A/S REĢIONĀLĀ INVESTĪCIJU BANKA

ANNUAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2006

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AS Reģionālā Investīciju banka

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Registration number: 4000 356 3375

REPORT OF THE MANAGEMENT

Year 2006 was very successful in terms of the growth and development for A/S Reģionālā investīciju banka (hereinafter - the Bank). The Bank has started offering for its clients EC/MC credit cards, emitted Bank's bonds, increased own capital and, as a result of perennial work performance, the Bank's website – www.rib.lv was put in action.

Performance of the Bank during the reporting period

The growth and successful performance of the Bank during the year 2006 are affirmed by positive financial indicators. The positive financial indicators approves that the Bank's strategy and initially stated financial and development objectives were tactfully reconsidered and accurate.

Both at the beginning of the year and at the end, the Bank's share capital was increased by 66.67% and amounted to 5,5 million lats at the end of the reporting year.

In comparison to the prior year, the number of the Bank's employees was increased by 50% and the Bank's organisational structure was afforced with Human Resource, Procurement and Client Remote Service divisions. In addition, the employee training courses have being launched since the end of year 2006 with the aim to increase qualification of personnel.

In 2006 the Bank initiated the emission of Eurocard, MasterCard, Maestro, Mass, Business, and Gold cards, offering its clients both debit and credit cards.

Taking care of clients' data security, the Bank has introduced an electronic document verification system – 'Digipass', which substantially increases the security level of capital management of remote accounts.

The Bank's website has become operational since January 2006. It provides information on Bank's activities, services, pricelists and other relevant information in Latvian, Russian and English languages.

The Bank emitted the first debt securities emission in amount of 4,000,000 EUR with a 2-year repayment period and 6-month Euribor + 3.25% year interest rate in October, 2006. This is a new way for the Bank to attract financial resources besides clients' deposits and borrowings in the interbank market.

In order to prevent legalisation of illegally derived funds, the Bank initiated regular employee trainings and updated its internal and external monitoring processes.

During the reporting year, the existing risk management system was updated in line with the international standards. It helps to insure timely identification and evaluation of risks, in order to manage their extent and structure.

In comparison with the last reporting year, the quantity of clients has increased by 37% and the main financial indicators have increased on average by 70%. The above-mentioned increases allow us to conclude that the Bank keeps on its efficient growth and development.

Future prospects

The Bank plans to advance its exiting organisational structure, particularly addressing the internal control and audit areas. Similarly, there are several main prospects for the year 2007 like creation of Bank's new corporative identity, improving of client's servicing quality, improvement of the range of existing products and services, initiating of new accounting program and keeping the active work at the introduction of new Euro payment account system - Target2. The future prospect of the Bank includes the attracting of new clients and proportional enlargement of the loan and deposit portfolios.

Improving the range of existing Bank's services with careful attention paid to the improvement of clients' servicing quality, the Bank has attained the dynamic growth of its financial indicators. Despite the decrease of the absolute amount of profit in comparison with the last reporting year, the intangible value of profit has been increased due to introduction of new products, recruiting professional personnel and attracting new loyal clients.

The management of the Bank expresses its thanks to its employees, clients, cooperation partners and shareholders for their cooperation and loyalty. Thank you!

Haralds Āboliņš
Chairman of the Board, President

Jurijs Rodins
Chairman of the Council

Riga, 29 March 2007

THE SUPERVISORY COUNCIL AND THE BOARD OF DIRECTORS OF THE BANK

As at 31 December 2006 and as at the date of signing the accounts:

The Council

		Date of appointment
Jurijs Rodins	Chairman of the Council	Re-elected – 29.08.2006
Marks Bekkers	Deputy Chairman of the Council	Re-elected – 29.08.2006
Dmitrijs Bekkers	Member of the Council	Re-elected – 29.08.2006
Vadims Morohovskis	Member of the Council	Elected – 29.08.2006
Arkādijs Fjodorovs	Member of the Council	Re-elected – 29.08.2006
Alla Vanecjanc	Member of the Council	Re-elected – 29.08.2006

The Board

Haralds Āboliņš	Chairman of the Board and President	Re-elected – 16.04.2004
Oleksandr Kuperman	Member of the Board	Re-elected – 16.04.2004
Daiga Muravska	Member of the Board	Re-elected – 16.04.2004

STATEMENT OF RESPONSIBILITY OF THE MANAGEMENT

The Supervisory Council and the Board of Directors (hereinafter - the Management) of AS Reģionālā Investīciju banka (hereinafter - the Bank) are responsible for the preparation of the financial statements of the Bank.

The financial statements on pages 8 to 35 are prepared in accordance with the source documents and present fairly the financial position of the Bank as at 31 December 2006 and the results of its operations and cash flows for the reporting year 2006.

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

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

Haralds Āboliņš
Chairman of the Board, President

Jurijs Rodins
Chairman of the Council

Riga, 28 March 2007

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers SIA
Kr. Valdemāra iela 19
Rīga LV 1010
Latvija
Telephone +371 709 4400
Facsimile +371 783 0055

INDEPENDENT AUDITORS' REPORT

To the Shareholders of A/S Reģionālā investīciju banka

Report on the Financial Statements

We have audited the accompanying financial statements on pages 8 to 35 of A/S Reģionālā investīciju banka which comprise the balance sheet as of 31 December 2006 and the income statement, statement of changes in equity and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the requirements of 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 misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the A/S Reģionālā investīciju banka as of 31 December 2006, and of its financial performance and its cash flows for the year then ended in accordance with the requirements of International Financial Reporting Standards as adopted by the European Union.

PRICEWATERHOUSECOOPERS

Report on Other Legal and Regulatory Requirements

We have read the Management Report set out on page 3 and did not identify material inconsistencies between the financial information contained in the Management Report and that contained in the financial statements for 2006.

PricewaterhouseCoopers SIA
Certified audit company
Licence No. 5

Juris Lapshe
Certified auditor in charge
Certificate No. 116

Member of the Board

Riga, Latvia
29 March 2007

(2)

INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2006

	Notes	2006 LVL	2005 LVL
Interest income	4	3,109,429	1,931,852
Interest expense	4	(1,112,267)	(397,627)
Net interest income	4	**1,997,162**	**1,534,225**
Fee and commission income	5	1,110,315	691,437
Fee and commission expense	5	(336,622)	(210,606)
Net fee and commission income	5	**773,693**	**480,831**
Profit on securities trading and foreign exchange, net	6	124,822	273,959
Other operating income		7,447	3,272
Impairment losses for loans and advances	11	(249,314)	(35,314)
General administrative expense	7	(1,834,955)	(1,026,454)
Amortisation and depreciation charge	13, 14	(65,230)	(51,311)
Other operating expense		(46,124)	(23,646)
Profit before income tax		**707,501**	**1,155,562**
Income tax expense	8	(120,731)	(175,257)
Net profit for the year		**586,770**	**980,305**

The financial statements on pages 8 to 35 have been approved by the Supervisory Council and the Board of Directors of the Bank and signed on their behalf by:

Haralds Āboliņš
Chairman of the Board, President

Jurijs Rodins
Chairman of the Council

Riga, 28 March 2007

The accompanying notes on pages 12 to 35 are an integral part of these financial statements.

