KAUPTHING BANK

REGISTRATION DOCUMENT

JUNE 2007

norvikbanka

A/S NORVIK BANKA

JUNE 2007

norvikbanka

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1. RISK FACTORS

The Issuer believes that the following factors may affect its ability to fulfil its obligations. Most of these factors are contingencies which may or may not occur and the Issuer is not in a position to express a view on the likelihood of any such contingency occurring.

The Issuer believes that the factors described below represent the principal risks inherent in investing in its debt instruments, but the inability of the Issuer to pay the principal or other amounts on or in connection with any such instruments may occur for other reasons which may not be considered significant risks by the Issuer based on information currently available to it or which it may not currently be able to anticipate.

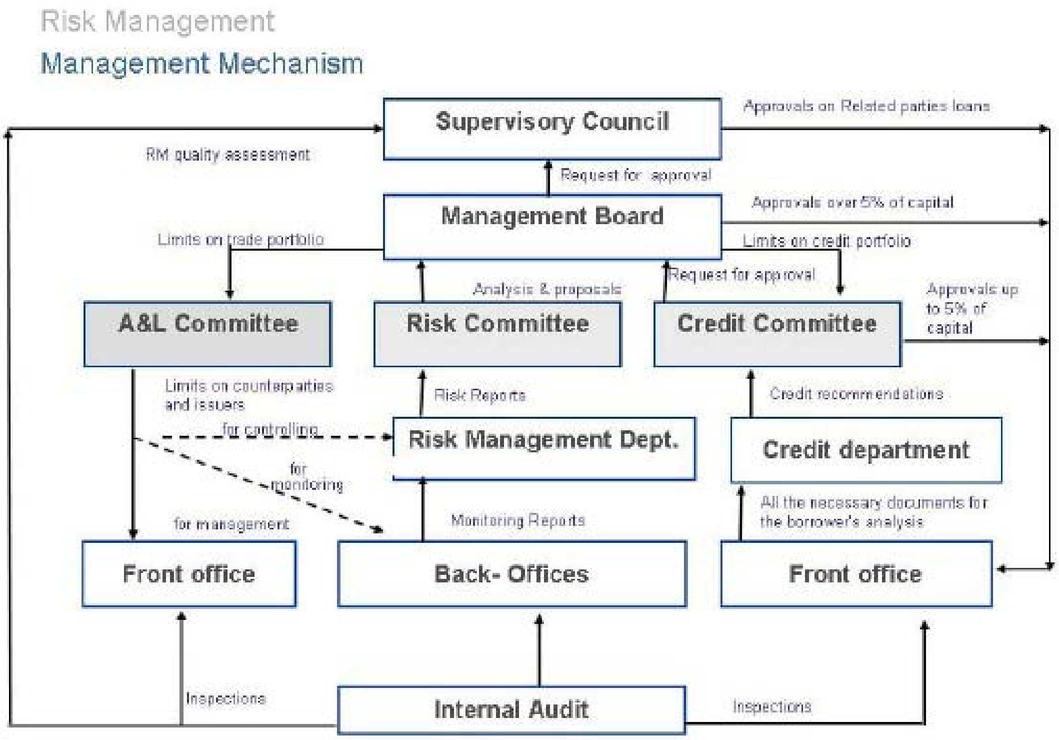
Prior to making any investment decision, prospective investors and their financial and legal advisers should carefully consider all of the information in this document and, in particular, the risks and uncertainties described below should be considered carefully. The matters described below, among other factors, should be carefully considered by any prospective investor.

This document contains forward looking statements that involve inherent risks and uncertainties. Actual results may differ significantly from the results discussed in such forward-looking statements. Factors that might cause such differences include those discussed below.

1.1.Risk Management

The Issuer faces various types of risks related to its business as a financial institution, which arise from its day to day operations. Management devotes a significant portion of its time to the management of these risks. The mainstays of effective risk management are the identification of significant risk, the quantification of the Issuer's risk exposure, actions to limit risk and the constant monitoring of risk. The most significant of these risks are discussed below. The most important types of financial risk to which the Issuer is exposed are credit risk, liquidity risk and market risk. Market risk includes currency risk, interest rate risk and equity price risk.

The scheme below presents the Risk Management approach implemented by the Issuer.



1.2. Credit Risk

Credit risk includes the risk of untimely or incomplete settlement of debtor balances.
Lending business is one of the primary activities of the Issuer and the one that has a high contribution to the financial results. Yet, this type of activity is inevitably related to a risk of default in payment of principal and interest, as well as the risk of inability to satisfy the Issuer's claims by means of collateral.

Bearing in mind the aforementioned risks, the Issuer took a series of steps aimed at increasing its stability. Procedures and policies of extending loans and guarantees have been modified to capture credit risk classification, improved system of credit analysis, credit decision-making system and debt collection procedures. Also, the Issuer has reviewed its evaluation criteria for specific customer groups and industries, procedures for diversifying the loan portfolio and the procedures concerning the collateral. Although the loan portfolio and the procedures for extending and recovering debts are constantly monitored and improved, it is not possible to eliminate the risk related to the deterioration of the quality of the Issuer's exposure altogether, as it is not possible to eliminate its consequences.

The Issuer manages the total credit risk, including the country risk, in accordance with the Internal Financial Risk Management Policy, Credit Policy and Country Risk Management Policy. The system of Credit Risk management includes the approval of the evaluation of Credit Risks in connection with partners which are counterparties under the interbank transactions, creditors and issuers, regulations regarding credit types (by credit volumes and terms) and investments in the Issuer's portfolio, and regular evaluation of assets and off-balance sheets. The Board and the Credit Committee manage this Credit Risk, and the Credit Department continuously monitors compliance with related procedures and limits.
Below are the elements in the Issuer's actions for Credit Risk elimination and prevention.

1.2.1. THE ISSUER'S LENDING POLICIES AND PROCEDURES.

The credit policy of the Issuer is the basis for the management of lending processes and the assessment of credit risks. It establishes the principles and main procedures for each stage of the lending and loan portfolio monitoring processes.

The goal of the Credit Policy is to determine the general conditions and standards of the Issuer's lending business, to ensure profitability, to secure the issuance of loans where the risk is in balance with the market interest rate and profitability, by taking into account the value of resources. In order to ensure profitability, collateral adequacy and repayment of loans, the credit risk is fixed, assessed, analyzed and managed at each stage of the lending process.

1.2.2. CREDIT ANALYSIS, COLLATERAL VALUATION AND CREDIT APPROVAL

The main aim of the credit analysis is to determine the creditworthiness of the borrower. The analysis of creditworthiness is performed by credit analysts based on the materials supplied. The Issuer considers and assesses the purpose of the loan, repayment sources, financial indicators of the borrower and related parties, the overall situation in the industry in which the borrower operates, position in the market and offered guarantees for the issued loan. In order to reduce the credit risk the Issuer accepts collateral. The security may be submitted by either the borrower or any other person, i.e. third party. Issuer's accepted collateral consists of real estate (mortgages), commercial pledges, guarantees, and insurances of risk or pledges. The Issuer values the collateral up to 70-75% of the assessed value for the residential real estate property, land and equipment and 30-70% of the balance value for commodities. The total unsecured portion of loans is small (5.8% of the total portfolio at end 2006), it mostly relates to consumer loans with amounts below LVL 5,000. Any collateral (if it is tangible but excluding land) has to be insured for its replacement value by an insurance company approved by the Issuer. The beneficiary of the insurance must be the Issuer. The collateral will be assessed by an independent appraiser nominated by the Issuer except for cases where the procedure provides otherwise. There is an internal rating system in place to make a comprehensive assessment. Its framework criteria for evaluation is: collateral sufficiency; management; financial performance and position in the market; business/project specifics; previous cooperation.

The internal rating framework includes 5 categories: standard, watch, substandard, doubtful, and lost. An updated rating system is under development that will include 8 categories.

In the event of a positive evaluation of a client's creditworthiness the risk transaction is to be submitted for approval to the authorized persons of the Issuer in accordance with the limits stated below:

Type of lending	Loan amount	Level of responsibility
Standard products: consumer loans, car lease, private mortgage lending	Up to LVL 5 000	Authorized persons of Norvik Banka
All kinds of credit products	Up to LVL 50 000	Credit Bureau
All kinds of credit products	Over LVL 50 000 up to 5% of Norvik Banka own funds	Credit Committee
All kinds of credit products	Over 5% of Norvik Banka own funds	Board

On December 12, 2005, the new internal Credit Evaluation Procedure was introduced, which was created based on the following documents: Republic of Latvia Law on the Credit Institutions, Assets and Off-Balance Sheet Items Evaluation rules (Financial Credit Markets Commission's Board decision No 24/9 of 21.12.2001), IFRS Nr.39 Financial instruments: recognition and evaluation.
Based on the situation on every report date, the Issuer performs a credit portfolio evaluation aimed at the calculation of possible losses from a possible decrease of value. Based on the performed evaluation the loans are classified as follows: non- impaired, potentially impaired, impaired.
Along with the evaluation of possible asset impairments, the Issuer's methodology fixes approaches for a recovery value assessment and provisioning for impaired (or potentially impaired) loans. All loans are evaluated either individually (by present value of future cash flow calculation) or in portfolio (by using previous period statistics). When the individual analysis is applied, the following criteria are deemed to be basic: Business risk factors – subjective factors influencing credit repayment discipline; Financial risk factors – financial situation of the borrower; Loan service and maintenance factors – timely repayment of the credit base and interest.

The above-mentioned factors as well as the evaluation of collateral are taken into consideration for making necessary provisions for loans. The Issuer's Risk Management Committee decides on making provisions and writing-down the bad loans.

1.2.3. Provisions for debt impairment

The Issuer assesses, at each balance sheet date, whether there is objective evidence that a financial asset or group of financial assets is impaired. Objective evidence that a financial asset or group of assets is impaired includes observable data that come to the attention of the Issuer about the following loss events: significant financial difficulty of borrower; a breach of contract, such as a default or delinquency in interest or principal payments; the Issuer granting to the borrower, for economic or legal reasons relating to the borrower's financial difficulty, a concession that the lender would not otherwise consider; it is probable that the borrower will enter bankruptcy or another financial reorganisation; the disappearance of an active market for that financial asset because of financial difficulties; or observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including: adverse changes in the payment status of borrowers in the group; or national or local economic conditions that correlate with defaults on the assets in the group.

The Issuer first assesses whether an objective evidence of impairment exists individually for financial assets that are individually significant and for all loans with overdue payments or interest regardless of the size of the outstanding principal. For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics based mainly on collateral type. The carrying amount of the asset is reduced through the use of an allowance and the increase/decrease in the amount of the impairment loss is recognised in the statement of profit and loss. In the assessment of the loan portfolio and in making provisions, the Issuer follows principles of conservatism and prudence. The Issuer's management is confident that its strictly conservative approach will allow to keep the excellent portfolio quality in spite of the significant growth of lending business budgeted for 2007.

Statements of Provisions for Impairment

At December 31, 2005	Loans LVL'000	Other LVL'000	Off-balance sheet LVL'000	Total LVL'000
Increase in provisions for doubtful debts	**145**	**1**	**-**	**146**
Write-off	469	**-**	**-**	469
Released from provisions	(360)	-	-	(360)
Foreign exchange revaluation	(63)	-	-	(63)
At December 31, 2006	(1)	-	-	(1)
	191	-	-	191

1.3. Liquidity Risk

Management of the liquidity risk, as well as interest rate risk and foreign exchange risk has a direct impact on Issuer's efficiency and safety of operations. An unfavourable combination of maturity terms of assets and liabilities, interest rates and foreign exchange rates may seriously undermine the financial position of the Issuer.

The access to funds is essential to any banking business. Commercial banks (including the Issuer) rely almost entirely on continuous access to financial markets for short and long-term financing. An inability to access funds or to access the markets from which the funds raise may put commercial bank positions in liquid assets at risk and lead to the complications in financing its operations adequately. A rising interest rate environment compounds the risk that commercial banks will not be able to access funds at favourable rates. These and other factors also could lead creditors to form a negative view of commercial bank liquidity, which could result in less favourable credit ratings, higher borrowing costs and less accessible funds. In addition, because commercial banks in Latvia (including the Issuer) normally receive a portion of their funding from retail deposits, this also could be a subject of the risk that depositors could withdraw their funds at a rate faster than the rate at which borrowers repay their loans, thus causing liquidity strains.

In addition, the ability to raise or access funds may be impaired by factors that are not specific to commercial bank operations, such as general market conditions, the sovereign rating of Latvia, severe disruption of the financial markets or negative views about the prospects for the industries to which commercial banks provide their loans. Strains on the liquidity caused by any of these factors or otherwise could adversely affect the financial performance and competitive position.

