was 1.10% in 2006 (1.08% in 2005).

On December 31, 2006 the Bank did not have any customers/customer groups with deposits exceeding 10% of the total customer deposits. On December 31, 2006 there were 2 such customers/customer groups with total balances of LVL 4 644 thousand.

31. FINANCIAL LIABILITIES VALUED AT AMORTISED COST: NOTES PAYABLE

On December 29, 2006 the Bank repaid its first bonds issue in the amount of EUR 3 856 thousand (LVL 2 710 thousand). The issue was carried out in 2004 and had a floating interest rate of 6 month Euribor + 3.5%.

In April, 2006 the Bank carried out the second issue of bonds. The maturity date of the bonds is April 20, 2009, size of the issue is EUR 5 000 thousand (LVL 3 514 thousand), and coupon rate is 6.785%.

In February, 2007 the Bank carried out the third issue of bonds with maturity date on February 2, 2010, size of the issue EUR 10 000 thousand (LVL 7 028 thousand), and floating coupon rate of 3 month Euribor + 3.0%.

	2006		2005	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Notes payable	3 547	3 561	2 710	2 710
Non-amortised commission for the sale of the issue	(34)	(34)	(22)	(22)
	3 513	**3 527**	**2 688**	**2 688**

32. PREPAYMENTS AND ACCRUED INCOME

	2006		2005	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Prepaid income	7	7	8	8
Other accrued expenses	120	116	18	18
	127	**123**	**26**	**26**

33. PROVISIONS

Provisions consist of provisions for unused vacations of employees.

	2006		2005	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
As of 31 December 2005	9	9	9	9
Increase in provisions	14	5	-	-
As of 31 December 2006	**23**	**14**	**9**	**9**

34. TAX LIABILITIES

	2006		2005	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Prepayments	(95)	(94)	(59)	(59)
Corporate income tax	222	221	88	88
	127	**127**	**29**	**29**

	2006		2005	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Tax liabilities as of 31 December 2005	29	29	49	49
Corporate income tax paid	(29)	(29)	(49)	(49)
Prepayments	(95)	(94)	(59)	(59)
Corporate income tax expense	222	221	88	88
Tax liabilities as of 31 December 2006	**127**	**127**	**29**	**29**

35. OTHER LIABILITIES

	2006		2005	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Suspense liabilities	101	101	-	-
Funds in transit	27	27	-	-
Settlements related to credit cards	11	11	6	6
Unrealised loss from spot transactions	37	37	-	-
Other creditors	7	5	22	12
	183	**181**	**28**	**18**

36. INSURANCE CONTRACTS

The balance in the balance sheet is composed of:

		31.12.2006	
	Gross LVL'000	Reinsu-rance LVL'000	Net LVL'000
Life insurance reserves	716	-	716
Unearned premium and unpredictable risk reserves	13	(1)	12
Non-life deferred insurance claim reserves	3	-	3
	732	**(1)**	**731**

Liabilities to policyholders and reinsurance assets on the Group's balance sheet are related to the insurance company AAS "Baltikums Dzīvība".

In the following table changes in life insurance reserves for the period included in the profit and loss account are shown:

	2006		
	Gross LVL'000	**Reinsurance LVL'000**	**Net LVL'000**
As on 31 December 2005	-	-	-
Acquisition of AAS "Baltikums Dzīvība"	729	-	729
Net decrease during the period	(13)	-	(13)
As on 31 December 2006	**716**	-	**716**

In the following table changes in unearned premium and unpredictable risk reserves are shown for the period included in the profit and loss account:

	2006		
	Gross LVL'000	**Reinsurance LVL'000**	**Net LVL'000**
As on 31 December 2005	-	-	-
Acquisition of AAS "Baltikums Dzīvība"	35	(5)	30
Net increase for the period	(22)	4	(18)
As of 31 December 2006	**13**	**(1)**	**12**

In the following table changes in unearned premium reserves are shown for the period included in the profit and loss account:

	2006		
	Gross LVL'000	**Reinsurance LVL'000**	**Net LVL'000**
As on 31 December 2005	-	-	-
Acquisition of AAS "Baltikums Dzīvība"	8	-	8
Net increase for the period	**(5)**	-	**(5)**
As on 31 December 2006	**3**	-	**3**

The calculated amount of liabilities to policyholders depends on the key assumptions made. Changes in the key assumptions may cause changes in the amount of liabilities and result in profit or loss that to be recognised in the profit and loss account.