BALANCE SHEET AND MEMORANDUM ITEMS AS AT 31 DECEMBER 2006

	Notes	31.12.2006 LVL	31.12.2005 LVL
Assets			
Cash and balances with the Bank of Latvia	9	4,485,942	2,736,578
Balances due from banks	10	14,028,835	6,561,755
Loans and advances to customers	11	36,809,482	18,631,849
Financial assets at fair value through profit or loss	12	8,354,812	3,854,402
Intangible assets	13	58,108	62,099
Property and equipment	14	172,136	114,187
Other assets		239,956	7,425
Deferred expenses and accrued income	15	386,824	133,698
Current income tax receivable	32	58,964	-
Total assets		**64,595,059**	**32,101,993**
Liabilities			
Debt securities in issue	16	2,811,216	-
Balances due to banks	17	1,228,732	1,423,200
Due to customers	18	52,173,330	25,313,922
Other liabilities	19	70,892	73,128
Deferred income and accrued expense	20	521,986	176,580
Current income tax liability	32	-	108,230
Deferred income tax liability	21	2,500	7,300
Total liabilities		**56,808,656**	**27,102,360**
Equity			
Share capital	22	5,500,000	3,300,000
Retained earnings		1,699,633	719,328
Profit for the year		586,770	980,305
Total shareholders' equity		**7,786,403**	**4,999,633**
Total liabilities and equity		**64,595,059**	**32,101,993**
Memorandum items			
Contingent liabilities	23	32,580	32,580
Financial commitments	23	7,999,836	5,046,993
Funds under trust management	23	2,377,319	20,813,062

The financial statements on pages 8 to 35 have been approved by the Supervisory Council and the Board of Directors of the Bank and signed on their behalf by:

Haralds Āboliņš
Chairman of the Board, President

Jurijs Rodins
Chairman of the Council

Riga, 28 March 2007

The accompanying notes on pages 12 to 35 are an integral part of these financial statements.

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

	Paid-in share capital	Retained earnings	Total
	LVL	LVL	LVL
Balance as at 31 December 2004	**3,300,000**	**719,328**	**4,019,328**
Net profit for the year	–	980,305	980,305
Balance at 31 December 2005	**3,300,000**	**1,699,633**	**4,999,633**
Net profit for the year	–	586,770	586,770
Increase of share capital	2,200,000	–	2,200,000
Balance at 31 December 2006	**5,500,000**	**2,286,403**	**7,786,403**

The accompanying notes on pages 12 to 35 are an integral part of these financial statements.

CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2006

	Notes	2006 LVL	2005 LVL
Cash inflow from operating activities			
Profit before income tax		707,501	1,155,562
Amortisation and depreciation		65,230	51,311
Increase in provision for loan impairment		203,376	36,321
Loss / (Profit) from revaluation of foreign currency		91,310	(118,764)
Profit from disposal of fixed assets		1,461	-
Loss / (Profit) from revaluation of trading securities		145,944	(42,618)
Prepaid expense and accrued income (increase) / decrease		(253,126)	30,310
Deferred income and accrued expense increase		345,406	84,644
(Increase) / Decrease in other assets		(232,531)	27,663
Increase in other liabilities		(2,236)	(61,472)
Increase in cash and cash equivalents before changes in assets and liabilities, as a result of operating activities		**1,072,335**	**1,285,901**
(Increase) / Decrease in trading securities		(4,646,354)	877,079
Decrease in balances due from banks		(997,150)	(3,850)
Increase in loans		(18,381,009)	(12,569,850)
Increase in deposits		26,859,408	14,894,281
Increase in cash and cash equivalents from operating activities before income taxes		**3,907,230**	**4,483,561**
Income tax paid		(292,725)	(75,498)
Net cash and cash equivalents from operating activities		**3,614,505**	**4,408,063**
Cash outflow from investing activities			
Purchase of fixed and intangible assets		(120,649)	(74,502)
Decrease in cash and cash equivalents from investing activities		**(120,649)**	**(74,502)**
Cash inflow from financing activities			
Increase of share capital		2,200,000	-
Debt securities issue		2,811,216	-
Increase in cash and cash equivalents from financing activities		**5,011,216**	**-**
Net cash inflow for the period		**8,505,072**	**4,333,561**
Cash and cash equivalents at the beginning of the period	24	**7,845,483**	**3,393,158**
Effect of exchange rates on cash and cash equivalents		(91,310)	118,764
Cash and cash equivalents at the end of the period	24	**16,259,245**	**7,845,483**

The accompanying notes on pages 12 to 35 are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 INCORPORATION AND PRINCIPAL ACTIVITIES

AS Reģionālā investīciju banka (hereinafter – the Bank) provides financial services to corporate clients and individuals. The Bank established its representative office in Odessa, Ukraine in 2005. The Bank has no subsidiaries and branches apart from the mentioned above.

The Bank is a joint-stock company incorporated and domiciled in Riga, Republic of Latvia. It was registered within Commercial Register on 28 September 2001.

The Bank has issued bonds, with subsequent listing in Riga Stock Exchange.

25 January 2006 Dmitrijs Bekkers sold 49% of Bank's shares to Ukraine bank "Pivdennyi". In November 2006 the Bank issued additional 2,200,000 capital shares mainly acquired by private individuals, accordingly as from 4 December 2006 Ukraine bank "Pivdennyi" owns 29.4% of AS Reģionālā investīciju banka and is the ultimate parent company. The ultimate beneficiaries of "Pivdennyi" are private investors, mainly citizens of the Republic of Ukraine.

These financial statements have been approved for issue by the Supervisory Council and the Board of Directors on 28 March 2006.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A summary of the significant accounting policies, all of which have been applied consistently throughout the years 2006 and 2005, are set out below:

(a) Reporting currency

The tabular amounts in the accompanying financial statements are reported in Latvian lats (LVL), unless otherwise stated.

(b) Basis of preparation

These financial statements are prepared in accordance with International Financial Reporting Standards (hereinafter - IFRS) as adopted in the European Union. The financial statements are prepared under the historical cost convention as modified by the fair valuation of financial assets held at fair value through the profit or loss.

The preparation of financial statements in conformity with IFRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on Management's best knowledge of current events and actions, actual results ultimately may differ from those estimates.

The accounting policies used in the preparation of the financial statements for the year ended 31 December 2006 are consistent with those used in the annual financial statements for the year ended 31 December 2005, except as referred to in *Adoption of New or Revised Standards and Interpretations*.

Adoption of New or Revised Standards and Interpretations

Certain new IFRSs became effective for the Bank from 1 January 2006. Listed below are those new or amended standards or interpretations which are relevant to the Bank's operations and the nature of their impact on the Bank's accounting policies. All changes in accounting policies were applied retrospectively with adjustments made to the retained earnings as at 1 January 2005, where appropriate, unless otherwise described below.

a) *IFRIC 4, Determining whether an arrangement contains a lease (effective from 1 January 2006).* IFRIC 4 requires that determining whether an arrangement is, or contains, a lease be based on the substance of the arrangement. It requires an assessment of whether (a) fulfilment of the arrangement is dependent on the use of a specific asset or assets (the asset); and (b) the arrangement conveys a right to use the asset. The Bank reassessed its arrangements and concluded that no adjustments are required as a result of the adoption of IFRIC 4.

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Basis of preparation (continued)

b) *IAS 39 (amendment) – The Fair Value Option (effective from 1 January 2006).* IAS 39 (as revised in 2003) permitted entities to designate irrevocably on initial recognition practically any financial instrument as one to be measured at fair value with gains and losses recognised in profit and loss ("fair value through profit and loss"). The amendment changes the definition of financial instruments at "fair value through profit and loss" and restricts the ability to designate financial instruments as part of this category. The adoption of the amendment to the standard has not required the Bank to change its accounting practices in respect of this category.
c) *IAS 39 (amendment) – Financial Guarantee Contracts (effective from 1 January 2006).* As a result of this amendment, the Bank measures issued financial guarantees initially at their fair value, which is normally evidenced by the amount of fees received. This amount is then amortised on a straight-line basis over the life of the guarantee. At each balance sheet date, the guarantees are measured at the higher of (i) the unamortised balance of the amount at initial recognition and (ii) the best estimate of expenditure required to settle the commitment at balance sheet date. This amendment did not have a significant effect on these financial statements.