To avoid possible complications which may raise by loss of liquidity the Issuer's Risk Management Policy determines (following the best practices and reporting requirements and the guidelines of the Banking Supervision) Liquidity Risk Control and Management measures which include the treatment of the risk of untimely settlement of customers and other legal creditor claims. This definitely helps the Issuer in daily management of the aforementioned risks by means of regular detailed reports on the structure of the assets and liabilities (by liquidity levels, currencies, interest rates) and the evaluation of compliance with the adopted prudential principles. The Management Board of the Issuer and ALCO (Assets and Liabilities Credit Committee) state general Liquidity Risk management criteria by regulating the volume, terms and directions of the Issuer's activities. The Issuer's Treasury Department manages the 1st liquidity reserve fund (cash, balances at correspondent bank accounts and short-term inter-bank deals).

Liquidity Risk management and control is based on the assets and liabilities term analysis, internal limit regulations regarding net liquidity positions, the effective usage of the 1st liquidity reserve fund and liquidity regulation for the remaining free resources. The Issuer constantly monitors the performance of its obligations by using the system to assess its liquidity position limit on each term. Liquidity position and liquidity gap observance is monitored by the Treasury Department in real-time. At the end of 2005 the Issuer liquidity ratio was 64% and at the end of 2006 was 44%, still substantially higher than the legally required norm of 30%.

1.4. Market Risk

Market risk relates to the possibility of experiencing losses as a result of unfavourable fluctuations in interest rates, exchange rates and prices on securities.

The commercial banks (including in Latvia) financial condition and results of operations may be adversely affected by movements in interest rates. In recent years, our results of operations have depended to a great extent on earnings attributable to net interest income. The Issuer net interest income represented approximately 59% of our operating income in 2006, approximately 50% in 2005 and approximately 34% of net operating income in 2004. The financial operations are dependent on interest rate and other monetary policies of governments and central banks in the jurisdictions in which we operate as well as changes to such policies. For example, loans with fixed rates will become less profitable if interest rates rise. The policies of the Economic and Monetary Union of the European Union and the Bank of Latvia (the Central bank of Republic of Latvia) are important for Latvian commercial banks and any changes in these policies could affect Latvian banking sector participants. Commercial banks are currently operating in an increasing interest rate environment. At the beginning of 2005 the European Central Banks policy rate stood at 2%. The rate remained unchanged until December when it was raised by 25 bp up to 2.25%. The European Central Bank raised the rate by another 25 bp in March of 2006 up to 2.5% and then again in June up to 2.75%. At the beginning of August the rate was raised again by 25 bp and stood at 3%. In October the European Central Bank raised the policy rate by another 25 bp up to 3.25% and finally there was another hike in December bringing the rate up to 3.5%. The rate has remained unchanged as of this year.

The current net interest margin of commercial banks in Latvia has declined and could be expected to continue to decline, as a result of factors such as rising interest rates, a flattening yield curve, and exposure to increased competition. A significant fall in the average interest rates charged on loans to customers that is not fully matched by a decrease in interest rates on commercial banks funding sources, or a significant rise in interest rates on commercial banks funding sources that is not fully matched by a rise in the interest rates charged by commercial banks, could have a material adverse effect on the business, financial condition and results of operations.

Also Latvian commercial banks' business, results of operations and financial condition are affected directly by economic and political conditions in Latvia. Although the Latvian economy has experienced high growth rates in recent years, there can be no assurance that these growth rates will continue or that there will not be a downturn in the Latvian economy. Recently, interest rates and the rate of inflation in Latvia have been rising. The Bank of Latvia (the Central Bank) raised interest rates twice between 31st December 2004 and 31st December 2006: from 3.5% to 4.0% since January 01, 2005 and from 4.0% to 4.5% since August 01, 2006. In January 01, 2007, the Bank of Latvia raised the rate by another 50 bp up to 5.0%, since March 24, 2007 up to 5.5% and finally since May 18, 2007 up to 6.0%.

Inflation in Latvia was on average 6.5% in 2006 compared to 6.7% in 2005 and 6.2% in 2004.

The management of the Market Risk of the Issuer is carried out according to the Internal Financial Risk Management Policy, the Foreign Currency Risk Management Policy and Trading Portfolio Policy. When analyzing the maturity and interest rates of assets and liabilities, and the net interest margin and liquidity in connection with currencies and directions of operations, the Issuer Management Board and ALCO (Assets Liabilities Credit Committee) state the basic interest rate for deposits and loans for each currency group and period. The Risk Management Department works on the development of methods for risk management, which are further applied by the Committees in their control over the Business Units. The term structure of the assets and liabilities of the Issuer is checked on a regular basis.

Foreign Currency Risk

The Issuer Treasury Department maintains trading and investment positions in various financial and other assets, including currency and related derivative instruments as both agent and principal. These positions are exposed to a number of risks related to the movement of market prices in the underlying instruments. This includes the risk of unfavourable market price and interest rate movements relative to the Issuer long or short positions, a decline in the market liquidity of related instruments, volatility in market prices or foreign currency exchange rates relating to these positions, and the risk that instruments chosen to hedge certain positions do not track the market value of those positions.

The Foreign Currency Risk Management Policy governs foreign exchange risk control and management. This policy is based on meeting the restrictions of the net open position of each foreign currency and the total amount of the net open position of foreign currencies, in compliance with the requirements of the

Latvian Financial and Capital Market Commission. In order to avoid losses arising from adverse changes in exchange rates, the Treasury Department continuously supervises compliance with the restrictions on foreign currency positions.

ALCO and Investment Committee state the restrictions on the quality and quantity of investments, and on the terms of the open position in the trading portfolio.

At 31 December 2005, the Issuer's open position was 3.0 % of the total capital, at 31 December 2006 – 3.59%. According to the Law on Credit Institutions of the Republic of Latvia, the total open position should not exceed 20% of the capital amount (the Issuer's internally adopted standard is 15%), and the open position for every currency should not exceed 10 % (the Issuer's internally adopted standard is 7%).

1.5. Operational Risk

Operational risk presents the possibility to incur losses due to the impact of inadequate or unsuccessful internal processes, activities by personnel, systems, or external circumstances.

Banking business activities require the Issuer to record and process a large number of transactions accurately on a daily basis. The recording and processing of these transactions are potentially exposed to the risk of human and technological errors or a breakdown in internal controls relating to the due authorization of transactions. A failure or delay in recording or processing transactions, or any other material breakdown in internal controls, could subject the Issuer to claims for losses and regulatory fines and penalties. Consequently, the Issuer would suffer reputation or financial harm, which could have a material adverse affect on its financial condition and results of operations.

Any significant interruption, failure or lack of capacity of IT systems or any other systems used in clearing or branches operations could cause a commercial bank to fail to complete transactions and would have a significant impact on its operations

The secure transmission of confidential information is a critical element of our operations. We cannot guarantee that existing security measures will prevent security breaches, including break-ins, viruses or disruptions. Persons that circumvent the security measures could use our or our clients' confidential information wrongfully, which could expose us to a risk of loss, adverse regulatory consequences or litigation.

To prevent Operational Risk and to eliminate its possible negative effect the Issuer's Management Board and appropriate Units of the Issuer exercise supervision and control over the Operational Risk, on the basis of the approved Operational Risk Management Policy. For securing the continuity of the activity, the Issuer maintains necessary resources. At the end of the 2005 financial year a loss database was created, in which events causing Operational Risks (incidents) are registered and analyzed. By keeping the Data of Losses statistics, cases can be identified, and problems can be resolved and avoided in the future.

1.6. General Risk

The Issuer's business operations results, as well as the results of other commercial banks and financial companies which are operating in the banking sector in Latvia, are strictly related to the macroeconomic situation of the country. Fluctuation of the market trends may have an adverse effect on their financial results. Important factors are GDP growth rate, increase in the rate of inflation, the current account deficit, and currency exchange rates. These factors influence the situation of the Bank customers and therefore the Bank's financial performance.

In addition, the profitability of commercial banks businesses could be adversely affected by a decline in general economic condition in the European Economic Area, Western and Eastern Europe or the United States. These factors could also have a material adverse effect on the Issuer business, financial condition and results of operations. An economic downturn in the Baltic region could impact the Issuer results and financial position by affecting demand for banking products and services.

Both the domestic Economic policy of Latvia and its accession to the EU in 2004 may indirectly or directly influence the results of the Issuer. Political changes may influence the overall market situation, legal and institutional regulations, as well as the process of market liberalisation and opening of financial markets. This can result in the increase of competition in Latvia and in an outflow of customers caused by easy access to financial services offered by banks abroad

Increasing competition in the markets

The Latvian banking market is subject to stiff competition. Consolidation and modernisation in the industry, coupled with the financial support of strong foreign players, make it more difficult and expensive for the Issuer to build its position in the domestic market, both in the retail and corporate sectors. It is hard to predict the effect on the Issuer's operations in a situation in which more and more foreign financial institutions are investing in the Latvian banking market, offering an increasingly wider choice of attractive products and services.

Regulatory and legal risks

The Issuer's financial situation is dependent on legal regulations, particularly those regarding capital adequacy requirements for banks, investment concentration limits and obligatory reserves. Changes in the leg-

islation can therefore have a significant impact on the Issuer's performance. A possible source of changes in legislation may be the adjustment of Latvian legislation to European regulations. Moreover, the introduction of new legislation can entail various interpretations represented by different legal and administrative institutions, which can also affect the economic turnover and influence the Issuer's decisions. The legislative framework for banking in Latvia meets applicable EU requirements in full, and in some areas the requirements are even more rigorous. IFRS have been fully introduced and banks are audited by internationally recognized auditing firms. Practical supervision of the banking sector in Latvia is tight and bank inspections are conducted more frequently than in many other EU Member States. The Law "On Credit Institutions", (adopted by the Saeima on 5 October 1995), has been amended on several occasions. The instructions and regulations of the Financial Capital and Market Commission and the Bank of Latvia complement the provisions of the Banking Law and are binding to all credit institutions. All regulations for measuring the performance of commercial banks and their reporting procedures conform to applicable EU standards. The Law "On Prevention of Laundering of Proceeds Derived from Criminal Activity" which has been in force since 1 June 1998 also conforms to the relevant EU directives: it requires customer identification and record keeping on all transactions, identification of suspicious and unusual transactions, and their reporting to the Board of Prevention of Legalization of Proceeds from Criminal Activity. The Law "On Deposit Guarantees", which has been in force since 1 October 1998, provides that as of 1 January 2004, irrespective of the depositing date, deposits of up to LVL 9,000 per depositor to whom the provisions of this law apply are guaranteed. By 2008, the amount of the guarantee is to be raised to LVL 13,000, the level stipulated by the applicable EU directive. Certain groups of depositors are excluded from the guarantee provisions.
Since 1 July 2001, the Financial Capital and Market Commission has been responsible for supervising the financial sector. According to the International Monetary Fund, banking supervision in Latvia is among the strictest in Central and Eastern Europe. Changes and amendments in Latvian commercial and banking legislation could materially affect commercial banks' business, financial conditions and the results of operations.

The risk-adjusted capital guidelines promulgated by the Basel Committee on Banking Supervision, which include guidelines for capital adequacy and implementation, took effect on 1st January 2007; in Latvia it will be implemented as of 1st January 2008. At this time, the Issuer is not able to quantify how the revised guidelines will affect its requirements for capital and the impact these changes will have on its capital position. However, it is possible that the Issuer deployment and use of capital may have to be altered to ensure that the revised capital adequacy requirements are satisfied.

Employment
A vital part in the Issuer's activity is played by its employees. A substantial number of the current staff has been working for the Issuer (the Bank) from its very beginning and they identify strongly with their workplace. Due to the development of the Issuer's sales network and service spectrum, the number of employees is currently growing. To raise the qualification of its staff, the Issuer organises a number of training courses, both internal and external. As the proper functioning of the Issuer's business depends on highly motivated management and shop-floor level staff, the Issuer has adopted an incentive scheme of employees' career path. Nevertheless, facing a dynamic development of the sector together with growing competition in the market of financial services in Latvia, the Issuer may encounter barriers, such as inadequate numbers or quality of staff. The Issuer is also exposed to the risk of the consequences of human error, in spite of the undertaken measures for risk prevention, control and monitoring. A chief executive officer and senior management actions (services) is one of the key factors for commercial banks to achieve their tasks and goals. Therefore the loss of the services of key members of the management may significantly delay the business objectives and could have a material adverse effect on the business, financial condition and results of operations.

Anti-Money Laundering Policies
The Financial Capital and Market Commission (FCMC), the Latvian financial and capital market regulator and supervisory institution, conducts regular checks of the Issuer's internal control procedures, with the purpose of securing a stable environment in the Latvian financial and capital markets. In the year 2005 the FCMC (Financial Capital Markets Commission) has adopted "Regulations on Establishment of Internal Control System for Prevention of Money Laundering and Terrorism Financing" No.93. These regulations establish the procedure in accordance with which the requirements of the European Union Directive No.2005/60/EK concerning counter laundering activities and prevention of the terrorism financing are to be fulfilled. The main changes are related to requirements of identification and knowing of the beneficial owner, introduction of the risk-based system, the description of the procedures that ensure compliance with the principle "know your client", collection of information and analysis of clients' transactions. Introduction of these regulations has resulted in significant corrections in the everyday operation of the Issuer, allowing therefore fulfilling successfully the requirements of the legislation related to prevention of the criminally obtained funds and terrorism financing in the financial sector.