Liabilities to policyholders are determined employing assumptions that are based on mortality tables, morbidity assumptions and discount rates applied.

Depending on the type of product, the Group uses mortality tables by the Latvian Central Statistics Bureau for 2000 and 1992, statistics by the Health Care Ministry of the Republic of Latvia and the Agency of Medical Technologies for 1992, as well as own mortality tables for years 1992 – 1994. For morbidity the Health Care Ministry's of the Republic of Latvia and the Agency's of Medical Technologies statistics for 1992 is used.

Liabilities to policyholders are calculated by employing discount rates consistent with the rules set by the Financial and Capital Market Commission, which specify that the discount rate shall not be greater than the lower of: 3%, or 60% of Latvian government long-term bond yield, or 66% of the life insurance company's investment yield in the prior accounting year. The discount rate applied mostly fluctuates due to changes in the government long-term bonds yield. Discount rate applied on December 31, 2006 was 2.6%.

37. SHARE AND RESERVE CAPITAL

As of December 31, 2006 the authorized share capital comprised 7.45 millions ordinary shares (2005: 5.1 million). All these shares have a par value of LVL 1. All issued shares are fully paid. 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 shareholders meetings.
The only shareholder of the Bank is AS "Baltikums bankas grupa".

	2006		2005	
	Quantity	**LVL**	**Quantity**	**LVL**
Paid up share capital				
Ordinary shares with voting rights	7 450 000	7 450 000	5 100 000	5 100 000
	7 450 000	**7 450 000**	**5 100 000**	**5 100 000**

The reserve capital amounting to LVL 17 thousand represents a historically-established reserve accumulated from retained earnings in accordance with the legislation of the Republic of Latvia. The reserve capital is not subject to any restrictions and can be distributed to the shareholders upon the appropriate decision.

38. CASH AND CASH EQUIVALENTS

	2006		2005	
	Group LVL'000	**Bank LVL'000**	**Group LVL'000**	**Bank LVL'000**
Cash	282	280	193	193
Due from the Bank of Latvia	6 783	6 783	126	126
Due from credit institutions on demand and within 3 months	21 874	21 864	19 301	19 301
Due to credit institutions on demand and within 3 months	(7 919)	(7 919)	(9 442)	(9 442)
	21 020	**21 008**	**10 178**	**10 178**

39. FINANCIAL COMMITMENTS

	2006		2005	
	Group LVL'000	**Bank LVL'000**	**Group LVL'000**	**Bank LVL'000**
Unutilised loan facilities	6 652	6 652	2 436	2 436
Unutilised credit card facilities	171	171	180	180
Letters of credit	58	58	48	48
	6 881	**6 881**	**2 664**	**2 664**

40. EARNINGS PER SHARE

As at 31 December 2006 the Bank has no dilutive potential ordinary shares and therefore diluted earnings per share are the same as the basic earnings per share.

Basic earnings per share are calculated by dividing the net income attributable to the shareholders by the weighted average number of ordinary shares in issue during the year.

	2006		2005	
	Group LVL'000	**Bank LVL'000**	**Group LVL'000**	**Bank LVL'000**
Net income attributable to Equity holders of the Bank	1 393	1 132	524	506
Weighted average number of shares outstanding during the year	6 072 000	6 072 000	5 100 000	5 100 000
Basic earnings per share	**0,229**	**0,186**	**0,103**	**0,099**

41. ASSETS AND LIABILITIES UNDER MANAGEMENT

	2006		2005	
	Group LVL'000	**Bank LVL'000**	**Group LVL'000**	**Bank LVL'000**
Due from Latvian credit institutions	164	164	4	4
Fixed-income securities (pledged in *repo* transactions)	1 229	732	1 372	-
Fixed-income securities	-	-	752	752
Other assets	9	9	1	1
	1 402	**905**	**2 129**	**757**
Liabilities under management				
Resident trust liabilities	1 402	905	2 129	757
	1 402	**905**	**2 129**	**757**

There were no outstanding balances with related parties included in the assets under management by the Bank as at 31 December 2006 and 2005. As at 31 December 2005 assets under management by the Group included balances with related parties amounting to LVL 1 372 thousand, as at 31 December 2006 assets under management by the Group with related parties were LVL 497 thousand.