Certain new standards and interpretations have been published that are mandatory for the Bank's accounting periods beginning on or after 1 January 2007 or later periods which the Bank has not early adopted:

a) *IFRS 7, Financial Instruments: Disclosures (effective from 1January 2007).* The IFRS 7 introduces new disclosures to improve the information about financial instruments. It requires the disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk, including sensitivity analysis to market risk. It replaces IAS 30, Disclosures in the Financial Statements of Banks and Similar Financial Institutions, and disclosure requirements in IAS 32, Financial Instruments: Disclosure and Presentation. It is applicable to all entities that report under IFRS. The amendment to IAS 1 introduces disclosures about the level of an entity's capital and how it manages capital. The Bank assessed the impact of IFRS 7 and the amendment to IAS 1 and concluded that the main additional disclosures will be sensitivity analysis to market risk and the capital disclosures required by the amendment of IAS 1. The Bank will apply IFRS 7 and the amendment to IAS 1 from annual periods beginning 1 January 2007.

b) *IFRS 8, Operating Segments (effective from 1January 2009).*
c) *IFRIC 8, Scope of IFRS 2 (effective for annual periods beginning on or after 1 May 2006, that is from 1 January 2007);*
d) *IFRIC 9, Reassessment of Embedded Derivatives (effective for annual periods beginning on or after 1 June 2006);*
e) *IFRIC 10, Interim Financial Reporting and Impairment (effective for annual periods beginning on or after 1 March 2007);*
f) *IFRIC 11, IFRS 2 – Group and Treasury Share Transactions (effective for annual periods beginning on or after 1 March 2007).*
g) *IFRIC 12, Service Concession Arrangements (effective for annual periods beginning on or after 1 January 2008)*

Unless otherwise described above, the new satndards and interpretations are not expected to significantly affect the Bank's financial statements.

(c) Income and expense recognition

Interest income and expense are recognized in the income statement for all interest bearing instruments on an accrual basis using the effective interest method. Interest income includes coupons earned on trading securities.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Income and expense recognition (continued)

When loans become doubtful of collection, they are written down to their recoverable amounts and interest income is thereafter recognized based on the rate of interest that was used to discount the future cash flows for the purpose of measuring the recoverable amount.

Commissions received or incurred in respect of origination of financial assets or funding are deferred and recognised as an adjustment to the effective interest rate on the asset or liability. Other fees and commissions, including those related to trust activities, are credited and or charged to the income statement as earned.

(d) Foreign currency translation

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

The principal rates of exchange (Ls to 1 foreign currency unit) set forth by the Bank of Latvia and used in the preparation of the Bank's balance sheets were as follows:

Reporting date	USD	EUR	RUB	UAH
As at 31 December 2006	0.536	0.702804	0.0203	0.106
As at 31 December 2005	0.593	0.702804	0.0206	0.117

(e) Income taxes

Income tax is calculated in accordance with Latvian tax regulations and is based on the taxable income reported for the taxation period.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled. The principal temporary differences arise from differing rates of accounting and tax amortisation and depreciation on intangible and fixed assets, as well as accruals for employee vacation expenses and income or expense from revaluation of investments in securities. Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

(f) Cash and cash equivalents

For the purpose of presentation in the statement of cash flows, cash and cash equivalents are defined as the amounts comprising cash in hand, deposits held at call and with original maturities of three months or less with the Bank of Latvia and other credit institutions.

(g) Loans and Allowances for Loan Impairment

Balances due from banks and loans and advances to customers are accounted for as loans and receivables. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in active markets.

Loans and receivables are recognised initially at fair value of consideration given to originate those loans plus transaction costs that are directly attributable to the acquisition of financial asset. Loans and receivables are subsequently carried at amortised cost using the effective interest method. All loans and receivables are recognized when cash is advanced to borrowers and derecognized on repayments.

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Loans and Provisions for Loan Impairment (continued)

The Bank assesses at each balance sheet date whether there is objective evidence that loans and receivables are impaired, either individually or as a class if individually not significant. If any such evidence exists, the amount of the loss for loan impairment which has been incurred is measured as the difference between the asset's carrying amount and the recoverable amount, being the present value of expected cash flows (excluding future credit losses that have not been incurred), including amounts recoverable from guarantees and collateral, discounted at the original effective interest rate. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment. The carrying amount of the asset is reduced through the use of a provision account and the amount of the loss is recognised in the income statement. The assessment of the evidence for impairment and the determination of the amount of provision for impairment or its reversal require the application of Management's judgment and estimates. Management's judgments and estimates consider relevant factors including, but not limited to, the identification of non-performing loans and high risk loans, the Bank's past loan loss experience, known and inherent risks in the portfolio of loans, adverse situations that affects the borrowers' ability to repay, the estimated value of any underlying collateral and current economic conditions as well as other relevant factors affecting loan and advance recoverability and collateral values. These judgments and estimates are reviewed periodically, and historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. The Management of the Bank has made their best estimates of losses, based on objective evidence of impairment and believes those estimates presented in the financial statements are reasonable in light of available information. Nevertheless, it is reasonably possible, based on existing knowledge, that outcomes within the next financial year that are different from assumptions could require a material adjustment to the carrying amount of the asset or liability affected.

When loans and receivables cannot be recovered, they are written off and charged against provision for loan impairment losses. They are not written off until all the necessary legal procedures have been completed and the amount of the loss is finally determined.

(h) Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading and those designated at fair value through profit or loss at inception. The Bank does not designate any financial assets as at fair value through profit or loss at inception. Financial assets at fair value through profit or loss comprise debt securities held by the Bank for trading purposes. They are accounted for at fair value with all gains and losses from revaluation and trading reported in the income statement. Interest earned whilst holding trading securities is reported as interest income.

All regular way purchases and sales of financial assets held for trading are recognised at trade date, which is the date that the Bank commits to purchase or sell the asset.

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Bank has transferred substantially all risks and rewards of ownership.

(i) Sale and repurchase agreements of securities

Sale and repurchase agreements are accounted for as financing transactions. Under sale and repurchase agreements, where the Bank are the transferors, assets transferred remain on the Bank's balance sheets and are subject to the Bank's usual accounting policies, with the purchase price received included as a liability owed to the transferee.

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Sale and repurchase agreements of securities (continued)

Where the Bank are the transferees, the assets are not included in the Bank's balance sheets, but the purchase price paid by it to the transferor is included as an asset. Interest income or expense arising from outstanding sale and repurchase agreements is recognised in the income statement over the term of the agreement using the effective interest method.

Securities sold subject to linked repurchase agreements ('repos') are retained in the financial statements as trading securities and the counter party liability is included in balances due to banks.

(j) Derivative financial instruments

Derivative financial instruments include foreign exchange contracts, currency and interest rate swaps held by the Bank for trading purposes. Derivative financial instruments are recognized on trade date and categorized as financial assets at fair value through profit or loss. They are initially recognized in the balance sheet at fair value and subsequently measured at their fair value with all gains and losses from revaluation reported in the income statement. All derivatives are carried as financial assets when fair value is positive and as financial liabilities when fair value is negative.

(k) Fair Values of Financial Assets and Liabilities

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Fair values of financial assets or liabilities, including derivative financial instruments, in active markets are based on quoted market prices. If the market for a financial asset or liability is not active (and for unlisted securities), the Bank establishes fair value by using valuation techniques. These include the use of discounted cash flow analysis, option pricing models and recent comparative transactions as appropriate, and may require the application of management's judgment and estimates.

Where, in the opinion of the Management, the fair values of financial assets and liabilities differ materially from their book values, such fair values are separately disclosed in the notes to the accounts.

(l) Derecognition of financial assets

The Bank derecognises financial assets when (i) the assets are redeemed or the rights to cash flows from the assets otherwise expired or (ii) the Bank has transferred substantially all the risks and rewards of ownership of the assets or (iii) the Bank has neither transferred nor retained substantially all risks and rewards of ownership but has not retained control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the sale.

(m) Intangible assets

Acquired computer software licences are recognised as intangible assets on the basis of the costs incurred to acquire and bring to use the software. These costs are amortised on the basis of their expected useful lives, not exceeding five years.

(n) Property and Equipment

All property and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(n) Property and Equipment (continued)

Depreciation is calculated using the straight-line method to allocate cost of the assets to their residual values over their estimated useful lives, as follows:

Furniture and fittings	10 years
Computer equipment	5 years
Other fixed assets	5 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

Property and equipment are periodically reviewed for impairment. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the income statement.

(o) Operating lease (the Company is a lessee)

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any financial incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

(p) Borrowings

Borrowings are recognized initially at fair value of consideration received net of transaction costs incurred. Borrowings are subsequently stated at amortized cost and any difference between net proceeds and the redemption value is recognized in the income statement over the period of the borrowings using the effective interest method.

(q) Provisions

Provisions are recognized when the Bank have a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. The assessment of provisions requires the application of management's judgment and estimates, as to the probability of an outflow of resources, the probability of recovery of resources from corresponding sources including security or collateral or insurance arrangements where appropriate, and the amounts and timings of such outflows and recoveries, if any.