In the year 2006, in compliance with new requirements of the FCMC, the Issuer has improved the controls in the areas relating to prevention of the criminally obtained funds and terrorism financing. The Issuer has implemented the Client Manager System that ensures that responsibility for compliance of each client and financial transactions of such client lies with a concrete person, whose duty is to know the client personally, supplement the client file with up-to-date information about the client's activity and financial situation and, in the event of suspicion, to report to competent state institutions. The introduced control system improvements ensure that in its everyday practice the Issuer observes the principle "know your client" (KYC), and, in the events provided for in the procedures, conducts the client due diligence and regular supervision of clients' financial transactions.

2. PERSON RESPONSIBLE

A/S Norvik Banka, in its capacity as the Issuer, Latvian ID-No.40003072918, Icelandic ID-No. 620207-9850, registered office at 21, E.Birznieka-Upisha Street, Riga, LV-1011, Latvia, hereby declares that, having taken all reasonable care to ensure that such is the case, the information contained in this Registration Document is, to the best of its knowledge, in accordance with the facts and contains no omission likely to affect its import.

Reykjavík, 14 June 2007
On behalf of the Issuer

Andrejs Svirčenkovs

CEO

3. MANAGER

The Manager, Kaupthing Bank hf. – Capital Markets Division, Icelandic ID-No. 560882-0419, registered office at Borgartun 19, 105 Reykjavik, Iceland has been the advisor to the Issuer in the preparation of this Bank Registration Document.

Reykjavík, 14 June 2007
On behalf of the Manager

Ingvar Vilhjálmsson
Managing Director

Stefán Ákason
Head of Fixed Income Sales

4. STATUTORY AUDITOR

The Company's accounts for the years ending 31 December 2005 and 2006 respectively have been audited and the annual accounts for these years have been endorsed without remarks by Audit company – Deloitte Audits Latvia SIA (License No 43), the Company's independent auditor.

5.REFERENCES AND GLOSSARY OF TERMS AND ABBREVIATIONS

References to the "Debt Securities" shall be construed as referring to any debt instruments, which are issued by the Issuer and listed on ICEX and described in the Prospectus or any Securities Note that refers to this Registration Document.

References to the "Issuer", "Norvika Banka" and "the Bank" in this Registration Document shall be construed as referring to A/S Norvika Banka, Icelandic ID-No. 620207-9850, unless otherwise clear from the context, and its subsidiaries and affiliates, unless otherwise clear from the context. Kaupþing banki hf. is the legal Icelandic name of the Issuer.

References to "ICEX" in this Registration Document shall be construed as referring to the Iceland Stock Exchange, i.e. to Kauphöll Íslands hf., Icelandic ID-No. 681298-2829, unless otherwise clear from the context. References to the "admission to trading" and the "admission to trading on a regulated market" in this Registration Document shall be construed as referring to the admission to trading on the bond market of the Iceland Stock Exchange, unless otherwise clear from the context.

References to "OMXS" in this Registration Document shall be construed as referring to the Nordic Exchange in Stockholm.

References to "ISD" in this Registration Document shall be construed as referring to the Icelandic Securities Depository, i.e. to Verdbréfaskráning Íslands hf., Icelandic ID-No. 500797-3209, unless otherwise clear from the context.

References to the "Manager" in this Registration Document shall be construed as referring to Kaupthing Bank hf. – Capital Markets division, Icelandic ID-No. 560882-0419, unless otherwise clear from the context.

6. DOCUMENTS FOR DISPLAY

The following documents are for display ,and are to be found in Appendices I – III to this Registration Document:

a. The Articles of Association for A/S Norvik Banka;

b. Financial statements prepared in accordance with International Financial Reporting Standards as adopted by the EU and the requirements of the Latvian

Financial and Capital Market Commission for the year ended 31 December 2006 and independent auditors' report (Annual Report 2006);

c. Financial statements prepared in accordance with International Financial Reporting Standards and the requirements of the Latvian Financial and Capital Market Commission for the years ended 31 December 2005 and 2004 and independent auditors' report (Annual Report 2005);

Copies of documents for display to this Registration Document are to be found in Appendices I – III which can be obtained from the Issuer's office and websites (www.norvik.lv). This Registration Document will be published on the ICEX's news web (http://omxgroup.com/nordicexchange/Markadsfrettir/Fyrirtaekjatilkynningar/) when the Bills will be admitted to trading.

The Issuer will, in the event of any significant new factor, material mistake or inaccuracy relating to information included in this Registration Document which is capable of affecting the assessment of any Debt Securities, prepare a supplement to this Registration Document or publish a new Registration Document for use in connection with any subsequent issue of such Debt Securities. If a supplement is prepared, statements contained in any such supplement (or contained in any document incorporated by reference therein) shall, to the extent applicable (whether expressly, by implication or otherwise), be deemed to modify or supersede statements contained in this Registration Document. Any statement so modified or superseded shall not, except as so modified or superseded, constitute a part of this document.

7. NOTICE TO INVESTORS

In making an investment decision, potential investors should carefully consider the merits and risks of an investment in any Debt Securities and carefully review the terms and conditions of the Debt Securities described in the relevant Securities Note.

This Registration Document is to be read in conjunction with all documents which are for display in this Registration document (see Appendices I - III).

No person is or has been authorised by the Issuer to give any information or to make any representation not contained in or not consistent with this Registration Document and, if given or made, such information or representation must not be relied upon as having been authorised by the Issuer or the Manager.

This Registration Document is not (a) intended to provide the basis of any credit or other evaluation; or (b) a recommendation by the Issuer or the Manager that any recipient of this Registration Document should purchase any Debt Securities. Each investor contemplating purchasing any Debt Securities should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness of the Issuer. Neither this Registration Document nor any other information supplied in connection with the Issuer constitutes an offer or invitation by or on behalf of the Issuer or the Manager to any person to subscribe to or purchase any Debt Securities.

Neither the delivery of this Registration Document nor the sale or delivery of any Debt Securities shall in any circumstances imply that the information contained herein concerning the Issuer is correct at any time subsequent to the date hereof. Investors should review, inter alia, the documents for display in appendices to this Registration Document when deciding whether or not to purchase any Debt Securities.

ICEX has scrutinized and approved this Registration Document which is only published in English.

8. DESCRIPTION OF THE ISSUER

8.1. INTRODUCTION

The Latvian banking industry has existed in its present form since the early 1990s. The Issuer – A/S Norvik Banka was founded on April 29, 1992 under the name Latvian Economic and Commercial Bank. Now it is one of the oldest and most experienced commercial banks in Latvia with strong brand recognition and a well established, nation-wide outlet network (13 branches and 77 settlement offices in the main regions of the country).

A/S Norvik Banka offers the complete range of traditional banking services to both corporate and retail clients, as well as financial institutions. A/S Norvik Banka strategy is to be a universal bank that provides the full range of banking services to its clients. A/S Norvik Banka actively develops and delivers new, modern solutions for its target market.

A/S Norvik Banka ranked number 11 as per end of December 2006 with a balance sheet of EUR 433.7 million and a market share of 1.9 % of total commercial banks' assets in Latvia

Over the last few years A/S Norvik Banka has received numerous awards. "The Banker" magazine has twice ranked A/S Norvik Banka as one of the fastest growing banks in Central Europe. In 2005, "The Banker" magazine also presented A/S Norvik Banka with "The Best Bank in Latvia" award and in 2006 the magazine "Global Finance" voted A/S Norvik Banka as the "Best Emerging Market Bank in Latvia".

A/S Norvik Banka is rated by the rating agency FITCH Ratings with a Long-Term IDR of B+ and a Short Term Rating of B. The outlook for both ratings is positive. In October 2006 Fitch Ratings improved its Outlook on A/S Norvik Banka to Positive from stable saying that "If the Bank is successful in developing a domestic franchise and in producing tangible results from this its IDR (the Issuer Default Rating, the senior rating introduced by FITCH in 2006 instead of the Long-term rating) may be upgraded from B+".

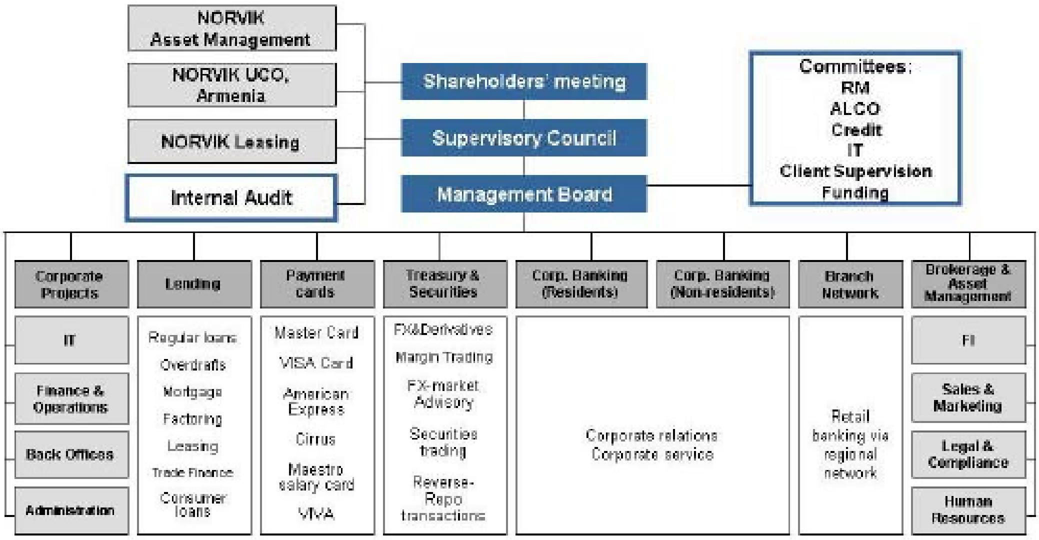
Over the past year, A/S Norvik Banka has completed a substantial restructuring aimed at shifting its business focus away from "non-domestic" customers and volatile FX- trading activities, to a clear strategy of strengthening its domestic (resident) customer base. This is achieved by targeting both individual and small and medium sized enterprises (SMEs). In line with this effort, during 2006 A/S Norvik Banka has invested in: the expansion of the domestic branch network (from 6 to 13); developing new banking products specially designed for local customers; internal restructuring to intensify the selling process; the education and training of the bank's employees. The substantial expenses related to this investment have left their mark on profits for 2006, which were lower than 2005. However, the positive result was a strong increase in the share of loans to local customers in proportion to total loans of 65% as per December 31, 2006, compared to 52% the year before. A/S Norvik Banka considers the profit generated from local lending activities to be of a higher quality, less volatile and substantially more sustainable in the long run. That said, the profit trend for 2007 is clearly up, 1Q 2007 profits (105% of the budget). The targeted annual profit of LVL 7.6 million for 2007 is considered achievable.

The Mission of A/S Norvik Banka is to be an innovative Northern European bank working to support its customers and the Latvian economy as a whole, by providing high quality banking services and acting as a responsible partner in the society. A/S Norvik Banka considers itself to have a number of competitive advantages that are expected to create a solid foundation for ensuring future success, including: a clear development strategy, strong shareholders' support, established structure, advanced technology, skilled staff and proven experience in particular businesses.

A/S Norvik Banka maintained Information Offices in London, Moscow and Minsk.

Currently A/S Norvik Banka services more than 80,000 clients, mostly local private individuals

8.2. ORGANISATIONAL STRUCTURE OF NORVIK GROUP



8.3. SUBSIDIARIES

There are currently 3 (three) subsidiaries of A/S Norvik Banka:

- Norvik Asset Management Company (Latvia);
- Norvik Universal Credit Organization (Armenia);
- Norvik Līzings (Leasing company) (Latvia).

Norvik Asset Management Company (former LVA Ieguldijumu Sabiedriba) was acquired in May 2006. Ownership structure: A/S Norvik Banka – 94.95%, other – 5.05%. The company's core business is investment management of the 2nd level Pension Plan. At the end of 2006, the volume of funds managed by the company was LVL 2 million, and the number of participants 18,000. The ongoing reform in 2nd level Pension Plan management, undertaken by the State of Latvia, creates favourable conditions for rapid growth. It is planned to increase the amount of managed funds to LVL 15million at the end of 2008. The company holds a license for all other investment funds and finance instrument management, and consultancy in investment business. In February 2007 Norvik Asset Management Company registered the following open investment funds: the Norvik Russia Share Fund, the Norvik Share Fund of developed countries, and the Norvik Bond Fund of developed countries.

Norvik Universal Credit Organization is a 100% subsidiary of A/S Norvik Banka registered in Armenia in September 2006. The company operates a lending business, in particular consumer loans and loans to SMEs.

Norvik Līzings is a newly established subsidiary registered on 2 March 2007. 100% of the equity belongs to A/S Norvik Banka. The company's main focus will be car leasing, equipment leasing and factoring.