42. TRANSACTIONS WITH RELATED PARTIES

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 the Management Board, key management personnel, their close relatives and companies in which they have a controlling interest, as well as associated companies. All transactions with related parties have been carried out at on arms-length basis.

Loans, deposits and other claims and liabilities to related parties included the following:

	2006 LVL'000	Interest rate %	2005 LVL'000	Interest rate %
Loans to customers	1 105	5.77	548	7.86
Derivatives	1		-	
Unused credit lines	77		252	
Total loans and other claims	**1 183**		**800**	
Term and demand deposits	4 995	2.81	1 541	2.46
Total deposits and other liabilities	**4 995**		**1 541**	

As at 31 December 2006 loans to related parties in the amount of LVL 420 thousand were secured by collateral of Latvian government bonds in 2005- LVL 2 193 thousand. As at 31 December 2006 and 2005 there were no outstanding trust assets from and liabilities to related parties.

43. MATURITY ANALYSIS OF ASSETS AND LIABILITIES (BANK)

2006 LVL'000	Up to 1 month including	From 1 to 3 months	From 3 months to 6 months	From 6 months to 1 year	From 1 year to 5 years	5 years and over	Total LVL'000
ASSETS							
Cash and due from the Central Bank	7 063	-	-	-	-	-	7 063
Due from credit institutions on demand	21 864	-	-	-	-	-	21 864
Loans to customers and debtors	6 801	360	2 056	2 330	4 746		16 293
Fixed income securities and derivatives recognized as trading assets	9 574	-	-	-	-	-	9 574
Non-fixed income securities recognized as available-for-sale	-	-	-	-	-	10	10
Held-to-maturity financial investments	-	-	16	-	27	-	43
Investments in subsidiaries	-	-	-	-	-	4 598	4 598
Intangible assets	-	-	-	-	-	82	82
Property, Plant and Equipment	-		-	-	-	97	97
Other assets	258	-	-	-	-	104	362
Prepayments and accrued income		-	-	116	-	-	116
Total assets	**45 560**	**360**	**2 072**	**2 446**	**4 773**	**4 891**	**60 102**
LIABILITIES AND EQUITY							
Due to credit institutions	6 149	-	-	-	-	-	6 149
Term deposits due from credit institutions	1 770	-	-				1 770
Customers deposits	38 074	48	794	423	188	-	39 527
Notes payable	3 527	-	-	-	-	-	3 527
Deferred income and accrued expense	123	-	-	-	-	-	123
Provisions	-	-	-	-	14	-	14
Tax liabilities	-	127	-	-	-	-	127
Other liabilities	181	-	-	-	-	-	181
Shareholders' equity	-	-	-	-	-	8 684	8 684
Total liabilities and equity	**49 824**	**175**	**794**	**423**	**202**	**8 684**	**60 102**
Liquidity risk	**(4 264)**	**185**	**1 278**	**2 023**	**4 571**	**(3 793)**	**-**

The maturity analysis of the Group is not significantly different from that of the Bank disclosed above.