(r) Employee benefits

The Bank pays State Compulsory social security contributions for state pension insurance and to the state funded pension scheme in accordance with Latvian legislation. State funded pension scheme is a defined contribution plan under which the Bank pays fixed contributions determined by the law and it will have no legal or constructive obligations to pay further contributions if the state pension insurance system or state funded pension scheme are not able to settle their liabilities to employees.

Short-term employee benefits, including salaries and State Compulsory social security contributions, bonuses and paid vacation benefits, are included in Administrative expenses on an accrual basis.

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(s) Off-balance sheet instruments

In the ordinary course of business, the Bank utilizes off-balance sheet financial instruments including commitments to extend loans and advances, financial guarantees and commercial letters of credit. Such financial instruments are recorded in the financial statements when they are funded or related fees are incurred or received. The methodology for provisioning against off-balance sheet instruments is given in paragraph (q) of Note 2 above.

(t) Trust operations

Funds managed or held in custody by the Bank on behalf of individuals, trusts and other institutions are not regarded as assets of the Bank and, therefore, are not included in the balance sheet.

Accounting for trust operations is separated from the Bank's own accounting system thus ensuring separate accounting in a separate trust balance sheet for assets of each client, by client and by type of assets under management.

(u) Comparatives

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year.

(v) Offsetting of Financial Assets and Liabilities

Financial assets and liabilities are offset and net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

(w) Debt securities in issue

Debt securities in issue include bonds issued by the Bank. Debt securities are stated at amortised cost. If the Bank purchases its own debt securities in issue, they are removed from the balance sheet and the difference between the carrying amount of the liability and the consideration paid is included in gains arising from retirement of debt.

(z) Segment reporting

The Bank operates in one business segment – corporate banking.
A geographical segment is engaged in providing services within a particular economic environment that are subject to risks and returns different from those of segments operating in other economic environments.

(aa) Critical accounting estimates

Loan impairment
The Bank reviews its loan portfolios to assess impairment at least on a quarterly basis. In determining whether an impairment loss should be recorded in the income statement, the Bank makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio.

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(aa) Critical accounting estimates (continued)

Loan impairment (continued)
This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Initial recognition of related party transactions
In the normal course of business the Bank enters into transactions with its related parties. IAS 39 requires initial recognition of financial instruments based on their fair values. Management judgement is applied in determining if transactions are priced at market or non-market interest rates, where there is no active market for such transactions. The basis for judgement is pricing for similar types of transactions with unrelated parties and effective interest rate analysis.

NOTE 3 FINANCIAL RISK MANAGEMENT

a) Credit risk

The Bank takes on exposure to credit risk, which is a risk that a counterparty will be unable to pay amounts in full when due. The Bank structures the levels of credit risk undertaken by placing limits on the amount of risk accepted in relation to one borrower, or groups of related borrowers, and to industry segments. Such risks are monitored on a revolving basis and are subject to monthly or quarterly and annual reviews. There are also limits set for credit risk by products.

The Bank's principles in measuring, monitoring and accepting credit risk are set out in the general Credit Policy of AS Reģionālā Investīciju Banka, which reflect the regulations of the Latvian Financial and Capital Markets Commission. All loan approvals and any changes to existing loan contracts are authorised by the relevant level of management in accordance with authorisation limits set in the Credit Policy.

Credit risk exposures are monitored on a revolving basis through regular assessments of borrowers' ability to meet interest and capital repayments and limits are adjusted as appropriate. Exposure to credit risk is also significantly managed and minimised by obtaining collaterals and guarantees against credit exposures. The fair values of those are also reviewed on a regular basis.

b) Market risk

The Bank takes on exposure to market risks. Market risks arise from open positions in interest rate and currency, all of which are exposed to general and specific market movements.

The Bank manages market risks by the diversification of financial instruments portfolio, limits set for different types of financial instruments and performance of stress tests which show the impact of particular risks on the Bank's assets and equity.

c) Currency risk

The Bank has exposure to the effects of fluctuations in prevailing foreign currency exchange rates as a result of its financial position and cash flows. The Bank seeks to match assets and liabilities denominated in foreign currencies in order to avoid foreign currency exposures. The Board of Directors has set limits on the level of exposure by currency, which is monitored on a daily basis. The Latvian banking legislation requires that open positions in each foreign currency may not exceed 10% of the Bank's equity and that the total foreign currency open position may not exceed 20% of the equity. During the year 2006 the Bank was in compliance with those limits (see also note 27).

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 3 FINANCIAL RISK MANAGEMENT (continued)

d) Interest rate risk

Interest rate risk is the sensitivity of the financial position of the Bank to a change in market interest rates. In the normal course of business, the Bank encounter interest rate risk as a result of differences within maturities or interest re-fixing dates of respective interest-sensitive assets and liabilities. The Bank seek to control this risk through the activities of the Bank's Asset and Liability Committee, which sets limits on the level of mismatch of interest rate reprising that may be undertaken. (see note 29).

e) Liquidity risk

The Bank is exposed to daily calls on its available cash resources from short-term liquid investments. The relationship between the maturity of assets and liabilities is indicative of liquidity risk and the extent to which it may be necessary to raise funds to meet outstanding obligations.

The Bank does not maintain cash resources to meet all of these needs, as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty. The Board of Directors sets limits on the minimum proportion of maturing funds available to meet such calls and on the minimum level of inter-bank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand.

It is unusual for banks to be completely matched, as transacted business is often of uncertain term and of different types (see also note 28). An unmatched position potentially enhances profitability, but also increases the risk of losses.

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

The matching and controlled mismatching of the maturities of assets and liabilities is fundamental to the daily liquidity management of the Bank

f) Capital adequacy

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

The international Basel I risk-based capital adequacy ratio as at 31 December 2006 was 15.65% (31 December 2005: 24,6%), which is above the minimum ratio recommended by the 1988 Basel Committee guidelines of 8%.

In accordance with the Latvian Financial and Capital Market Commission's (FCMC) requirements, the Bank's risk based capital adequacy ratio as at 31 December 2006 was 15.14% (31 December 2005: 18.5%), which is above the minimum required by the FCMC guidelines 2004. FCMC requires Latvian banks to maintain a capital adequacy ratio of 8% of risk weighted assets and memorandum items which are calculated in accordance with the rules set by FCMC (see also note 26).

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 4 INTEREST INCOME AND EXPENSE

	2006 LVL	2005 LVL
Interest income		
Loans	2,086,134	1,486,307
Credit institutions	632,502	220,407
Trading securities	389,314	224,813
Other	1,479	325
Total interest income	**3,109,429**	**1,931,852**
Interest expense		
Deposits	(919,716)	(318,900)
Credit institutions	(80,716)	(37,886)
Guarantee fund	(77,156)	(37,710)
Other	(34,679)	(3,131)
Total interest expense	**(1,112,267)**	**(397,627)**
Net interest income	**1,997,162**	**1,534,225**

The Bank's cash flow during the year to 31 December 2006 arising from interest received was Ls 2,607 thousand (2005: Ls 1,964 thousand) and arising from interest paid was Ls 763 thousand (2005: Ls 305 thousand).