8.4. EMPLOYEES

The continued growth and development of A/S Norvik Banka is partly dependent on attracting and retaining competent and professional employees. To this end the Bank strives to constantly improve its policies for personnel growth encouragement and motivation.

A/S Norvik Banka promotes and supports the professional development of those employees who show excellent business acumen, have a professional attitude to their work and who prove their loyalty. A/S Norvik Banka also tries to attract specialists with a good reputation and experience in different areas of business from other banks and institutions. As a rule, this applies to new areas of A/S Norvik Banka activities or to sectors that A/S Norvik Banka plans to develop. Final-year students are one more focus of A/S Norvik Banka for employing potential specialists. A/S Norvik Banka has established close contacts with many universities and educational centres, invites students for internship at A/S Norvik Banka and A/S Norvik Banka managers participate in "open-door days", review students' diploma projects etc. The table below shows the number of A/S Norvik Banka employees since the end of 2003. It should be noted that in addition to the permanent personnel employed, A/S Norvik Banka out-sources legal advice to the large, local law company SIA INLAT.

Positions	2006	2005	2004	2003
Management Board	6	5	5	4
Supervisory Council	6	4	5	5
Heads of divisions and departments	77	67	57	45
Account and relationship managers	98	93	85	69
Cashiers	210	155	149	123
Dealers, brokers	8	9	9	4
IT Specialists	59	45	40	35
Analysts	5	5	5	4
Other (incl. Back-office)	166	165	170	179
Total	**635**	**548**	**525**	**468**

The promotion of further education and training in order to increase the level of professionalism of A/S Norvik Banka employees is one of the main aims of the human resources programme. The employees of the departments dealing directly with clients undergo an annual review to confirm their professional suitability for the requirements of A/S Norvik Banka and find out any "weak points" in their business attitude. This process allows A/S Norvik Banka to effectively organise additional seminars or training courses, which are deemed necessary. When new financial products and services or significant amendments of existing procedures are implemented, A/S Norvik Banka organizes compulsory training for those employees directly related to these changes. Employees also actively participate in seminars organised by the Financial and Capital Market Commission (FCMC), the Latvian Association of Commercial Banks and local and foreign institutions. Employees dealing with international transactions regularly attend training courses abroad and participate in courses and seminars organised by business partners of A/S Norvik Banka. A/S Norvik Banka will always encourage and stimulate the professional development of its employees.

8.5. LEGAL STATUS AND LEGISLATIVE BACKGROUND

A/S Norvik Banka is a joint stock company (akciju sabiedrība) incorporated in the Republic of Latvia and acting in accordance with the Latvian legislation under License No. 30 (renewed Nr. 06.01.04.007/210) issued by the Bank of Latvia on April 27, 1992. The banking license allows carrying out any type of banking operations. Since the year 2001 the licenses (including renewed licenses) for performing credit institution activities have been issued by the Financial and Capital Market Commission (FCMC), which regulates the Latvian commercial banks' activities in accordance with the Law "On the Financial and Capital Market Commission". A/S Norvik Banka offers a full range of services defined by the "The Credit Institution Law".

8.6. BANKING LEGISLATION

The legislative framework for banking in Latvia meets applicable EU requirements in full, and in some areas the requirements are even more rigorous. IFRS have been fully introduced and banks are audited by internationally recognised auditing firms. Practical supervision of the banking sector in Latvia is tight and bank inspections are conducted more frequently than in many other EU Member States.

The Law "On Credit Institutions", which has been in force since 24 October 1995, has been amended on several occasions. The instructions and regulations of the Financial and Capital Market Commission and the Bank of Latvia complement the provisions of the Banking Law and are binding to all credit institutions. All regulations for measuring the performance of credit institutions and their reporting procedures conform to applicable EU standards. The Law "On Prevention of Laundering of Proceeds Derived from Criminal Activity" which has been in force since 1 June 1998 also conforms to the relevant EU directives: it requires customer identification and record keeping on all transactions, identification of suspicious and unusual transactions, and their reporting to the Board of Prevention of Legalization of Proceeds from Criminal Activity. The Law "On Deposit Guarantees", which has been in force since 1 October 1998, provides that as

of 1 January 2004, irrespective of the depositing date, deposits of up to LVL 9,000 per depositor to whom the provisions of this law apply are guaranteed. By 2008, the amount of the guarantee is to be raised to LVL 13,000, the level stipulated by the applicable EU directive. Certain groups of depositors are excluded from the guarantee provisions.
Since 1 July 2001, the Financial and Capital Market Commission has been responsible for supervising the financial sector. According to the International Monetary Fund, banking supervision in Latvia is among the strictest in Central and Eastern Europe.

The registered head office and principal place of business of A/S Norvik Banka:

A/S Norvik Banka
21, E. Birznieka-Upisha Street LV-1011 Riga Latvia
Phone: +371-7041100 Fax: +371-7041111 Home page: www.norvik.lv
Register No. 40003072918; VAT No. LV40003072918
Icelandic ID-No. 620207-9850

8.7. SOURCES OF FUNDING

A/S Norvik Banka principal sources of funding are customer deposits and borrowing in the capital markets. Other sources of funding include capital markets and financial institutions.
To maintain the effectiveness of A/S Norvik Banka operations, emphasis is placed on achieving the optimal funding mix in terms of cost and liquidity. A/S Norvik Banka resources are a combination of its own equity and borrowed funds. Borrowed funds consist of demand and term deposits. A/S Norvik Banka attracts deposits with different terms, starting from overnight deposits up to a maximum term of five years. The deposits can be placed either at the head office, any branch or settlement office or through the remote-access system "Norvik Net".
In order to eliminate any gaps in the term structure of assets and liabilities, A/S Norvik Banka plans to actively borrow medium and long-term funds on the interbank market and through syndicated loans. A/S Norvik Banka concluded its debut syndicated loan in June 2006, attracting an amount of EUR 21 million from a diverse group of international banks. The second syndicated loan was arranged in November 2006 and brought another EUR 21 million. Both syndicated transactions were oversubscribed. Simultaneously, bilateral borrowings from top international Financial Institutions have increased both by a significant increase in the volume of clean credit lines and the number of counterparties. The biggest borrowing is the credit facility from the biggest Icelandic banks - Kaupthing Bank, Landsbanki and Glitnir.

A long-term programme to attract term deposits within the Latvian market was started in June 2005. This programme has started to produce positive results as the percentage of local deposits is steadily increasing. The programme brought good results in 2006 (local deposits increased to 34%). The programme is continuing in 2007 to reach the budgeted figure of 42%.

Funding Sources (amounts in 000'LVL)

	2006	%	2005	%
Equity	31,671	10.4	21,225	8.0
Subordinated debt	1,777	0.6	2,030	0.8
Deposits	202,156	66.4	180,288	68.0
Core funding	**235,604**	**77.4**	**203,543**	**76.1**
Debt to credit institutions/central bank	65,465	21.5	59,514	20.7
Own issues	-	-	-	-
Other liabilities	2,777	0.9	1,374	0.7
Provisions	180	0.1	204	0.1
Accrued expenses and prepaid income	524	0.2	327	0.4
Market funding	**68,946**	**22.6**	**61,419**	**21.9**
Total funds	**304,550**	**100.0**	**264,962**	**100.0**

Deposits
The deposits from customers are well diversified, with a majority of the customers having relatively low deposits. Deposit accounts bear interest at a floating rate. The table below sets out a breakdown of the A/S Norvik Banka's other deposits as at31 December 2006 and 31 December 2005:

Deposits by maturity	**31.12.2006 (000'LVL)**	**31.12.2005 (000'LVL)**
On demand	155,827	137,764
Up to 3 months	9,600	12,974
Over 3 months and up to 1 year	32,873	25,780
Over 1 year and up to 5 years	3,826	3,770
Over 5 years	30	0
Total	**202,156**	**180,288**

8.8. USES OF FUNDS

A/S Norvik Banka principal use of funds is for general loans to clients, primarily to small and medium sized enterprises (SME) and private individuals (consumer loans and mortgage loans).

Assets (amounts in 000'LVL)
The table below sets out a breakdown of A/S Norvik Banka uses of funds as at 31 December 2006 and 31 December 2005:

	2006	**%**	**2005**	**%**
Cash and central bank account balances	28,094	9.2	20,380	7.7
Lending to credit institutions	30,930	10.2	94,179	35.5
Lending to public	184,176	60.5	109,553	41.3
Bonds and shares	46,929	15.4	31,856	12.0
Holdings in associated companies/subsidiaries	-	-	-	-
Tangible assets	5,362	1.8	5,224	2.0
Other assets	8,794	2.9	3,340	1.3
Prepaid expenses and accrued income	265	0.1	430	0.2
Total assets	**304,550**	**100.0**	**264,962**	**100.0**

The predominant lending activity of A/S Norvik Banka is granting loans to a range of corporate customers and private individuals. A/S Norvik Banka provides services to many sectors and has sought to establish a diversified portfolio of marketable securities and loans in order to minimise its lending risks.

8.9. LOAN PORTFOLIO STRUCTURE BY TYPE OF BORROWER AND INDUSTRY SECTORS.

A/S Norvik Banka Credit Policy determines limits for A/S Norvik Banka industry sector exposures as a percentage of the total loan portfolio. The maximum volume of A/S Norvik Banka credit exposure in any field, except for exposure in the manufacturing industry and wholesale trade, may not exceed 40% of the credit portfolio volume. The volume of A/S Norvik Banka credit exposure in industry and trade may not exceed 55% of the loan portfolio. A/S Norvik Banka Credit Department submits reports on the allocation of the Credit Portfolio by economy sectors to A/S Norvik Banka Credit Committee on a quarterly basis. The tables below show the distribution of the loan portfolio by type of borrowers and industry sectors (amounts in LVL'000):

Industry	**31.12.2006**	**31.12.2005**	**31.12.2004**
Agriculture	228	302	653
Fishing	724	-	12
Mining industry	-	-	-
Processing industry	22,555	7,565	5,109
Gas, water supply	-	-	1 255
Building	3,598	79	37
Trade	30,397	23,504	16,949
Hotels, restaurants	1,315	90	8
Transport, warehouses	46,386	32,622	22,243
Financial intermediation	15,891	18,869	16,235
Other services	15,537	11,632	2,733
Private individuals	47,357	14,819	10,445
Total loans	**183,988**	**109,482**	**75,679**
Provisions for doubtful debts	(191)	(146)	(411)
Accrued % income	379	217	-
Net loan portfolio	**184,176**	**109,553**	**75, 268**

	31.12.2006	31.12.2005	31.12.2004
LVL' 000			
Loans	**184,367**	**109,699**	**75,679**
Loans to private companies	131,957	90,049	64,011
Loans to individuals	52,410	19,440	10,413
Loans to state owned companies	-	210	1 255
Provisions for doubtful debts	(191)	(146)	(411)
Net loans to customers	**184,176**	**109,553**	**75,268**

8.10. LOAN PORTFOLIO QUALITY

A/S Norvik Banka reviews its loan portfolio on a regular basis and classifies its loans in categories and monitors them according to the guidelines of the Latvian Regulator - Financial and Capital Market Commission (FCMC). A/S Norvik Banka has historically pursued a relatively conservative risk policy, resulting in low NPLs (non-performing loans). At year-end 2006 A/S Norvik Banka non-performing loans' amount was very low. The table below sets out a breakdown by remaining maturity of A/S Norvik Banka loans to customers are receivables as at 31 December 2006 and 31 December 2005 (amounts in 000'LVL):

	31.12.2006 LVL'000	31.12.2005 LVL'000
On demand	6,551	12,532
Up to 3 months	17,017	13,859
Over 3 months and up to 1 year	49,931	33,208
Over 1 year and up to 5 years	83,882	32,261
Over 5 years	32,439	17,693
Total	**189,820**	**109,553**

8.11. EQUITY

A/S Norvik Banka is a joint stock company (akciju sabiedrība). At the date of incorporation in April 1992, the authorized and subscribed capital of A/S Norvik Banka was LVL 269,000 divided into 53,750 shares, each with a face value of LVL 5. The capital of A/S Norvik Banka has been regularly increased since incorporation by means of retained earnings and issue of new shares and capital.
The most recent share capital increase was in December 2006, by LVL 5 million. As a result of this issue, A/S Norvik Banka share capital increased to LVL 22,499,928. The shares are not listed.
The current shareholders plan to launch two new share issues amounting to LVL 23 million in 2007 and they have confirmed their willingness to further capital increases to keep the equity levels in line with growing business. Since A/S Norvik Banka incorporation the major shareholders of A/S Norvik Banka were Latvian companies and private individuals. However, in recent years a number of shareholders sold their shares and in 2004 two individuals, Mr. Andrejs Svirčenkovs – Chairman of the Board, and Jurijs Šapurovs – Deputy Chairman of the Board became main shareholders of A/S Norvik Banka. In January 2006, the ownership structure of A/S Norvik Banka changed significantly due to the attraction of new strategic investors. On January 11, 2006 a majority stake of 51.02% was acquired by the Icelandic company Straumborg ehf.