44. MATURITY ANALYSIS OF ASSETS AND LIABILITIES (BANK) (continued)

2005 LVL'000	Up to 1 month including	From 1 to 3 months	From 3 months to 6 months	From 6 months to 1 year	From 1 year to 5 years	5 years and over	Total LVL'000
ASSETS							
Cash and due from the Central Bank	319	-	-	-	-	-	319
Due from credit institutions on demand	17 301	-	-	-	-	-	17 301
Loans to customers and debitors	7 341	1 263	1 984	1 161	2 137	-	13 886
Fixed income securities and derivatives recognized as trading assets	6 468	-	-	-	-	-	6 468
Non-fixed income securities recognized as available-for-sale	-	-	-	-	-	1	1
Held-to-maturity financial investments	2 000	-	-	-	-	-	2 000
Investments in subsidiaries	-	-	-	-	-	530	530
Intangible assets	-	-	-	-	-	67	67
Property, Plant and Equipment	-	-	-	-	-	58	58
Other assets	151	-	-	-	-	111	262
Prepayments and accrued income	27	-	-	-	-	-	27
Total assets	**33 607**	**1 263**	**1 984**	**1 161**	**2 137**	**767**	**40 919**
LIABILITIES AND EQUITY							
Due to credit institutions	1 090	-	-	-	-	-	1 090
Derivatives	1	-	-	-	-	-	1
Term deposits due from credit institutions	7 687	-	-	2 307	-	-	9 994
Customers deposits	19 775	159	190	334	234	-	20 692
Notes payable	-	-	-	2 688	-	-	2 688
Financial liabilities pledged in repo transactions	665						665
Deferred income and accrued expense	26	-	-	-	-	-	26
Provisions	9	-	-	-	-	-	9
Tax liabilities	-	29	-	-	-	-	29
Other liabilities	18	-	-	-	-	-	18
Shareholders' equity	-	-	-	-	-	5 707	5 707
Total liabilities and equity	**29 271**	**188**	**190**	**5 329**	**234**	**5 707**	**40 919**
Liquidity risk	**4 336**	**1 075**	**1 794**	**(4 168)**	**1 903**	**(4 940)**	**-**

45. CURRENCY ANALYSIS OF ASSETS AND LIABILITIES (BANK)

2006 LVL'000	CHF LVL'000	LVL LVL'000	USD LVL'000	EUR LVL'000	GBP LVL'000	Other currencies LVL'000	Total LVL'000
ASSETS							
Cash and due from Bank of Latvia	-	6 916	60	80	-	7	7 063
Due from credit institutions on demand	13	67	18 566	1 421	15	1 782	21 864
Loans to customers and debitors	-	1 744	5297	9 252	-	-	16 293
Fixed income securities and derivatives recognized as trading assets	-	59	7 135	1 291	-	1 089	9 574
Non-fixed income securities recognized as available-for-sale	-	-	-	10	-	-	10
Investments in subsidiaries	-	4 598	-	-	-	-	4 598
Held-to-maturity financial investments	-	-	43	-	-	-	43
Intangible assets	-	82	-	-	-	-	82
Property, Plant and Equipment	-	97	-	-	-	-	97
Other assets	-	67	288	1	6	-	362
Prepayments and accrued income	-	15	100	1	-	-	116
Total assets	**13**	**13 645**	**31 489**	**12 056**	**21**	**2 878**	**60 102**
LIABILITIES AND EQUITY							
Due to credit institutions	-	1 930	-	4 219	-	-	6 149
Term deposits due from credit institutions	-	-	1 770	-	-	-	1 770
Customers deposits	43	3 672	25 934	9 484	14	380	39 527
Notes payable	-	-	-	3 527	-	-	3 527
Other liabilities	-	47	107	27	-	-	181
Deferred income and accrued expense	-	77	7	-	-	39	123
Provisions	-	14	-	-	-	-	14
Tax liabilities	-	127	-	-	-	-	127
Shareholders' equity	-	8 684	-	-	-	-	8 684
Total liabilities and equity	**43**	**14 551**	**27 818**	**17 257**	**14**	**419**	**60 102**
Assets (liabilities) arising from currency exchange							
Spot (fwd) transaction receivables	703	139	12 759	14 050	3 495	9 431	**40 577**
Spot (fwd) transaction liabilities	352	129	15 912	8 871	3 495	11 797	**40 556**
Net long/short currency position	**321**	**(896)**	**518**	**(22)**	**7**	**93**	**21**

The currency analysis of the Group is not significantly different from that of the Bank disclosed above.