NOTE 5 FEE AND COMMISSION INCOME AND EXPENSE

	2006 LVL	2005 LVL
Fee and commission income		
Money transfers	702,563	400,968
Loan related fees	139,820	121,227
Trust activities	126,530	101,713
Accounts servicing	59,666	35,139
Letters of credit	39,594	15,532
Certificates of deposit	12,863	-
Cession agreements	-	2,076
Other	29,279	14,782
Total fee and commission income	**1,110,315**	**691,437**
Fee and commission expense		
Money transfers	(304,129)	(197,478)
Other	(32,493)	(13,128)
Total fee and commission expense	**(336,622)**	**(210,606)**
Net fee and commission income	**773,693**	**480,831**

NOTE 6 PROFIT ON SECURITIES TRADING AND FOREIGN EXCHANGE, NET

	2006 LVL	2005 LVL
Profit from trading with securities		
Gains from trading with securities	-	77,270
Profit/(loss) from revaluation of securities		
(Loss) / Profit from securities revaluation	(145,944)	42,618
(Loss) / Profit on securities trading and revaluation, net	**(145,944)**	**119,888**
Foreign exchange		
Gain from trading with foreign currencies	362,076	35,307
(Loss) / Profit from foreign currency revaluation	(91,310)	118,764
Profit on foreign exchange, net	**270,766**	**154,071**
Profit on securities trading and foreign exchange, net	**124,822**	**273,959**

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 7 GENERAL ADMINISTRATIVE EXPENSE

	2006 LVL	2005 LVL
Remuneration paid to personnel	594,167	359,356
Office rent and maintenance	286,334	151,944
Remuneration paid to the members of the Supervisory Council and the Board of Directors	218,980	155,420
State compulsory social insurance contributions	170,995	114,406
Communication expense	110,823	82,027
Ukraine representative office maintenance expense	99,082	12,267
Consulting and professional fees	80,894	31,268
Set-up and maintenance costs of information systems	45,343	16,283
Business trips	37,434	9,646
Introduction of credit cards	29,988	-
Transportation	24,320	11,901
Sponsorship	19,059	23,453
Health insurance	10,482	6,939
Advertising and marketing	3,484	4,427
Personnel training in connection with EU structural funds	1,160	-
Penalties	2	64
Other administrative expense	102,408	47,053
	1,834,955	**1,026,454**

The average number of staff employed by the Bank in 2006 was 61 (2005: 41).

NOTE 8 INCOME TAX EXPENSE

Corporate income tax for the reporting year	125,531	162,780
(Decrease) / Increase of provision for deferred tax (note 21)	(4,800)	12,477
Total corporate income tax	**120,731**	**175,257**

Corporate income tax differs from the theoretically calculated taxation at the 15% rate as stipulated by the law (see below):

Profit before income tax	**707,501**	**1,155,562**
Theoretically calculated tax at a tax rate of 15% (2005: 15%)	106,125	173,334
Expenses not deductible for tax purposes	26,839	11,568
Tax discount for donations	(12,233)	(9,645)
Corporate income tax expense	**120,731**	**175,257**

NOTE 9 CASH AND BALANCES WITH THE BANK OF LATVIA

	31.12.2006 LVL	31.12.2005 LVL
Cash	570,998	420,013
Balances on demand with the Bank of Latvia	3,914,944	2,316,565
	4,485,942	**2,736,578**

Balances on demand with Bank of Latvia reflect the balance of the Bank's correspondent account, on which interest is paid in the amount of the compulsory reserve requirement.

Demand deposits with the Bank of Latvia include an obligatory reserve maintained in accordance with Bank of Latvia regulations. The regulations specify the minimum level of the average balance to be maintained on the Bank’s correspondent account with the Bank of Latvia during each month, whilst allowing funds in the account to be used in an unrestricted manner on individual days.

The Bank was in compliance with the reserve requirement Bank of Latvia during the reporting period.

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 10 BALANCES DUE FROM BANKS

	31.12.2006 LVL	31.12.2005 LVL
Due from Republic of Latvia credit institutions	6,285,768	1,263,565
Due from non-OECD credit institutions	594,368	104,717
Due from OECD credit institutions	7,148,699	5,193,473
	14,028,835	**6,561,755**

At 31 December 2006, the Bank had correspondent relationships with 3 (31.12.2005: 5) credit institutions registered in the OECD area, 7 (31.12.2005: 7) credit institutions registered in Latvia and 3 (31.12.2005: 2) financial institutions incorporated in non-OECD countries. The largest placement with a single credit institution at the end of the period was LVL 3,332 thousand representing total outstanding balance held with a bank incorporated in OECD country. The effective interest rates during the reporting year were between 0% and 6.75%.

The following table discloses balances due from banks between demand and term deposits:

On demand	10,832,035	5,632,105
Balances with maturity of three months or less	2,170,000	900,000
Other balances due from banks	1,026,800	29,650
Total due from banks	**14,028,835**	**6,561,755**

NOTE 11 LOANS AND ADVANCES TO CUSTOMERS

(a) Analysis of loans by client type and by products

Loans to legal entities:		
Corporate loans	27,233,592	13,389,959
Mortgages	3,956,144	2,505,203
Other	2,916,308	-
Overdrafts	1,221,749	153,445
	35,327,793	**16,048,607**
Loans to private individuals:		
Mortgages	994,901	2,479,403
Consumer loans	775,174	153,160
	1,770,075	**2,632,563**
Gross loans	**37,097,868**	**18,681,170**
Less: provisions for loan impairment losses	(288,386)	(49,321)
Net loans	**36,809,482**	**18,631,849**

The average effective interest rate as at 31 December 2006 is 10.14% (31.12.2005: 8.4%).
83% (31.12.2005: 73%) of loans are issued to non-residents.

The following table presents geographical profile of the portfolio of loans and advances to customers analysed by the place of customers' business operations:

Latvia	6,284,993	5,045,441
Other European Union countries	1,064,718	876,144
Non-OECD area countries	29,748,157	12,759,585
Gross loans	**37,097,868**	**18,681,170**
Less: provisions for loan impairment losses	(288,386)	(49,321)
Net loans	**36,809,482**	**18,631,849**

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 11 LOANS AND ADVANCES TO CUSTOMERS (continued)

(a) Analysis of loans by client type and by products (continued)

The extent of loan and advance concentration with respect to individual non-bank customers with total credit exposures equal to or exceeding LVL 500 thousand is presented below:

Number of customers	19	12
Total credit exposure to customers	25,238,570	8,880,950
Percentage of gross portfolio of loans and advances	68%	47.5%

The Latvian banking legislation requires that any credit exposure to a non-related entity or group of non-related entities may not exceed 25% of a credit institution's equity and the total credit exposure to all related parties may not exceed 15% of equity. As at 31 December 2006 the Bank was in compliance with the legal requirement set for credit exposure.

(b) Analysis of loans by industry

	31.12.2006 LVL	31.12.2005 LVL
Retail trade and wholesale distribution	13,769,198	2,604,696
Financial intermediaries	11,175,064	-
Real estate	3,432,465	3,021,303
Shipping and logistics	3,335,097	2,587,432
Manufacturing	2,068,938	4,271,887
Private individuals	1,770,075	2,632,563
Other	1,547,031	3,563,289
Gross loans	**37,097,868**	**18,681,170**
Less: provisions for loan impairment losses	(288,386)	(49,321)
Net loans	**36,809,482**	**18,631,849**

(c) Analysis of loans by the exposure to interest rate risk

Loans with fixed interest rate	33,680,402	16,437,728
Loans with floating interest rate	3,417,466	2,243,442
Gross loans	**37,097,868**	**18,681,170**
Less: provisions for loan impairment losses	(288,386)	(49,321)
Net loans	**36,809,482**	**18,631,849**

(d) Movements in allowances for impairment on loans and accrued income are as follows:

	Loans LVL	Accrued income LVL	Total LVL
Balance as at 31 December 2004	**13,000**	**1,007**	**14,007**
Increase during the year 2005	36,321	-	36,321
Decrease during the year 2005	-	(1,007)	(1,007)
Balance as at 31 December 2005	**49,321**	-	**49,321**
Increase during the year 2006	261,423	891	262,314
Decrease during the year 2006	(13,000)	-	(13,000)
Write-off from allowances during the year 2006	-	(891)	(891)
Foreign exchange difference	(9,358)	-	(9,358)
Balance as at 31 December 2006	**288,386**	**-**	**288,386**

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 11 LOANS AND ADVANCES TO CUSTOMERS (continued)

(e) Loans and advances to customers by interest accrual

The following table provides the division between loans where the original terms of payment are met and loans where interest or principal is more than 30 days overdue at the end of the period:

	31.12.2006 LVL	31.12.2005 LVL
Interest accrual profile:		
Loans where the original terms of payment are met	36,621,456	18,563,531
Loans where interest or principal is more than 30 days overdue	476,412	117,639
Total gross loans and advances to customers	**37,097,868**	**18,681,170**
Less allowances for loan impairment	(288,386)	(49,321)
Total net loans and advances to customers	**36,809,482**	**18,631,849**

NOTE 12 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT AND LOSS

	31.12.2006 LVL	31.12.2005 LVL
Latvian government securities	5,433,853	1,976,421
Non-OECD region corporate debt securities	2,395,026	1,316,908
Latvian corporate debt securities	525,933	561,073
	8,354,812	**3,854,402**

All securities were purchased for trading purposes and are carried at their fair value. Latvian government debt securities and Latvian corporate debt securities are listed on the Riga stock exchange. Non-OECD region corporate debt securities are listed on the respective region stock exchanges.