8.12. SHAREHOLDERS STRUCTURE

Name of the Shareholder	Details	Ownership in %
A/S "Straumborg ehf." Registered in Iceland ID-nr: 500894-2109 Legal Address: Skemmuvegi 2, 200 Kopavogur, Iceland	Jon Helgi Gudmundsson – owner of Straumborg (91,5%), Chairman of Supervisory Council of A/S Norvik Banka	51.06
Andrejs Svirčenkovs Resident of Latvia ID-nr: 281262-12901	Chairman of Management Board of A/S Norvik Banka	19.75
Jurijs Šapurovs Resident of Latvia ID-nr: 251063-10703	Deputy Chairman of Management Board of A/S Norvik Banka	19.75
"Ice-Balt Invest ehf." Registered in Iceland ID-nr: 431005-0770 Legal Address: Vatnsholti 10, 105 Reykjavik, Iceland	Thorsteinn Ólafsson – shareholder of Ice-Balt Invest ehf. (50%), Vitalijs Gavrilovs – shareholder of Ice-Balt Invest ehf. (50%)	9.00
Other minority shareholders		0.44

The Other minority shareholders are:

	Shareholder	Number of shares		Total, LVL
5.	Valērijs Ivenkovs	26 898	0,12 %	26 898
6.	Imants-Kristaps Ziemelis	20 000	0,09 %	20 000
7.	AS "Lateko Invest"	18 338	0,08 %	18 338
8.	Ēriks Rusbergs	11 201	0,05 %	11 201
9.	SIA "LATLIN"	4 792	0,02 %	4 792
10.	Anna Harhurina	6 166	0,03 %	6 166
11.	SIA "Denor"	3 799	0,02 %	3 799
12.	Olga Romaņko	2 607	0,01 %	2 607
13.	Alfrīds Vorona	1 139	0,005 %	1 139
14.	Vitālijs Pučinskis	1 083	0,006 %	1 083
15.	IU komercfirma "OTTO"	579	0,003 %	579
16.	Sarmīte Jēgere	89	0,0004 %	89
17.	Oskārs Guļāns	19	0,00008 %	19
Total (with the above table):		**22 499 928**	**100**	**22 499 928**

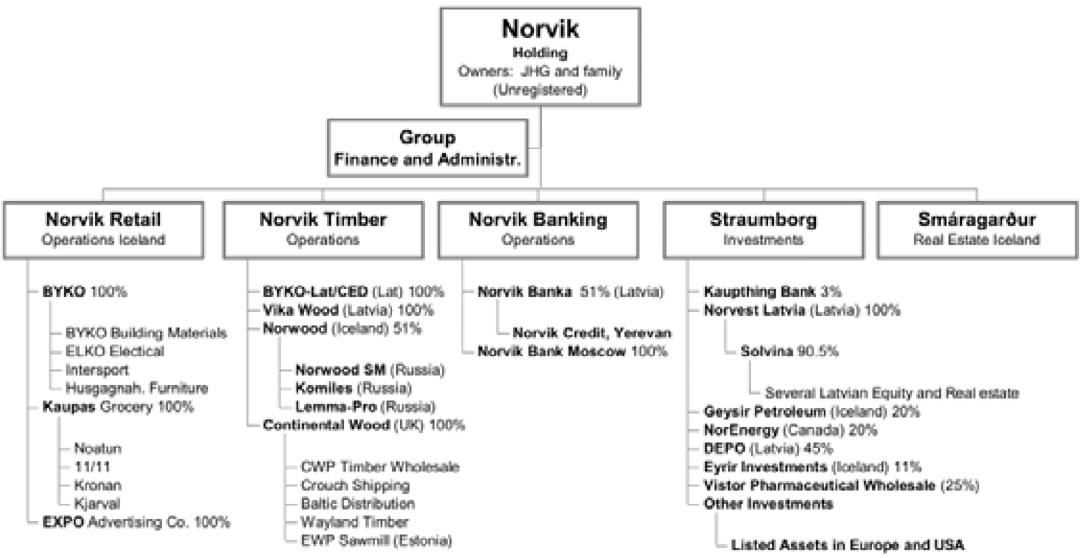
Only one person from the above list is currently working for the bank – Mr Eriks Rusbergs (no. 8 in the table). He used to be a member of the Management Board a couple of years ago, but left this position then and is currently working in the Treasury Department. Four other persons, namely Ms Olga Romanko (no. 12 above), Mr Vitalijs Pichinsis (no. 14 above), Ms Sarmite Jeger (number 16 above) and Oskars Gulans (number 17 above), are former employees and top-managers of A/S Norvik Banka. They left A/S Norvik Banka quite a significant time ago. All other minority shareholders have never worked for A/S Norvik Banka

8.12.1. MAIN SHAREHOLDERS:

Straumborg ehf.:
Straumborg is part of the Norvik holdings Group (the table below) which is made up of Straumborg ehf, Norvik hf and Smaragardur. Straumborg is an Icelandic family-owned investment company established in 1994. "It is one of the largest shareholders of Kaupthing Bank, Iceland's largest bank and has in addition to that various listed and unlisted securities. Straumborg's sister company, Norvik, which is also owned by the Gudmundsson family, owns the largest DIY and building materials retail chain ("Do it yourself" and building materials retail chain) in Iceland, the second largest chain in retail groceries, along with other stores. Norvik is involved in the timber industry in the UK, Russia and Latvia from where it has been processing timber since 1993. Norvik is one of the largest timber exporters out of Latvia.
The Gudmundsson family also owns the Icelandic real estate company Smaragardur. The principal owner of these companies, Mr. Jon Helgi Gudmundsson, has also been a member of various boards, such as Kaupthing Bank's supervisory board. Ms. Brynja Halldorsdottir, the general manager and CFO of Norvik and Deputy Chairperson of Supervisory Council of A/S Norvik Banka, currently holds a position on Kaupthing Bank's Supervisory Board.

The table below presents the key performance data of the Norvik Group at the end of 2006:

Company Name	Profit after tax	Equity at Book	Total Assets
	ISK millions		
Norvik hf	944	4709	22173
Straumborg	2088	12305	30994
Smaragardur	805	3091	13270
Total	**3837**	**20105**	**66437**
	EUR millions		
Norvik hf	10	52	246
Straumborg	23	137	344
Smaragardur	9	34	147
Total	**43**	**223**	**738**



Ice-Balt Invest ehf.:
This private limited liability Investment Company, registered in Iceland in 2005, is owned by Thorsteinn Olafsson (50%) and Vitalijs Gavrilovs (50%), who are reputable Icelandic and Latvian businessmen. Ice-Balt Invest is an investment vehicle concentrating on investing in the Baltic States and neighbouring countries, i.e. Russia, Ukraine, Poland etc. and co-investing with other Icelandic, Scandinavian and West European companies active in this region.

8.13. CAPITAL ADEQUACY

A/S Norvik Banka has in place a corporate governance programme to ensure disclosure and transparency, to define the responsibilities of the Board of Directors of the Issuer and the management of the Issuer, to define the rights and role of shareholders and stakeholders, to ensure the equitable treatment of shareholders and to avoid conflicts of interests.

According to the provisions of the Republic of Latvia Credit Institutions Law *(adopted by the Saeima on 5 October 1995 with amendments up to 22.02.2007)* Chapter IV "Requirements Regulating the Operations of Credit Institutions" Section 35(1), "The proportion of the own capital of a bank against the weighted assets and the total amount of the off-balance-sheet items (capital adequacy) may not be less than 8 %". As of 31 December 2006, the Issuer complied with all statutory ratios in accordance with the provisions of Credit Institutions Law

The capital of A/S Norvik Banka is growing year by year. During 2004 and 2005, the capital of A/S Norvik Banka grew by 42% and 22% respectively. The last share capital increase took place on 15 December, 2006, during which the capital was increased by LVL 5 million. As a result of the issue, the Bank's share capital increased to LVL 22,499,928 i.e. 22,499,928 shares, each with a face value of LVL 1. The capital increase will be continued in 2007 to be in line with growing business. In accordance with the 2007 Budget, two new share issues amounting to LVL 23.0 million will be launched in quarters II and III of 2007. Since the end of 2005, no dividend payments have been made. The full amounts of 2005 and 2006 profits were capitalized to support A/S Norvik Banka business. In accordance with the 2005-2009 Business Plan, at least 25% of the net profit has to be capitalized each year. Exceeding profits will be distributed, as long as the risk weighted assets (RWA) growth does not require additional capital funds. The calculation has been made on the basis of the prevailing legal requirements for capital adequacy. Additional requirements according to Basel II introduction in 2007 (with min CAD = 8%) will be provided for by a minimum capital adequacy ratio of 10% set internally by the management. Excess capital is the buffer for possibly changed capital requirements and for market opportunities in changed environments. As at the end of 2005, the CAD was 14.15%, and at the end of 2006 it stood at 13.11%. A/S Norvik Banka has an internal Methodology for the capital adequacy analysis that is used for the calculation and analysis of available deposits, the calculation of the volume of the term investment of A/S Norvik Banka and for the analysis of the provision of term investment by term deposits. Such analysis is conducted in the main currencies: LVL, USD and EUR. According to the Basel agreement, Norvik Banka equity / ratios were:

Amounts in LVL '000

LVL`000	2006	2005	2004	2003
Tier I	30,977	20,813	17,297	12,257
Tier II	871	1,228	1,551	500
Tier III	-	250	250	250
Total Capital	31,848	22,291	19,098	13,007
Total Capital in EUR	45,316	31,717	27,166	19,298
Capital adequacy ratio	13.11%	14.15%	13.49%	12.05%

The minimum own capital required by the law is EUR 10 million. The total capital adequacy ratio, calculated as a percentage ratio of a bank's capital base to the bank's total risk component, shall not be lower than 8%.

Key figures and ratios

Amounts in LVL '000

	2006	2005	2004	2003	2002
Total assets	304,550	264,962	314,047	267,461	185,204
Subordinated loans	1,777	2,030	2,026	750	-
Equity	31,671	21,225	17,460	12,257	9,938
Tier 1 ratio, %	12.75%	13.22%	12.22%	11.30%	13.32%
Total capital ratio, %	13.11%	14.15%	13.49%	11.99%	13.32%
Equity / total assets, %	10.40%	8.01%	5.56%	4.58%	5.37%
Return on equity after tax, %	12.53%	30.36%	33.64%	21.12%	31.02%
C/I ratio before loan losses	77.10%	63.37%	62.10%	67.24%	59.00%
C/I ratio after loan losses	78.68%	63.29%	63.93%	73.99%	62.38%

9. THE MANAGEMENT (THE SUPERVISORY COUNCIL AND THE MANAGEMENT BOARD) OF A/S NORVIK BANKA (THE ISSUER)

The business address of each member of the Supervisory Council and the Management Board of A/S Norvik Banka is 21, E.Birznieka-Upisha Street, Riga, LV-1011, Latvia

A/S Norvik Banka is governed by the Shareholders' Meeting, the Supervisory Council and the Management Board. The Shareholders' Meeting is A/S Norvik Banka ultimate governing institution, where the shareholders exercise their rights to govern A/S Norvik Banka. The Shareholders' Meeting is solely entitled to adopt resolutions on electing and revoking the Supervisory Council Members, who are elected for a term not exceeding three years. The Supervisory Council is A/S Norvik Banka supervisory institution, which represents the shareholders' interests, and supervises the Management Board's activity within the framework stipulated in the Republic of Latvia Commercial Act and in the Articles of Association. The Supervisory Council elects and revokes the Management Board Members for a term not exceeding three years, and supervises the Management Board's activity. The Management Board of A/S Norvik Banka is the executive institution, which governs and represents A/S Norvik Banka. The Management Board supervises and manages A/S Norvik Banka affairs, bears the responsibility for the A/S Norvik Banka commercial activity, manages bookkeeping in compliance with the requirements of the Latvian law, manages A/S Norvik Banka property and deals with its resources in accordance with the law, Articles of Association and resolutions adopted by the Shareholders' Meeting.