46. CURRENCY ANALYSIS OF ASSETS AND LIABILITIES (BANK) (continued)

2005 LVL'000	LVL LVL'000	USD LVL'000	EUR LVL'000	GBP LVL'000	Other currencies LVL'000	Total LVL'000
ASSETS						
Cash and due from Bank of Latvia	197	79	38	1	4	319
Due from credit institutions on demand	414	3 677	11 041	496	1 673	17 301
Loans to customers and debitors	2 287	6 524	5 075	-	-	13 886
Fixed income securities and derivatives recognized as trading assets	1 715	4 033	720	-	-	6 468
Non-fixed income securities recognized as available-for-sale	-	-	1	-	-	1
Held-to-maturity financial investments	2 000	-	-	-	-	2 000
Investments in subsidiaries	530	-	-	-	-	530
Intangible assets	67	-	-	-	-	67
Property, Plant and Equipment	58	-	-	-	-	58
Other assets	148	111	2	1	-	262
Prepayments and accrued income	3	13	10	1	-	27
Total assets	**7 419**	**14 437**	**16 887**	**499**	**1 677**	**40 919**
LIABILITIES AND EQUITY						
Due to credit institutions	-	-	1 090	-	-	1 090
Derivatives	1	-	-	-	-	1
Term deposits due from credit institutions	100	3 495	6 399	-	-	9 994
Customers deposits	1 789	12 888	5 454	3	558	20 692
Notes payable	-	-	2 688	-	-	2 688
Financial liabilities pledged in repo transactions	-	-	665	-	-	665
Deferred income and accrued expense	26	-	-	-	-	26
Provisions	9	-	-	-	-	9
Provisions for taxes	29	-	-	-	-	29
Other liabilities	7	7	4	-	-	18
Shareholders' equity	5 707	-	-	-	-	5 707
Total liabilities and equity	**7 668**	**16 390**	**16 300**	**3**	**558**	**40 919**
Assets (liabilities) arising from currency exchange						
Spot (fwd) transaction receivables	305	3 545	3 479	6 541	6 587	20 457
Spot (fwd) transaction liabilities	638	1 555	3 578	7 005	7 551	20 327
Currency position	**(582)**	**37**	**488**	**32**	**155**	**130**

The currency analysis of the Group is not significantly different from that of the Bank disclosed above.

47. REPRICING MATURITY ANALYSIS (BANK)

2006 LVL'000	Up to 1 month including	From 1 to 3 months	From 3 months to 6 months	From 6 months to 1 year	From 1 year to 5 years	Over 5 year	Non interest bearing	Total LVL'000
ASSETS								
Cash and amounts due from the Bank of Latvia	-	-	-	-	-	-	7 063	7 063
Due on demand from credit institutions	21 864	-	-	-	-	-	-	21 864
Loans to customers and debitors	13 187	191	1 231	1 390	294	-	-	16 293
Fixed income securities and derivatives recognized as trading assets	81	61	631	736	7 789	276	-	9 574
Non-fixed income securities recognized as available-for-sale	-	-	-	-	-	10	-	10
Held-to-maturity financial investments	16	-	-	-	27	-	-	43
Investments in subsidiaries	-	-	-	-	-	-	4 598	4 598
Investments in intangible assets	-	-	-	-	-	-	82	82
Property, Plant and Equipment	-	-	-	-	-	-	97	97
Other assets	-	-	-	-	-	-	362	362
Prepayments and accrued income	-	-	-	-	-	-	116	116
Total assets	**35 148**	**252**	**1 862**	**2 126**	**8 110**	**286**	**12 318**	**60 102**
TOTAL LIABILITIES AND EQUITY								
Term deposits due from credit institutions	6 150	1 769	-	-	-	-	-	7 919
Deposits	38 074	48	794	423	188	-	-	39 527
Notes payable					3 527			3 527
Other liabilities	-	-	-	-	-	-	181	181
Deferred income and accrued expense	-	-	-	-	-	-	123	123
Provisions for liabilities and payments	-	-	-	-	-	-	14	14
Provisions for taxes	-	-	-	-	-	-	127	127
Shareholders' equity	-	-	-	-	-	-	8 684	8 684
Total liabilities and equity	**44 224**	**1 817**	**794**	**423**	**3 715**	**-**	**9 129**	**60 102**
Off-balance-sheet liabilities	**-**	**-**	**-**	**-**	**-**	**-**	**6 884**	**6 884**
Interest rate risk net position	**(9 076)**	**(1 565)**	**1 068**	**1 703**	**4 395**	**286**	**3 189**	**-**
Interest rate risk cumulative position	**(9 076)**	**(10 641)**	**(9 573)**	**(7 870)**	**(3 475)**	**(3 189)**	**-**	**-**