NOTE 13 INTANGIBLE FIXED ASSETS

	2006		2005		
	Software	Total	Software	Advance payments	Total
	LVL	LVL	LVL	LVL	LVL
Cost					
As at beginning of the year	157,333	157,333	129,494	1,231	130,725
Additions	28,233	28,233	26,608	-	26,608
Reclassification	-	-	1,231	(1,231)	-
As at end of the year	**185,566**	**185,566**	**157,333**	**-**	**157,333**
Amortization					
Accumulated amortization as at beginning of the year	95,234	95,234	67,673	-	67,673
Charge for the year	32,224	32,224	27,561	-	27,561
Accumulated amortization as at end of the year	**127,458**	**127,458**	**95,234**	**-**	**95,234**
Net book value as at beginning of the year	**62,099**	**62,099**	**61,821**	**1,231**	**63,052**
Net book value as at end of the year	**58,108**	**58,108**	**62,099**	**-**	**62,099**

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 14 PROPERTY AND EQUIPMENT

The following changes in the Bank's property, plant and equipment took place during the year ended 31 December 2006:

	Computers	Office equipment	Total
	LVL	LVL	LVL
Cost			
31.12.2005	92,390	86,991	179,381
Additions	69,292	22,406	91,698
Disposals	-	(2,634)	(2,634)
31.12.2006	**161,682**	**106,763**	**268,445**
Depreciation			
31.12.2005	44,042	21,152	65,194
Charge for the year	22,636	10,370	33,006
Disposals	-	(1,891)	(1,891)
31.12.2006	**66,678**	**29,631**	**96,309**
Net book value 31.12.2005	**48,348**	**65,839**	**114,187**
Net book value 31.12.2006	**95,004**	**77,132**	**172,136**

The following changes in the Bank's property, plant and equipment took place during the year ended 31 December 2005:

	Computers	Office equipment	Total
	LVL	LVL	LVL
Cost			
31.12.2004	68,264	63,223	131,487
Additions	24,126	23,768	47,894
31.12.2005	**92,390**	**86,991**	**179,381**
Depreciation			
31.12.2004	28,758	12,686	41,444
Charge for the year	15,284	8,466	23,750
31.12.2005	**44,042**	**21,152**	**65,194**
Net book value 31.12.2004	**39,506**	**50,537**	**90,043**
Net book value 31.12.2005	**48,348**	**65,839**	**114,187**

NOTE 15 DEFERRED EXPENSES AND ACCRUED INCOME

	31.12.2006	31.12.2005
	LVL	LVL
Accrued interest receivable from trading securities	118,464	64,907
Other accrued interest receivable other	177,831	66,128
Deferred expenses	90,529	2,663
	386,824	**133,698**

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 16 DEBT SECURITIES IN ISSUE

	31.12.2006 LVL	31.12.2005 LVL
Debt securities issued	**2,811,216**	**-**

In 27 October 2006 the Bank issued 40,000 bonds with nominal value 100 EUR. Total issue amounts to 4,000,000 EUR. Repayment of bonds is due 27 October 2008. The bonds are quoted in Riga Stock Exchange.

Annual coupon rate for the bonds is set 6 months Euribor + 3.25%. Payments of coupon interest are due 27 April and 27 October of each respective year. As at 31 December 2006 interest rate of the bonds issued comprise 6,939%.

NOTE 17 BALANCES DUE TO BANKS

	31.12.2006 LVL	31.12.2005 LVL
Loans against security pledge	702,804	-
Term deposit of bank Pivdenny	525,928	-
Credit lines	-	1,423,200
	1,228,732	**1,423,200**

NOTE 18 DUE TO CUSTOMERS

Maturity profile:		
Demand deposits	22,483,697	13,028,260
Term deposits	26,825,333	11,855,997
Cash in transit	2,864,300	429,665
Total due to customers:	**52,173,330**	**25,313,922**
Sector profile:		
Private companies	43,555,761	18,838,429
Private individuals	6,932,949	5,132,136
Financial institutions	1,675,229	1,221,057
Non-profit institutions	7,223	121,094
Central government	2,168	1,206
Total due to customers:	**52,173,330**	**25,313,922**
Geographical profile:		
Residents	11,456,600	6,234,327
Non-residents	40,716,730	19,079,595
Total due to customers:	**52,173,330**	**25,313,922**

During the year ended 31 December 2006 an average interest rate on term deposits due to customers was 4.8% (2005: 4.8%) and an average interest rate on demand deposits was 0% to 3% (2005: 0% - 3%). All deposits have fixed interest rates.

NOTE 19 OTHER LIABILITIES

	31.12.2006 LVL	31.12.2005 LVL
Liabilities in clearance	58,788	61,472
Settlements on behalf of a closed bank	11,656	11,656
VAT settlements	448	-
	70,892	**73,128**

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 20 DEFERRED INCOME AND ACCRUED EXPENSE

	31.12.2006 LVL	31.12.2005 LVL
Accrued interest payable	319,221	81,566
Accrued employee holiday pay	102,050	56,922
Accrued interest on debt securities issued	34,679	-
Accrual for guarantee fund and FCMC financing	24,249	11,481
Accrued money transfer commissions	-	7,440
Other accrued expenses	41,787	19,171
	521,986	**176,580**

NOTE 21 DEFERRED INCOME TAX

The movement on the deferred income tax account is as follows:

	2006 LVL	2005 LVL
Deferred tax liability /(asset) at the beginning of the year	7,300	(5,177)
(Decrease) / Increase of deferred tax liability during the year	(4,800)	12,477
Deferred tax liability at the end of the year	**2,500**	**7,300**

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same taxation authority.

Deferred tax is calculated from the following temporary differences between the book values of the assets and liabilities and their tax calculation:

	31.12.2006 LVL	31.12.2005 LVL
Deferred income tax liability:		
Temporary difference from fixed assets	17,807	11,503
Deferred income tax assets:		
Temporary difference from revaluation of investments in securities	-	4,335
Temporary difference from holiday pay	(15,307)	(8,538)
Total net deferred tax liability	**2,500**	**7,300**

NOTE 22 SHARE CAPITAL

Issued and fully paid share capital as at 31 December 2005 was LVL 3,300,000 and consisted of 3,300,000 ordinary shares with the nominal value of LVL 1 per share of which 916,113 was shares with voting rights.

25 January 2006 Dmitrijs Bekkers sold 49% of Bank's shares to Ukraine bank “Pivdennyi”. In November 2006 the Bank issued additional 2,200,000 capital shares with the nominal value of LVL 1 each. Share capital increase was fully paid in cash until December 2006 and registred with Commercial Register on 4 December 2006.

Issued and fully paid share capital as at 31 December 2006 comprise LVL 5,500,000. Share capital consists of 5,500,000 ordinary shares with the nominal value of LVL 1 per share of which 3,399,447 are shares with voting rights with the total nominal value of LVL 3,399,447.

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 22 SHARE CAPITAL (continued)

As at 31 December 2006 the Bank's shareholders were as follows:

	31.12.2006		31.12.2005	
	Paid-in share capital LVL	% of total paid-in capital	Paid-in share capital LVL	% of total paid-in capital
Pivdenniy bank	1,617,000	29.40	-	-
Alla Vanecjancs	1,333,996	24.25	33,996	1.03
Dmitrijs Bekkers	766,557	13.94	2,383,557	72.23
Marks Bekkers	440,000	8.00	440,000	13.33
Haralds Āboliņš	400,110	7.27	110	-
HRG Ieguldījumi	400,000	7.27	-	-
Tamāra Rodina	198,470	3.61	198,470	6.01
Levons Vanecjancs	148,000	2.69	148,000	4.49
Vladis Spāre	100,000	1.82	-	-
Jurijs Rodins	95,647	1.74	95,647	2.90
Daiga Muravska	110	0.01	110	0.01
Oleksandr Kuperman	110	0.01	110	0.01
	5,500,000	**100.00**	**3,300,000**	**100.00**

As at the date of signing of these financial statements the Finance and Capital Market Commission had not given approval to Dmitrijs Bekkers and Alla Vanecjancs as shareholders with voting rights, therefore these shares have no voting rights.