As of 31 December 2006 the structure of the **Supervisory Council** was as follows:

Name, Surname	Position	Date of appointment
Jon Helgi Gudmundsson	Chairman of the Council	17/01/06
Brynja Halldorsdottir	Deputy Chairwoman of the Council	01/11/06
Hjalti Baldursson	Member of the Council	17/01/06
Sandijs Āboļiņš-Abols *	Member of the Council	17/01/06
Baiba Strupiša*	Member of the Council	29/03/07
Valentīna Keiša	Member of the Council	01/03/06
Jeļena Svirčenkova	Member of the Council	01/04/06

* Mr Sandijs Āboļiņš-Abols resigned his position of a Member of Supervisory Council (March 2007) and Mrs Baiba Strupiša was appointed as a Member of Supervisory Council (March 2007)

As of 31 December 2006 the structure of the **Management Board** was as follows:

Name, Surname	Position	Date of appointment
Andrejs Svirčenkovs	Chairman of the Board	01/04/06
Jurijs Šapurovs	Deputy Chairperson of the Board	01/04/06
Sergejs Gusarovs	Member of the Board	29/03/05
Aldis Upenieks	Member of the Board	01/12/06
Vahram Kamalyan	Member of the Board	14/12/06

Supervisory Council

Mr Jon Helgi Gudmundsson (Business address: 21, E.Birznieka-Upisha Street, Riga, LV-1011, Latvia) – Present position: Chairman of Supervisory Council; Joined A/S Norvik Banka: January 2006; Education: Icelandic college; Reykjavik College (1963 – 1967); Wirtschaftshochschule Manheim, Germany (1967 – 1968); University of Iceland, graduating as Cand.Oecon. (1968 – 1972); the Pennsylvania State University, the Executive Management Program (1985); Previous employment and banking experience: Since 1984 Smaragardur Real Estate holding and development, Managing Director, President. A Norvik company; Since 1995 President, CEO and principal owner of BYKO Ltd (which in the year 2000 became Norvik Ltd); 1984-1995 Managing Director of BYKO Ltd; 1971-1984 General Manager at BYKO Ltd (Iceland). Investment operations: established Straumborg ehf – an Icelandic investment company (1994); established "SIA SOLVINA", a Latvian investment company; participated in various investment and operational activities in Iceland, UK, Russia, Latvia.

Mr Jon Helgi Gudmundsson owns 11 487 459 (Straumborg ehf (Iceland) share of 51, 06% in A/S Norvik Banka capital). Call Options: None, Also Mr Jon Helgi Gudmundsson has 48.63% in Straumborg ehf (Iceland) capital and Mr Jon Helgi Gudmundsson's family owns 42.87%. Mr Jon Helgi Gudmundsson owns 100% in Norvik Bank Moscow (Russia) through Straumborg ehf. The complete ownership structure of Mr Jon Helgi Gudmundsson and his family is given on Page 20 of this Registration Document.

Ms Brynja Halldorsdottir (Business address: 21, E.Birznieka-Upisha Street, Riga, LV-1011, Latvia) – Present Position: Deputy Chairperson of Supervisory Council; Joined A/S Norvik Banka: November 2006; Education: University of Iceland (Reykjavik, Iceland), a degree in business administration, specializing in macroeconomics (1981). Previous employment and banking experience: CFO of Verslunarbanki (Bank of Commerce) when it merged with three other Icelandic banks in 1989. In 2000, the CEO of Norvik hf., one of Iceland's premier international holding companies. In addition, serves as the CFO of all of Norvik's subsidiaries. Ms Halldórsdóttir was elected to Kaupthing Bank's board in 2004.
Ms Halldórsdóttir is the CEO of Norvik hf., Depo ehf., Ares fjárfestingarfélag ehf. and Byko Lettland ehf. She is a member of the board of Nóatún ehf., 11-11 ehf., Byko hf., EXPO Kópavogur ehf., Kostakaup ehf., Maxbúdin 300 ehf., Krónubúdin ehf., Sparkrónan ehf., Smáragardur ehf., Kaupás hf., CW ltd. UK and Wayland timber Ltd. UK. Within the past five years, Ms Halldórsdóttir has served as CEO of Ofnasmidja Sudurnesja ehf. and a board member of Elko ehf., Firn ehf. and Ofnasmidja Sudurnesja ehf.

Ms Brynja Halldorsdottir does not hold any shares in A/S Norvik Banka capital. In Straumborg ehf owns 8.5% Call Options: None.

Mr Hjalti Baldursson (Business address: 21, E.Birznieka-Upisha Street, Riga, LV-1011, Latvia) Present position: Member of Supervisory Council; Joined A/S Norvik Banka: January 2006; Education: Menntaskolinn Vid Sund College (Reykjavik, Iceland) Matriculation Examination – Mathematics Department Physics Line (1998); Wirtschaftsuniversitat Wien (Vienna, Austria) Business Administration Studies (1998-2001); Reykjavik University (Reykjavik, Iceland) Degree in Securities Brokerage (2005); Previous employment and banking experience: Since 2006 JSC NORVIK BANKA Member of Supervisory Council; Since NORVEST ehf – Investment company (Reykjavik, Iceland) Chief Executive Officer; Since 2005 ANSUZ INVESTMENTS INC, Member of the Board of Directors; Since 2004 VITKI ehf (Reykjavik, Iceland) – a consulting company for Investment funds, Chairman of the Board of Directors; Since 2001 GJ FINANCIAL CONSULTING (Reykjavik, Iceland), CEO and Member of the Board of Directors; Since 2001 EINFALT ehf (Reykjavik, Iceland) – a software company, CEO and Member of the Board of Directors; 1997-2000 HUSASMIDJAN hf (Reykjavik, Iceland) – Iceland's second largest DIY Chain, Assistant to Executive Managers and Board of Directors.

Mr Hjalti Baldursson does not hold any shares in A/S Norvik Banka capital. Call Options: None. Holdings of financially related parties: None

Mrs Jelena Svirčenkova (Business address: E.Birznieka-Upisha Street, Riga, LV-1011, Latvia) – Present position: Member of Supervisory Council; Joined A/S Norvik Banka: April 2006; Education: Riga Polytechnic Institute, Riga, Latvia, Degree in Engineering (1987); Previous employment and banking experience: Since April 2006 JSC NORVIK BANKA, Riga, Latvia Member of Supervisory Council; 1999 – 2006 AS "LATEKO Līzings" (Riga, Latvia) – a leasing company, Project Manager, Head of Analytical Division; 1993-1997 SIA "SimSS" (Riga, Latvia) – an Economist (Financial analysis, Economical forecasting); 1991 – 1992 SIA "Savoja" (Riga, Latvia) Chief Accountant; Since 1997 AS "LATEKO Līzings" (Riga, Latvia) – shareholder; Since 2004 – AS NORVIK BANKA – shareholder.

Mrs Jelena Svirčenkova does not hold any shares in A/S Norvik Banka capital. Call Options: None. Holdings of financially related parties: None

Mrs Valentīna Keiša (Business address: 21, E.Birznieka-Upisha Street, Riga, LV-1011, Latvia) – Present position: Member of Supervisory Council; Joined A/S Norvik Banka: April 1996; Education: Riga Polytechnic Institute, Riga, Latvia (1985), Master Degree in Engineering; Latvian State University (Riga, Latvia) Master degree in Economics (1998); Previous employment and banking experience: Since May 2005 A/S Norvik Banka, Riga, Latvia Member of Supervisory Council; 2004-2005 A/S Norvik Banka International projects Director; 1996-2004 A/S Norvik Banka Head of Correspondent Banking Department; 1995-1996 Latvijas Zemes Banka (Riga, Latvia) Correspondent Banking specialist; 1985-1995 Latvian Building Material Manufacturing Company (Riga, Latvia), Senior Engineer.

Mrs Valentīna Keiša does not hold any shares in A/S Norvik Banka capital Call Options: None. Holdings of financially related parties: None

Mrs Baiba Strupisa (Business address: 21, E.Birznieka-Upisha Street, Riga, LV-1011, Latvia) – Present position: Member of Supervisory Council; Joined A/S Norvik Banka: March 2007; Education: 1991-1994 Riga Commercial School; 1994-1998 Latvian State University Lawyer Diploma; 1999-2000 Latvian State University Master degree of Social Science in Jurisprudence (law); Previous employment and banking experience: Since 2003 SIA "Baibas Strupišas juridiskais birojs" (Law Bureau) (Riga, Latvia) Member of the Board, owner; 2002-2003 AS "Parekss- banka" (Riga, Latvia) Deputy Head of Corporate Lending and Leasing Division (within the field of legal affairs); 1997-2002 AS "Hansabanka" (Riga, Latvia) Senior legal adviser in Financial Markets Department; 2000-2001; AS "Hansabanka" (Baltic Region) Head of Legal Division for Baltic States Financial Markets Department; 1999-2000 Legal adviser for PHARE Projects; 1996-1997 Public Domas Research Institute (Latvia), legal adviser; 1996-1997 World Bank domestic adviser's assistant.

Mrs Baiba Strupisa does not hold any shares in A/S Norvik Banka capital Call Options: None. Holdings of financially related parties: None

None of the members of the Supervisory Council of A/S Norvik Banka has, during the course of the last five years, received any convictions in relation to fraudulent offences. Furthermore none of them has, in the last five years, been a senior manager, member of the administrative, management or supervisory bodies of a company which has been a part of or associated with bankruptcy, receivership or liquidation in the previous five years. None of them has in the last five years been convicted for any criminal act or been subjected to sanctions by statutory or regulatory authorities. Furthermore, none of them has ever been disqualified by a court from acting as a member of the administrative, management or supervisory bodies of an issuer or from acting in the management or conduct of the affairs of any issuer.

Management Board

Mr Andrejs Svirčenkovs (Business address: 21, E.Birznieka-Upisha Street, Riga, LV-1011, Latvia) – Present position: Chairman of the Management Board Joined A/S Norvik Banka: November 1996 Education: Riga Institute of Engineers of the Civil Aviation (1986)
Postgraduate studies: Moscow Academy of the National Economy and Moscow Management Institute (1989-1992) Previous employment and banking experience: Since April 2006 A/S Norvik Banka, Riga, Latvia Chairman of the Management Board; 2004-2006 Deputy Chairman of the Supervisory Council; 1997-2004 Vice-President, Member of the Management Board responsible for activity of Credit Division, Payment Cards Division, IT Division; 1996-1997 Chief Executive Officer; 1995-1996 JSC "Sim.S.S.", Director of Finance; 1992-1995 American Economic Fidelity Corp., Vice-President.

Mr Andrejs Svirčenkovs owns holding of shares: 4 444 123 in A/S Norvik Banka capital. Call Options: None. Mr Andrejs Svirčenkovs has holding of 50% in SIA "S 108" and 50% in capitals of companies: "Lateko Trust" and "Lateko Invest".
Mr Jurijs Šapurovs (Business address: 21, E.Birznieka-Upisha Street, Riga, LV-1011, Latvia) – Present position: Deputy Chairman of the Management Board Joined A/S Norvik Banka: August 1995 Education: Riga Polytechnic Institute, Riga, Latvia (1986) Postgraduate studies: Leningrad (St. Petersburg) State University (1987-1988) Previous employment and banking experience: Since April 2006 A/S Norvik Banka, Riga, Latvia Chairman of the Management Board; 2005 – 2006 Deputy Chairman of the Council; 1996-2005 Vice-President 1995-1996 Manager; 1986-1997 Company "Interbanku kooperaciju centrs" Chief Executive Officer.
Mr Jurijs Šapurovs owns holding of shares: 4 444 125 in A/S Norvik Banka capital. Call Options: None. Mr Jurijs Šapurovs has holding of 50% in SIA "S 108" and 50% in capitals of the companies: "Lateko Trust" and "Lateko Invest".

Mr Sergejs Gusarovs (Business address: 21, E.Birznieka-Upisha Street, Riga, LV-1011, Latvia) – Present position: Member of the Management Board; Joined A/S Norvik Banka: January 2002 Education: Latvian State University, Riga, Latvia Law Faculty, Lawyer (1984 – 1991) Previous employment and banking experience: Since April 2006 A/S Norvik Banka, Riga, Latvia Member of the Board; 2005-2006 Chairman of the Management Board, President of the Bank; 2002-2005 Provision of legal assistance, on a contractual basis, to the Bank (de facto - the Head of Legal Department); 1996-2005 Barrister; 1995-1996 Riga Municipal Enterprise Bus Fleet IMANTA Lawyer.
Mr Sergejs Gusarovs has no holdings in A/S Norvik Banka capital. Call Options: None. Holdings of financially related parties: None

Mr Vahram Kamalyan (Business address: 21, E.Birznieka-Upisha Street, Riga, LV-1011, Latvia) – Present position: Member of the Management Board; Joined A/S Norvik Banka: 2006; Education: Florida State University (1999); Institute of Chartered Certified Accountants of England and Wales (1998-2002); Institute of National Economy in Armenian (1997-2001); Previous employment and banking experience: Since December 2006 A/S Norvik Banka, Riga, Latvia Member of the Board 1998 - 2006 KPMG (in Latvia, Armenia, UK, Russia) Manager.
Mr Vahram Kamalyan has no holdings in A/S Norvik Banka capital. Call Options: None. Holdings of financially related parties: None

Mr Aldis Upenieks (Business address: 21, E.Birznieka-Upisha Street, Riga, LV-1011, Latvia) – Present position: Member of the Management Board; Joined A/S Norvik Banka: 2006; Education: Riga Institute of Engineers of the Civil Aviation; MBA, EHHAL Management School, Belgium; Previous employment and banking experience: Since December 2006 A/S Norvik Banka, Riga, Latvia Member of the Board1998-2006 KPMG Baltic, Senior Manager.
Mr Aldis Upenieks has no holdings in A/S Norvik Banka capital. Call Options: None. Holdings of financially related parties: None

No member of the Management Board of A/S Norvik Banka has any actual or potential conflict of interest between his or her duties to the Issuer and his or her private interests or other duties.