The repricing maturity analysis of the Group is not significantly different from that of the Bank disclosed above.

48. REPRICING MATURITY ANALYSIS (BANK) (continued)

2005 LVL'000	Up to 1 month including	From 1 to 3 months	From 3 months to 6 months	From 6 months to 1 year	From 1 year to 5 years	Over 5 year	Non interest bearing	Total LVL'000
ASSETS								
Cash and amounts due from the Bank of Latvia	126	-	-	-	-	-	193	319
Due on demand from credit institutions	17 301	-	-	-	-	-	-	17 301
Loans and debitors	4 429	1 337	4 003	3 747	368	-	2	13 886
Fixed income securities and derivatives recognized as trading assets	440	-	-	1 054	4 974	-	-	6 468
Non-fixed income securities recognized as available-for-sale	-	-	-	-	-	-	1	1
Held-to-maturity financial investments	2 000	-	-	-	-	-		2 000
Investments in subsidiaries	-	-	-	-	-	-	530	530
Investments in intangible assets	-	-	-	-	-	-	67	67
Property, Plant and Equipment	-	-	-	-	-	-	58	58
Other assets	-	-	-	-	-	-	262	262
Prepayments and accrued income	-	-	-	-	-	-	27	27
Total assets	**24 296**	**1 337**	**4 003**	**4 801**	**5 342**	**-**	**1 140**	**40 919**
TOTAL LIABILITIES AND EQUITY								
Term deposits due from credit institutions	1 090	-	-	-	-	-	-	1 090
Held to maturity	7 687	2 307	-	-	-	-	-	9 994
Deposits	19 775	159	190	334	234	-	-	20 692
Notes payable	-	-	2 688	-	-	-	-	2 688
Derivatives	-	1	-	-	-	-	-	1
Financial liabilities pledged in repo transactions	665	-	-	-	-	-	-	665
Other liabilities	-	-	-	-	-	-	18	18
Deferred income and accrued expense	-	-	-	-	-	-	26	26
Provisions for liabilities and payments	-	-	-	-	-	-	9	9
Provisions for taxes							29	29
Shareholders' equity	-	-	-	-	-	-	5 707	5 707
Total liabilities and equity	**29 217**	**2 467**	**2 878**	**334**	**234**	**-**	**5 789**	**40 919**
Off-balance-sheet liabilities	**-**	**-**	**-**	**-**	**-**	**-**	**2 679**	**2 679**
Interest rate risk net position	**(4 921)**	**(1 130)**	**1 125**	**4 467**	**5 108**	**-**	**(4 649)**	**-**
Interest rate risk cumulative position	**(4 921)**	**(6 051)**	**(4 926)**	**(459)**	**4 649**	**-**	**-**	**-**

The repricing maturity analysis of the Group is not significantly different from that of the Bank disclosed above.