NOTE 23 MEMORANDUM ITEMS

Contingent liabilities

The Bank has issued a guarantee on behalf of a Latvian company in the amount of LVL 32,580. This guarantee is secured by a deposit placed within the Bank.

The tax authorities have the right to inspect the tax computations for the last three taxation years. The company has not been subject to a full tax audit in 2004 to 2006 so potentially the tax computations may be reassessed by the tax authorities. The Company's management is not aware of any circumstances which may give rise to a potential material liability in this respect.

Financial commitments

The following table indicates the contractual amounts of the Bank's commitments to extend credit.

	31.12.2006 LVL	31.12.2005 LVL
Letters of credit	199,216	2,073,750
Loans	7,800,620	2,973,243
	7,999,836	**5,046,993**

Commitment under operating lease agreement

The Bank has entered into an operating lease agreement for its office premises. The lease agreement expires in June 2025. Annual lease payments amount to Ls 161 thousand.

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 23 MEMORANDUM ITEMS (continued)

Funds under trust management

	31.12.2006 LVL	31.12.2005 LVL
Assets under trust		
Loans	2,377,319	2,565,361
Placements of client resources	-	18,247,701
	2,377,319	**20,813,062**
Liabilities under trust		
Private individuals	163,480	1,229,079
Private companies	2,213,839	19,583,983
	2,377,319	**20,813,062**

NOTE 24 CASH AND CASH EQUIVALENTS

Cash and balances on demand with the Bank of Latvia	4,485,942	2,736,578
Due from other credit institutions	14,028,835	6,532,105
Due to other credit institutions	(1,228,732)	(1,423,200)
	17,286,045	**7,845,483**

Demand deposits with the Bank of Latvia include an obligatory reserve maintained in accordance with Bank of Latvia regulations. The regulations specify the minimum level of the average balance to be maintained on the Bank's correspondent account with the Bank of Latvia during each month, whilst allowing funds in the account to be used in an unrestricted manner on individual days. The Bank was in compliance with the reserve requirement of Bank of Latvia during the reporting period.

NOTE 25 SEGMENT ANALYSIS

The Bank operates in two main geographical areas: Latvia, which is the home country of the Bank and Ukraine (which is over the 10% reporting threshold in revised IAS 14).
With the exception of Latvia and Ukraine, no other individual country contributed more than 10% of income or assets.
Revenue from external customers is based on the country in which the customer is located. Assets are shown by the geographical location of the assets.
Capital expenditure is shown by the geographical area in which the buildings and equipment are located.

	Revenues LVL	Total assets LVL	Capital expenditure LVL
At 31 December 2006			
Latvia	766,005	23,560,467	91,698
Ukraine	3,065,163	30,321,600	-
Other OECD countries	358,579	8,220,143	-
Other countries	29,997	2,433,885	-
Unallocated assets	-	58,964	-
	4,219,744	**64,595,059**	**91,698**
As at 31 December 2005			
Latvia	464,539	11,821,270	47,894
Ukraine	1,940,858	13,239,996	-
Other OECD countries	62,456	5,565,995	-
Other countries	155,437	1,474,732	-
Unallocated assets	-	-	-
	2,623,289	**32,101,993**	**47,894**

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 26 CAPITAL ADEQUACY

Capital adequacy refers to the sufficiency of the capital resources of the Bank to cover the credit risks and similar risks arising from the portfolio of assets of the Bank and the memorandum items exposure of the Bank.

The international risk based capital adequacy ratio of the Bank as at 31 December 2006 was 15.65%, which is above the minimum ratio of 8% recommended by the 1988 Basle Committee guidelines. At the same time risk based capital adequacy ratio calculated in accordance with the requirements of the Finance and Capital Market Commission of the Bank was 15.14%. The Financial and Capital Market Commission, the bank regulator for the country, requires Latvian banks to maintain a capital adequacy ratio based on regulatory returns prepared under the Financial and Capital Market Commission requirements of 8% of risk weighted assets and memorandum items and the sum of notional risk weighted assets and memorandum items, which is determined as the sum of capital requirements of market risks.

The Financial and Capital Market Commission requirements are principally consistent with the Basle Committee guidelines and the European Union directives for the calculation of equity to be utilised in the capital adequacy ratio.

The Bank's calculation of the capital adequacy ratio according to Finance and Capital Market Commission Guidelines as at 31 December 2006 has been set in the table below:

	2006 LVL`000	**2005 LVL`000**
Equity to be utilised in the capital adequacy ratio	7,752	5,208
Weighted assets and off-balance sheet items	51,204	28,182
Capital adequacy ratio	**15.14%**	**18.48%**

The Bank's calculation of the capital adequacy ratio according to Basle Capital Accord Guidelines as at 31 December 2006 has been set in the table below:

	2006 LVL`000	**2005 LVL`000**
Equity to be utilised in the capital adequacy ratio	7,812	5,014
Weighted assets and off-balance sheet items	49,917	20,079
Capital adequacy ratio	**15.65%**	**24.61%**

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 27 CURRENCY ANALYSIS

The following table provides the analysis of the Bank's assets, liabilities and shareholders' equity as well as memorandum items outstanding as at 31 December 2006 by currency profile:

	LVL LVL	USD LVL	EUR LVL	Other currencies LVL	Total LVL
Assets					
Cash and deposits with the Bank of Latvia	4,131,413	97,239	256,566	724	**4,485,942**
Balances due from banks	4,670,430	6,420,622	2,719,057	218,726	**14,028,835**
Loans and advances to customers	2,514,753	30,684,125	3,610,604	-	**36,809,482**
Financial assets at fair value through profit or loss	5,433,853	2,395,026	525,933	-	**8,354,812**
Intangible assets	58,108	-	-	-	**58,108**
Property and equipment	172,136	-	-	-	**172,136**
Other assets	200,424	220,016	235,955	29,349	**685,744**
Total assets	**17,181,117**	**39,817,028**	**7,348,115**	**248,799**	**64,595,059**
Liabilities and equity					
Balances due to banks	12,440	513,488	702,804	-	**1,228,732**
Due to customers	6,975,416	34,854,355	10,185,182	158,377	**52,173,330**
Other liabilities	250,679	256,985	85,214	-	**592,878**
Emitted debt securities	-	-	2,811,216	-	**2,811,216**
Deferred income tax liability	2,500	-	-	-	**2,500**
Equity	7,786,403	-	-	-	**7,786,403**
Total liabilities and equity	**15,027,438**	**35,624,828**	**13,784,416**	**158,377**	**64,595,059**
Net long / (short) position on balance sheet	*2,153,679*	*4,192,200*	*(6,436,301)*	*90,422*	*-*
Off-balance sheet claims arising from foreign exchange	-	-	-	-	
Spot foreign exchange receivable	-	-	4,743,972	-	**4,743,972**
Forward foreign exchange receivable	4,208,400	402,000	6,325,236	-	**10,935,636**
Total foreign exchange receivable	**4,208,400**	**402,000**	**11,069,163**	**-**	**15,679,563**
Off-balance sheet liabilities arising from foreign exchange					
Spot foreign exchange payable	-	4,764,327	-	-	**4,764,327**
Forward foreign exchange payable	6,381,844	-	4,535,003	-	**10,916,847**
Total foreign exchange payable	**6,381,844**	**4,764,327**	**4,535,003**	**-**	**15,681,174**
Net long / (short) position on foreign exchange	*(2,173,444)*	*(4,362,327)*	*6,534,160*	*-*	*(1,611)*
Net long / (short) position	***(19,765)***	***(170,127)***	***97,859***	***90,422***	***(1,611)***
As at 31 December 2005					
Total assets	**8,176,010**	**19,583,644**	**4,140,829**	**201,510**	**32,101,993**
Total liabilities and shareholders' equity	**8,018,845**	**19,286,340**	**4,699,751**	**97,057**	**32,101,993**
Net long / (short) position on balance sheet	*(133,585)*	*297,304*	*(267,181)*	*104,453*	*991*

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 28 LIQUIDITY RISK AND ANALYSIS OF ASSETS AND LIABILITIES BY MATURITY PROFILE

The table below allocates the Bank's assets and liabilities to maturity groupings as at 31 December 2006 based on the time remaining from the balance sheet date to the contractual maturity dates.