Internal Auditor

Ms Marija Stepina – Head of Internal Audit Service of A/S Norvik Banka; Joint A/S Norvik Banka in August 2006; Education: Latvian State University, Master degree in Economics (1998); Previous employment and banking experience: AS "Parekss-banka" (Riga, Latvia) Senior Internal Auditor.

A/S Norvik Banka also has an External Auditor: Audit company – Deloitte Audits Latvia SIA (License No 43) Legal address: 1, Doma Laukums, Riga, LV-1050, Latvia (including year 2006 audit). In year 2006 the auditor responsible for Norvik Bank was: Ms Inguna Staša -Sworn Auditor, personal code (ID in Latvia) 220274-11318 Certificate No.Address:145, Pulkvieža-Brieža Street 7d-523, Riga, Latviaand. In the year 2005 Ms Silvija Gulbe - Sworn Auditor personal code (ID in Latvia): 160765-12018, Certificate No 142, address: 18, Vālodzes Street, Carnikavas pagasts Rīga District, Latvia.

In the Issuers opinion there are no conflicts of interest between individual members of the board of directors of A/S Norvik Banka, its managers, auditors and compliance personnel, on one hand, and the Company, on the other.

10. OPERATING RESULTS FOR 2006 AND CURRENT PERFORMANCE

At the beginning of the year A/S Norvik Banka has successfully attracted foreign strategic investors: the Icelandic company Straumborg ehf and Ice-Balt Invest ehf. A/S Norvik Banka's strategy was revised in order to put a specific focus on the domestic market. At the same time, there were significant changes in the funding base, due to the continued increase in deposits from local depositors and borrowings from international Financial Institutions. The full concentration on the domestic market and the development of new products tailored to meet the local clients' demands have resulted in a substantial increase in the A/S Norvik Banka loan portfolio (+ 68% compared to 2005) and a steep rise in interest income + 17%). A particular success has been the introduction of payment cards and consumer loan programs. These high-margin loans are anticipated to grow further with interest margins to remain stable in the foreseeable future. Following the task to develop lending operations as a core business of A/S Norvik Banka, whilst still maintaining a particular emphasis on industrial and commercial loans for local SME's and consumer lending for private individuals.

Looking at 2006 results, the A/S Norvik Banka Management anticipated both a decline in profits and a moderate increase of customer deposits in general, as a result of the strategy change and the strict compliance program. Revenues from FX (Forex) and settlement businesses, which historically were major sources of income for A/S Norvik Banka, have gradually decreased. The AML and KYC procedures adopted by A/S Norvik Banka are even more rigorous than required by the regulator which led to a decline in overall customer deposits. However, in line with the adopted business plan, the percentage of deposits from and loans to domestic customers are systematically rising (34% at end 2006, 27% at end 2005). At present, the business restructuring process is generally completed; most cost-intensive projects were finished in 2006. The measures required to support the business restructuring have already proved to be successful. This is already clearly visible upon the results achieved by the end of March 2007 - net operating income at 31 March 2007 stood at LVL 4,933,476, and IQ 2007 profit amounted to LVL 1,196,439 and thus exceeds the budgeted one by 105%.The A/S Norvik Banka Management is confident that the 2007 annual profit of 7.6 million will be reached.

The Issuer has registered its new name – A/S Norvik Banka (JSC Norvik Bank) in December 2006 to stress its Icelandic connections and new development strategy.

Financial Highlights Year 2006 (Bank of Latvia exchange rate of LVL/EUR 0.702804)

Loan portfolio grew by 68% to LVL 189.1 million (EUR 269.1 million);

Core capital increased by 50% to LVL 31.8 million (EUR 45.2 million);

- As a result of A/S Norvik Banka's strategy to grow its business with resident customers and reduce its reliance on non-resident business, together with the implementation of a strict AML and KYC Policy, A/S Norvik Banka customer deposits decreased from end 2005 by 12.2% to LVL 202.3 million (EUR 287.8 million).
- The funding base has also been switched with a greater reliance on residential customers' deposits and interbank borrowings.
- As per year end December 2006 the loan to deposit ratio was 91.1%, with resident customers' deposits accounting for 33.6% of total deposits, compared to 17.6% the year before.
- During 2006 operating income amounted to LVL 17.6 million (EUR 25.2 million)
- Profits for 2006 amounted to LVL 3.236 million. The reduction from 2005 (LVL 6.0 million) is attributable to increased expenses connected to A/S Norvik Banka's new strategy towards increased business with resident customers, as well as a significant reduction in the A/S Norvik Banka non-residential business.
- Having implemented the new strategy and completed the restructuring of its business operations, A/S Norvik Banka forecasts a stable and sustainable net profit of LVL 7.6 million (EUR 10.8 million) for the whole of 2007. Financial performance and business development results at end 1Q 2007 demonstrate the projected budget figures to be conservative.

11. SELECTED FINANCIAL INFORMATION

Set out on the following tables are a two years consolidated profit and loss account, balance sheet and key ratios for A/S Norvik Banka, prepared in accordance with IFRS. All amounts are in thousands LVL (Bank of Latvia exchange rates as at 31 December 2006 EUR = LVL 0.702804) except percentages.

Assets	31.12.2006 LVL'000	31.12.2005 LVL'000
Cash and balances with the central bank	28,094	20,380
Balances due from credit institutions	30,930	94,179
Financial assets at fair value through profit or loss	42,313	24,443
Available-for-sale financial assets	5,681	7,783
Loans to customer and receivables	189,820	110,725
Deferred expenses and accrued income	265	430
Investment in subsidiaries	-	-
Goodwill	266	-
Other intangible assets	443	412
Tangible assets	5,362	5,224
Deferred tax assets	12	-
Other assets	1,364	1,386
Total assets	304,550	264,962
Liabilities		
Balances due to credit institutions	65,465	59,514
Financial liabilities at fair value through profit or loss	1,288	261
Customer deposits	202,156	180,288
Subordinated debt	1,777	2,030
Deferred income and accrued expenses	524	327
Provisions for other liabilities	180	204
Deferred tax liabilities	107	57
Other liabilities	1,367	1,056
Total liabilities	**272,864**	**243,737**
Equity		
Share capital	22,500	15,500
Capital reserves	7	7
Revaluation reserve of available-for-sale financial assets	(48)	(261)
Revaluation reserve of foreign currency	(8)	-
Retained earnings	5,979	27
Profit for the year	3,241	5,952
Equity attributable to equity holders of the Bank	**31,671**	**21,225**
Minority interest	**15**	-
Total equity	**31,686**	**21,225**
Total liabilities and equity	**304,550**	**264,962**

Share capital

	31.12.2006		31.12.2005	
	Quantity'000	LVL'000	Quantity'000	LVL'000
Registered and paid – in share capital	22,500	22,500	15,500	15,500

On 27 March 2006 at the Shareholders' Meeting of A/S Norvik Banka, it was decided to increase the share capital by issuing 2,000,000 new registered voting shares with a nominal value of 1 LVL each. On 26 October 2006, the Shareholders' Meeting of A/S Norvik Banka made a decision to increase the share capital by issuing 5,000,000 new registered voting shares with nominal value of 1 LVL per share. As at 31 December 2006, all issued shares are fully paid and A/S Norvik Banka paid-in share capital amounts to LVL 22,500,000 (as at 31 December 2005: LVL 15,500,000).

Earnings per share

Earnings per share are based on net profit divided by the average weighted number of issued shares. As of 31 December 2006 and 2005 there is no difference between basic and diluted earnings per share calculation.

	31.12.2006	31.12.2005
Net Profit (LVL'000)	3,241	5,952
Average weighted number of ordinary shares	16,667	13,604
Earnings per share (LVL)	0.19	0.44

Financial Assets at fair value through profit or loss

	31.12.2006 LVL'000	31.12.2005 LVL'000
Trading bonds and other fixed income securities	**41,189**	**24,073**
Other country bonds	38,279	16,909
OECD country bonds	2,161	6,387
Latvian bonds	749	777
Trading shares and other non-fixed income securities	**59**	**-**
Other country shares	59	-
Derivative instruments	**1,065**	**370**
Cross-currency swap not traded on stock exchange (Swaps)	761	295
Spot foreign exchange contracts (Spot)	150	64
Forward contracts not traded future contract (Forwards)	101	9
On stock exchange traded future contract (Futures)	53	2
Total	**42,313**	**24,443**

Derivative assets and liabilities

Fair value LVL'000

	Assets		Liabilities	
	31.12.2006	31.12.2005	31.12.2006	31.12.2005
Swaps	761	295	742	197
Spots	150	64	194	47
Forwards	101	9	352	7
Futures	53	2	-	10
Total	**1,065**	**370**	**1,288**	**261**

Available-for-sale financial assets

	31.12.2006 LVL'000	31.12.2005 LVL'000
Bonds and other fixed income securities	**5,681**	**7,428**
Latvian bonds	3,536	3,817
OECD country bonds	1,610	3,018
Other country bonds	535	593
Shares and other non-fixed income securities	**-**	**355**
Latvian residents	-	3
Other residents	-	352
Total	**5,681**	**7,783**

Key Ratios

	2006	2005
ROE	19.8%	29.5%
ROA	1.3%	2.4%
CAD	13.17%	14.2%

12. MATERIAL ADVERSE OR SIGNIFICANT CHANGE

Contingent Liabilities

A/S Norvik Banka is named a co-defendant, jointly and severally liable together with several other parties, in a civil litigation at the United States District Court for the Southern District of New York. The claim, which has arisen because of the alleged losses and damages incurred by third parties in a financial investment scheme and managed by companies who had opened accounts in the Issuer, is currently in the discovery stage. The claims of the great majority of the plaintiffs have been dismissed by the Court as to A/S Norvik Banka. The Office of the United States Attorney has moved for leave to intervene for the purpose of making, and made an application to stay discovery in and the imminent trial of this action on the ground that these proceedings threaten to intervene with a pending criminal investigation. The Court has upheld the request of the United States Attorney. The plaintiffs seek an undisclosed amount of punitive damages as well as treble damages and their attorneys' fees. A/S Norvik Banka is confident that it has committed no wrongdoing and it will vigorously defend itself against the claim. A/S Norvik Banka has also been named as a co-defendant by seven plaintiffs in the United States District Court for the Western District of Washington in connection with the same financial investment scheme referred to above. As at the date of this Registration Document, no summons has been served on A/S Norvik Banka. There are two claims made in 2005 in the Riga District Court against the Issuer and co-defendants for caused loss. After getting acquainted with case materials, A/S Norvik Banka is confident that the instituted claims against Issuer are baseless and should be declined.
In the best estimate of the A/S Norvik Banka legal council, the potential damages sought by the plaintiffs in their responses to interrogatories would not exceed 2 million USD. No provision has been made in respect of these matters in these financial statements.

Except as disclosed herein, as of the date of this Registration Document there has been no material adverse change in the prospects of the Issuer or A/S Norvik Banka and its subsidiaries, taken as a whole, since 31 December, 2006.

KAUPTHING BANK

ANNEX 1

JUNE 2007

norvikbanka

Annex I

Translated from Latvian

REGISTERED:
with the RL Enterprise Register
Commercial Registry Institution

on *December 15*, 2006
under Unified Reg. No. 40003072918

(stamp: Notary Public
L. Jauce) (signature)

(Enterprise Register's Seal)

THE JSC "NORVIK BANKA"

ARTICLES OF ASSOCIATION

APPROVED
By the Shareholders' Extraordinary Meeting
on November 16, 2006

RIGA, 2006

1. THE FIRM

Please add the articles of association

1.1. The Company's firm is **JSC "NORVIK BANKA"** (hereinafter referred to as Bank).

1.2. The Bank is a legal person, and has all rights and obligations of a legal person in accordance with the Republic of Latvia legislation and these Articles of Association. The term of Bank's activity is not determined.

1.3. The Bank is an open joint-stock company, shares in which may be an object of public circulation.

1.4. In its activity, the Bank observes these Articles of Association, the RL Credit Institutions Act, the RL Commercial Act, as well as other legal acts currently effective in Republic of Latvia, and resolutions adopted by Bank's Shareholders' General Meeting, and the Board.

2. FIXED CAPITAL AND TYPES OF SHARES

2.1. The Bank's fixed capital amounts to **22 499 928.00 LVL** (twenty-two million four hundred ninety-nine thousand and nine hundred twenty-eight lats).

The Bank's fixed capital is comprised of **22 499 928** (twenty-two million four hundred ninety-nine thousand and nine hundred twenty-eight) shares.

The value of one share is **1.00 LVL** (one lat).

2.2. The Bank may increase or decrease the amount of fixed capital according to resolution adopted by Shareholders' Meeting, and regulations on increase or decrease of fixed capital. The fixed capital may be increased by emitting new shares. The emitted shares shall be paid for by money or by property contribution.

The increase of fixed capital shall be applied by the Bank's Board for registration with Commercial Registry Institution. The fixed capital shall be deemed to have been increased from the date, when new amount of fixed capital is recorded in Commercial Register.

2.3. When the fixed capital is increased, the existing shareholders have the right of first refusal to shares of new emission proportionally to the sum of nominal values of their owned shares, except for cases, when the fixed capital is increased with a special purpose.