49. CAPITAL ADEQUACY CALCULATION (BANK) (According to the regulations of the Financial and Capital Market Commission)

		2006		2005	
	Risk weight	Amount LVL'000	Risk weighted value LVL'000	Amount LVL'000	Risk weighted value LVL'000
0% risk weighted assets					
Cash and due from the Central Bank	0%	7 603	-	319	-
Due from the government of the Republic of Latvia	0%	419	-	2 307	-
Due amounts secured by the term deposit controlled by the bank	0%	3 859	-	3 625	-
Total 0% risk weighted assets	**0%**	**11 341**	**-**	**6 251**	**-**
20% risk weighted assets					
Due on demand from the credit institutions registered in the Republic of Latvia	20%	7 473	1 495	500	100
Due from the credit institutions registered in OECD countries	20%	8 944	1 789	13 637	2 727
Total 20% risk weighted assets	**20%**	**16 417**	**3 284**	**14 137**	**2 827**
50% risk weighted assets					
Prepaid expenses and accrued income	50%	116	58	49	25
Total 50% risk weighted assets	**50%**	**116**	**58**	**49**	**25**
100% risk weighted assets					
Dues from credit institutions registered in non-OECD countries	100%	1 738	1 738	1 580	1 580
Loans to customers	100%	15 826	15 826	11 540	11 540
Investments in subsidiaries	100%	2 245	2 245	530	530
Property, Plant and Equipment	100%	97	97	58	58
Other assets	100%	363	363	321	321
Total 100% risk weighted assets	**100%**	**20 269**	**20 269**	**14 029**	**14 029**
Total Risk Weighted Assets		**48 143**	**23 611**	**34 466**	**16 881**
Off-balance items					
Items with 0% defined correction degree		73	-	312	-
Items with 50% defined correction degree		6 808	3 404	2 346	1 173
Items with 100% defined correction degree		3	3	6	6
Total off-balance items		**6 884**	**3 407**	**2 664**	**1 179**
Total Weighted Value of Assets and Off-balance Items			**27 018**		**18 060**
Capital requirement for credit risk in the banking book			**2 161**		**1 445**

49. CAPITAL ADEQUACY CALCULATION (BANK) (According to the regulations of the Financial and Capital Market Commission) (continued)

	2006 Amount LVL'000	2006	2005 Amount LVL'000	2005
Share capital				
First level capital				
Paid-in share capital	7 450		5 100	
Reserve capital	17		17	
Retained earnings	85		84	
Current year audited profit	1 132		506	
Decrease of share capital:				
Intangible assets	(82)		(67)	
Significant investment in credit institutions' share capital	(2 353)		-	
Total Share Capital	**6 249**		**5 640**	
Capital requirement for credit risk in the banking book	2 158		1 445	
Capital requirement for foreign exchange risk	72		23	
Capital requirement for position risk	876		449	
Capital requirement for counterparty risk	1		6	
Total capital requirement 8%	**3 110**		**1 923**	
Total capital adequacy ratio		**16%**		**24 %**

50. CAPITAL ADEQUACY CALCULATION (BANK) (According to Basel Capital Accord)

		2006		2005	
	Risk weight	Amount LVL'000	Risk weighted value LVL'000	Amount LVL'000	Risk weighted value LVL'000
0% risk weighted assets					
Cash and due from the Bank of Latvia	0%	7 603	-	319	-
Due amounts secured by guarantees and collaterals issued by the Republic of Latvia	0%	419	-	2 307	-
Due amounts secured by the term deposit controlled by the bank	0%	3 859	-	3 625	-
Total 0% risk weighted assets	**0%**	**11 341**	**-**	**6 251**	**-**
20% risk weighted assets					
Due from the credit institutions registered in the Republic of Latvia	20%	7 473	1 495	500	100
Due from the credit institutions registered in OECD countries	20%	8 944	1 789	13 637	2 727
Due from the credit institutions registered in non-OECD countries	20%	1 738	348	1 580	316
Total 20% risk weighted assets	**20%**	**18 155**	**3 632**	**15 717**	**3 143**
100% risk weighted assets					
Loans with 100% risk grading	100%	15 826	15 826	11 540	11 540
Property, Plant and Equipment	100%	97	97	58	58
Investment in subsidiaries	100%	2 245	2 245	530	530
Other assets	100%	363	363	321	321
Total 100% risk weighted assets	**100%**	**18 531**	**18 531**	**12 449**	**12 449**
Total Risk Weighted Assets		**48 027**	**22 163**	**34 417**	**15 592**
Off-balance items					
Items with 0% defined correction degree		73	-	312	-
Items with 50% defined correction degree		6 808	3 404	2 346	1 173
Items with 100% defined correction degree		3	3	6	6
Total off-balance items		**6 884**	**3 407**	**2 664**	**1 179**
Total Weighted Value of Assets and Off-balance Items			**25 570**		**16 771**
Capital requirement for credit risk in the banking book			**2 046**		**1 342**