	Overdue	Within 1 month	1 – 3 months	3 – 6 months	6 –12 months	1–5 years	Over 5 years and undated	Total
	LVL	LVL	LVL	LVL	LVL	LVL	LVL	LVL
Assets								
Cash and balances with the Bank of Latvia	-	4,485,942	-	-	-	-	-	**4,485,942**
Balances due from banks	-	10,832,035	2,170,000	26,800	1,000,000	-	-	**14,028,835**
Loans and advances to customers	476,412	13,052,598	2,333,193	3,068,511	5,981,177	10,975,316	922,275	**36,809,482**
Financial assets at fair value through profit or loss	-	-	-	3,136,509	818,070	3,796,750	603,483	**8,354,812**
Intangible assets	-	-	-	-	-	58,108	-	**58,108**
Property and equipment	-	-	-	-	-	-	172,136	**172,136**
Income tax	-	-	58,964	-	-	-	-	**58,964**
Other assets	-	77,541	172,450	282,913	93,876	-	-	**626,780**
Total assets	**476,412**	**28,448,116**	**4,734,607**	**6,514,733**	**7,893,123**	**14,830,174**	**1,697,894**	**64,595,059**
Liabilities and equity								
Balances due to Banks	-	1,228,732	-	-	-	-	-	**1,228,732**
Due to customers	-	39,701,904	720,680	3,265,716	7,051,107	1,096,923	337,000	**52,173,330**
Emitted debt securities	-	-	-	-	-	2,811,216	-	**2,811,216**
Other liabilities	-	238,979	107,712	81,566	164,621	-	-	**592,878**
Deferred income tax liability	-	-	-	-	2,500	-	-	**2,500**
Equity	-	-	-	-	-	-	7,786,403	**7,786,403**
Total liabilities and equity	**-**	**41,169,615**	**828,392**	**3,347,282**	**7,218,228**	**3,908,139**	**8,123,403**	**64,595,059**
Net liquidity	**476,412**	**(12,721,499)**	**3,906,215**	**3,167,451**	**674,895**	**10,922,035**	**(6,425,509)**	**-**
As at 31 December 2005								
Total assets	**117,639**	**9,066,655**	**3,848,847**	**2,389,967**	**3,016,009**	**11,838,502**	**1,824,374**	**32,101,993**
Total liabilities and equity	–	**18,570,483**	**4,018,255**	**1,208,465**	**1,460,102**	**1,760,174**	**5,084,514**	**32,101,993**
Net liquidity	**117,639**	**(9,503,828)**	**(169,408)**	**1,181,502**	**1,555,907**	**10,078,328**	**(3,260,140)**	**-**

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 29 RE-PRICING MATURITY OF ASSETS AND LIABILITIES

The table below allocates the Bank's assets and liabilities to maturity groupings as at 31 December 2006 based on the time remaining from the balance sheet date to the earlier of maturity and contractual re-pricing dates.

	Within 1 month	1–3 months LVL	3–6 months LVL	6–12 months LVL	1–5 years LVL	Over 5 years LVL	Non - interest bearing LVL	Total LVL
Assets								
Cash and balances with the Bank of Latvia	3,914,944	-	-	-	-	-	570,998	**4,485,942**
Balances due from banks	-	2,170,000	26,800	1,000,000	-	-	10,832,035	**14,028,835**
Loans and advances to customers	13,529,010	2,333,193	3,068,511	5,981,177	10,975,316	922,275	-	**36,809,482**
Financial assets at fair value through profit or loss	-	-	3,136,509	818,070	3,796,750	603,483	-	**8,354,812**
Intangible assets	-	-	-	-	-	-	58,108	**58,108**
Property and equipment	-	-	-	-	-	-	172,136	**172,136**
Current income tax liabilities	-	58,964	-	-	-	-	-	**58,964**
Other assets	-	-	-	-	-	-	626,780	**626,780**
Total assets	**17,443,954**	**4,562,157**	**6,231,820**	**7,799,247**	**14,772,066**	**1,525,758**	**12,260,057**	**64,595,059**
Liabilities								
Balances due to banks	702,804	-	-	-	-	-	525,928	**1,228,732**
Due to customers	14,159,333	914,000	3,266,000	7,052,000	1,097,000	337,000	25,347,997	**52,173,330**
Other liabilities	-	-	-	-	-	-	592,878	**592,878**
Current income tax liability	-	-	-	-	2,811,216	-	-	**2,811,216**
Deferred income tax liability	-	-	-	-	-	-	2,500	**2,500**
Total liabilities	**14,862,137**	**914,000**	**3,266,000**	**7,052,000**	**3,908,216**	**337,000**	**26,469,303**	**56,808,656**
Equity	**-**	**-**	**-**	**-**	**-**	**-**	7,786,403	**7,786,403**
Total liabilities and equity	**14,862,137**	**914,000**	**3,266,000**	**7,052,000**	**3,908,216**	**337,000**	**34,255,706**	**64,595,059**
On balance sheet interest sensitivity analysis	**2,581,817**	**3,648,157**	**2,965,820**	**747,247**	**10,863,850**	**1,188,758**	**(21,995,649)**	**-**
As at 31 December 2005								
Total assets	**3,943,249**	**3,255,000**	**3,025,000**	**3,413,650**	**9,838,347**	**1,066,055**	**7,560,692**	**32,101,993**
Total liabilities and equity	**4,944,416**	**3,905,815**	**1,134,341**	**1,452,802**	**1,760,174**	**81,649**	**18,822,796**	**32,101,993**
On balance sheet interest sensitivity analysis	**(1,001,167)**	**(650,815)**	**1,890,659**	**1,960,848**	**8,078,173**	**984,406**	**(11,262,104)**	**-**

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 30 RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions.

Related parties are defined as shareholders, members of the Supervisory Council and the Board of Directors, key management personnel, their close relatives and companies in which they have a controlling interest as well as associated companies.

The following balances were held with related parties arising in respect of key management personnel as at 31 December 2006:

	Terms %	31.12.2006 LVL	31.12.2005 LVL
Total loan exposure	**9.00**	**608**	**12,178**

Balances due from related credit institutions are analysed as follows:

	31.12.2006 LVL	31.12.2005 LVL
Correspondent accounts with Pivdenniy bank	**594,368**	**-**

Balances due to related credit institutions are analysed as follows:

Pivdenniy bank correspondent accounts with Bank	**525,928**	**-**

The Bank's income / expenses transactions with its related companies are analysed as follows:

	2006 LVL	2005 LVL
Interest income from money market transactions	13,043	-
Interest income from securities	12,863	-
Interest income from balances due from credit institutions	27,325	-
Interest expense on deposits	(5,413)	-
Commission expense	(6,631)	-
	41,187	**-**

As at 31 December 2006 balances under trust include LVL 631,329 with related parties (31 December 2005: LVL 0)

NOTE 31 FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

In respect of financial assets and liabilities held in the balance sheet at carrying values other than fair value, in the opinion of Management the fair value of those financial assets and liabilities do not differ materially from their carrying values.

NOTE 32 TAXES

	Balance 31.12.2005 LVL	Calculated in 2006 LVL	Paid in 2006 LVL	Balance 31.12.2006 LVL
Corporate income tax	108,230	125,531	(292,725)	(58,964)
State compulsory social insurance contributions	-	223,029	(223,029)	-
Personal income tax	-	174,058	(174,058)	-
Value added tax*	-	1,167	(719)	448
(Overpaid)	**-**	**523,785**	**(690,531)**	**(58,964)**
Liabilities	**108,230**			**448**

*see note 19