50. CAPITAL ADEQUACY CALCULATION (According to Basel Capital Accord) (continued)

	2006 Amount LVL'000	2006	2005 Amount LVL'000	2005
Share capital				
First level capital				
Paid-in share capital	7 450		5 100	
Reserve capital	17		17	
Retained earnings	85		84	
Current year audited profit	1 049		506	
Decrease of share capital:				
Intangible assets	(82)		(67)	
Significant investment in credit institutions' share capital	(2 353)		-	
Total Share Capital	**6 166**		**5 640**	
Capital requirement for credit risk in the banking book	2 046		1 342	
Capital requirement for foreign exchange risk	72		23	
Capital requirement for position risk	876		449	
Capital requirement for counterparty risk	1		6	
Total capital requirement 8%	**2 995**		**1 820**	
Total capital adequacy ratio		**16%**		**25 %**

As at 31 December 2006, the Bank's capital adequacy ratio was 16%, which is above the minimum required ratio of 8% set in the Basel Capital Accord and the regulations of the Financial and Capital Market Commission. In 2006 The Bank began to calculate capital requirements for position, settlement and counterparty risks.

51. BUSINESS SEGMENT ANALYSIS

	Insurance LVL'000		Banking LVL'000		Asset Management LVL'000		Eliminations LVL'000		Group LVL'000	
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
Total revenue from external customers	451	-	4 329	2 681	101	88	-	-	4 881	2 769
Total revenue from internal customers	-	-	1	11	61	24	(62)	(35)	-	-
Total revenue	**451**	**-**	**4 330**	**2 692**	**162**	**112**	**(62)**	**(35)**	**4 881**	**2 769**
Income before tax	270	-	1 401	630	(38)	(10)	-	-	1 633	620
Income tax	-	-	(221)	(95)	(1)	(1)	-	-	(222)	(96)
Net income	**270**	**-**	**1 180**	**535**	**(39)**	**(11)**	**-**	**-**	**1 411**	**524**
Attributable to:										
Equity holders of the Bank	252	-	1 180	535	(39)	(11)	-	-	1 393	524
Minority interest	18	-	-	-	-	-	-	-	18	-
Net income	**270**	**-**	**1 180**	**535**	**(39)**	**(11)**	**-**	**-**	**1 411**	**524**
Segment assets	3419	-	60 439	41 347	4 635	244	(8 460)	(849)	60 033	40 742
Segment liabilities	760	-	51 419	35 296	393	55	(1 679)	(322)	50 893	35 029
Capital expenditure	7	-	74	45	7	6	-	-	88	51
Depreciation	4	-	35	61	2	4	-	-	41	65
Amortisation	-	-	38	31	1	-	-	-	39	31
Impairment charge	-	-	12	7	-	-	-	-	12	7

52. SUBSEQUENT EVENTS

In January, 2007 as a result of a share emission the Bank paid up share capital has been increased by LVL 2.965 to LVL 10.415 million. The emission was fully subscribed to and paid up by the Bank's shareholder - JSC Baltikums Bankas Grupa.

In January, 2007 the Bank has increased the share capital of its daughter company Investment Management JSC "Baltikums Asset Management" by LVL 1.452 million. After the increase paid up share capital of Investment Management JSC "Baltikums Asset Management" is LVL 5.464 million.

The funds raised as a result of a new Investment Management JSC "Baltikums Asset Management" share issue were directed towards increasing the company's interest in JSC "Baltikums Apdrošināšanas Grupa" with the aim of accumulating a 49% stake.

In February, 2007 the Bank carried out the third issue of bonds with maturity date on February 2, 2010, size of the issue EUR 10 000 thousand (LVL 7 028 thousand), and floating coupon rate of 3 month Euribor + 3.0%.