The increase of fixed capital shall be applied by the Bank's Board for registration with Commercial Registry Institution. The fixed capital shall be deemed to have been increased from the date, when new amount of fixed capital is recorded in Commercial Register.

2.4. All **22 499 928** shares are **voting shares**, and grant equal rights to vote at Shareholders' Meeting, to receive dividend and liquidation quota. Each voting registered share paid for in minimum nominal value grants the right to one vote at Shareholders' Meeting.

2.5. All shares are **registered shares**.

2.6. All shares are of **dematerialized format**.

2.7. According to the order established in legal acts of Republic of Latvia, and resolution adopted by Shareholders' Meeting, the Bank may emit also other types of shares, including preference shares and personnel shares.

THE BANK'S ORGANIZATIONAL STRUCTURE
3. SHAREHOLDERS' MEETING

3.1. The Bank is governed by Shareholders' Meeting, the Council and the Board.

3.2. Shareholders' Meeting is the Bank's superior governing institution, by which the shareholders exercise their rights to participate in governing the Bank.

3.3. Both regular and extraordinary Shareholders' Meetings shall be convened.

3.4. A regular Shareholders' Meeting shall be convened by the Board each year after receipt of auditor's opinion on the annual report for the past year, but not later than in 3 months after closing the Bank's fiscal year. In the event, that the Bank's Board did not convene a regular Shareholders' General Meeting by the term mentioned in this Clause, it may be convened by the Council, Commercial Registry institution or a liquidator.

3.5. A regular Shareholders' Meeting shall adopt a resolution on the annual report, statements given by the Board and Council, and on the use of profit earned during the past year, as well as on other matters included in its agenda.

3.6. An extraordinary Shareholders' Meeting shall be convened by the Board on its own initiative, or if so requested by the Council, auditor or shareholders, jointly representing not less than one tenth of Company's fixed capital.

3.7. Solely Shareholders' Meeting is entitled to adopt resolutions on:
3.7.1. approving the Bank's annual report;
3.7.2. distributing profit for the past year;
3.7.3. electing and revoking the Council Members, auditor and liquidator;
3.7.4. bringing an action against the Board and Council Members and auditor, or waiving such action against them, as well as on appointing the Bank's representative for holding an action against the Council Members;
3.7.5. making amendments in the Bank's Articles of Association;
3.7.6. increasing or decreasing the fixed capital;
3.7.7. emitting and converting the Bank's securities;
3.7.8. determining the remuneration of the Council Members and auditor;
3.7.9. nominal value of earlier issued shares;
3.7.10. termination, continuation or reorganization of the Bank's activities.

3.8. A notification of convening Shareholders' Meeting shall be delivered to shareholders by registered mail not less than 30 days before the envisaged meeting.

3.9. Shareholders' Meeting is entitled to adopt resolutions regardless of the amount of fixed capital represented at a meeting. Shareholders' Meeting shall adopt resolutions by majority of the present votes.

3.10. Resolutions on:
3.10.1. making amendments in the Articles of Association;
3.10.2. increasing or decreasing the fixed capital;
3.10.3. emission of convertible bonds;

3.10.4. reorganization of the Bank, continuation or termination of its activity shall be adopted, if for that voted not less than **three fourths** of the present shareholders entitled to vote.

4. THE COUNCIL

4.1. The Council is the Bank's supervisory institution, which represents the shareholders' interests in the meantime between meetings, and supervises the Board's activity within the framework stipulated in the RL Commercial Act and in these Articles of Association.

4.2. The Council is constituted of 6 (six) members.

4.3. The Council shall be elected for the term not exceeding three years.

4.4. A member of the Council is entitled to resign at his own will and at any time from his office with the Council by submitting a relevant notice to the Bank.

4.5. The assignments of the Council are as follow:
4.5.1. to elect and revoke the Board Members, to supervise permanently the Board's activity;
4.5.2. to monitor, that the Bank's affairs are settled according to laws, Articles of Association and resolutions adopted by shareholders' meeting;
4.5.3. to review the Bank's annual report and proposal from the Board regarding the use of profit, and draw up an appropriate statement;
4.5.4. to represent the Bank at court in all the actions brought by the Bank against the Board Members, as well as in actions brought by the Board Members against the Bank, and also represent the Bank in other legal relations with the Board Members;
4.5.5. to approve conclusion of transactions between the Bank and a Board member or auditor (except for deposit placements);
4.5.6. to consider beforehand all the matters, which are within the scope of reference of Shareholders' Meeting or which according to proposal from either the Board or Council Members are recommended for discussion at a meeting, and give its opinion thereon.

4.6. The Council is not entitled to decide on the matters, which are within the scope of reference of the Board. For the Board, the Council's consent shall be necessary to make decisions on the following matters:
4.6.1. acquiring an interest in other companies, its increase or alienation;
4.6.2. acquiring and alienating enterprises or suspending their activity, if this is not related to the Bank's everyday activity;
4.6.3. purchasing immovable properties, their selling or encumbering with law of property;
4.6.4. opening or closing of Accounts Settlement Groups;
4.6.5. establishing and closing branches and representatives offices;
4.6.6. approving the Bank's budget for regular year, and its action plan;
4.6.7. approving the most substantial policies and strategy of the Bank;
4.6.8. making fundamental changes in the Bank's organizational structure.

4.7. The Council is entitled to make decisions, if at its meeting more than a half of the Council Members' number is present.

4.8. The Council shall adopt its decisions by simple majority of the present votes.

4.9. A member of the Council, who does not participate in the Council's meeting, may vote in writing by submitting his vote to another member of the Council.

5. THE BOARD

5.1. The Board is the Bank's executive institution, which governs and represents the Bank. The Board superintends and manages the Bank's affairs, bears responsibility for the Bank's commercial activity, bookkeeping complying with the requirements of law, manages the Bank's property and deals with its resources in accordance with laws, Articles of Association and resolutions adopted by Shareholders' Meeting.

5.2. The Board is constituted of 5 (five) members.

5.3. The Board shall be elected by the Council for the term not exceeding three years.

5.4. Chairman of the Board shall be appointed by the Council from amongst the elected Members of the Board.

5.5. The Board Members have the following rights to represent the Bank:
5.5.1. Chairman of the Board represents the Bank separately;
5.5.2. One Member of the Board represents the Bank separately;
5.5.3. The rest three Members of the Board represent the Bank each jointly with another one Member of the Board.

5.6. A member of the Board may be revoked by the Council, if there exists an important reason for that.

5.7. A member of the Board may resign at his own will and at any time from his office by submitting a relevant notice to the Bank.

5.8. The Board is entitled to make decisions, if at its meeting more than a half of the Board Members' number is present.

5.9. The Board shall adopt its decisions by simple majority of the present votes.

5.10. The Board shall submit a written report on its activity once in a quarter to the Council, and at the end of a year to Shareholders' Meeting. In such report, the following shall be reflected:
5.10.1. results of the Bank's commercial activity;
5.10.2. economic situation of the Bank, its profitability, turnover and securities' movement;
5.10.3. any circumstances, which may affect the Bank's economic situation;
5.10.4. policy of commercial activity as planned for the future reporting period.

6. CONDITIONS FOR ALIENATION OF SHARES

6.1. The Bank's shares may freely pass in other person's ownership (by selling them, presenting as a gift, as a legacy, etc.).

6.2. After shares are sold, their acquirer and alienator shall submit their statement to the Bank's Board, on the grounds of which appropriate changes shall be made in Shareholders' Register.

7. ANNUAL REPORT AND DISTRIBUTION OF PROFIT

7.1. After the end of a reporting year, the Board shall draw up and sign the Bank's annual report, and submit it to auditor and Council.

7.2. Upon receipt of auditor's opinion and notification from the Council, the Board shall convene a regular Shareholders' Meeting, at which an annual report for the past year shall be approved.

7.3. Approving of the Bank's annual report at a regular Shareholders' Meeting shall be postponed, if:
7.3.1. opinion given by an invited auditor differs from that given by an elected auditor;
7.3.2. it is so requested by shareholders representing at least one tenth of the fixed capital, who question the correctness of particular items in annual report.

7.4. A proposal on distribution of profit for the past year shall be prepared by the Board and submitted to Shareholders' Meeting for discussion.

7.5. A regular Shareholders' Meeting shall decide on the use of profit after approving the Bank's annual report.

7.6. Dividend may be determined and calculated once a year. Dividend may be paid out only in the form of money on a basis of resolution adopted by Shareholders' Meeting, proportionally to the sum of nominal values of shares owned by a shareholder.

7.7. Dividend may be calculated and paid out only for shares paid in full.

8. AUDITING INSTITUTION

8.1. The Bank's annual report shall be verified by an auditor giving his opinion on it, who shall be elected at Shareholders' Meeting for each following reporting year.

8.2. The internal audit and control of the Bank's activity shall be ensured by the Bank's Internal Auditing Service.

8.3. The Internal Auditing Service shall report to the Council, and maintain contacts with a contact person appointed by the Board.

Chairman of the Board (signed) A.Svirčenkovs
(Bank's Seal)

(on reverse side:)

Stitched together and numbered
6 (six) pages
(Bank's Seal)

JSC "LATEKO BANKA"
Chairman of the Board (signed) (Bank's Seal) *A. Svirčenkovs*
At Riga, December 11, 2006

(stamp: Notary Public
L.Jauce)
(signed)
(Enterprise Register's Seal)

Riga, K. Barona Street 32, on 08 January, 2007 I, a sworn notary ZANE ERNŠTREITE, verify that this duplicate of the original of the document is correct.

The original of the document was presented by **TATJANA RUDZEIŠA,** born on April 4, 1976, personal identification code 040476-12716, residing in Riga, Merķeļa Street 10, apt. 23.

The sworn notary does not examine the legitimacy of the issue of the submitted document but examines only its compliance to the presented document.

Registered under entry No. 364.
State duty paid Ls 0.35
Office fee Ls 7.00
VAT Ls 1.26
Total: Ls 8.61

Sworn Notary Public: *ZANE ERNŠTREITE*

(seal)
(signature)

The translation was made by the sworn translator **TATJANA RUDZEIŠA**

In Riga, K. Barona Street 32, on 08 January, 2007 I, the sworn notary Zane Ernštreite, verify the authenticity of the sworn translator known to me **TATJANA RUDZEIŠA,** born on April 4, 1976, personal identification code 040476-12716, residing in Riga, Merķeļa Street 10, apt. 23.

This document where only the authenticity of the signature is verified is declared a private document and the notary does not bear responsibility for its content.

Registered under entry No. 804.
State duty paid Ls 0.20
Office fee Ls 2.25 (two lats and twenty-five santims)
18% VAT Ls 0.41 (forty-one santims)
Total: Ls 2.86 (two lats and eighty-six santims)
Sworn Notary Public: *ZANE ERNŠTREITE*

LATVIJAS REPUBLIKA RĪGAS APGABALTIESAS ZVĒRINĀTA NOTĀRE ZANE ERNŠTREITE RĪGA

Stitched and numbered 13 pages
Sworn Notary
Zane Ernštreite

LATEKO BANKA

A/S NORVIK BANKA

JUNE 2007

Annex II

Joint Stock Company
"LATEKO BANKA"

Financial statements prepared in accordance with International Financial Reporting Standards and the requirements of the Latvian Financial and Capital Market Commission for the years ended 31 December 2005 and 2004 and independent auditor's report

CONTENTS

We are pleased to present for your evaluation the financial statements for JSC LATEKO BANKA for 2005.

The rate of the Latvian economic development in 2005 has been one of the fastest in the European Union, which testifies to the successful incorporation of the country's economy into the single European economic space and adequacy of the national economy to it.

The last year has been a year of significant and qualitative changes for the JSC LATEKO BANKA. Negotiations were started about the procurement of a strategic investor, and this process has been successfully completed after the reporting period. At the date of approving these financial statements the shareholders of the Bank are reputable and experienced Icelandic and Latvian companies and entrepreneurs: 51 % of the equity is held by *Straumborg Ehf*, represented by Jon Helgi Gudmundsson, 19.8% - by Andrejs Svirčenkovs, 19.8% – by Jurijs Šapurovs, 9% – by *Ice-Balt Invest*, represented by Thorsteinn Olafsson and Vitālijs Gavrilovs, 0.4% – by other shareholders.

The strategy chosen by the Bank in offering and development of new services, as well as in the development of the service centres and used the price policy, has brought the return, having attracted new clients and leading to an increase in the activity of the existing clients.

LATEKO BANKA actively commenced to offer private individuals high popularity products such as the VIVA payment card with a credit for purchase of goods and services; automatic bills payment (direct debit) for various regular payments.

LATEKO BANKA has supplemented the range of currency conversion and trade services and commenced offering to professional currency market participants the LATEKO PRIME FOREX, the trading platform for currency conversion in the interbank currency market. Therefore, at present, the currency conversion and trading possibilities are provided according to the needs of each client group, irrespective whether these are private individuals, enterprises or large banks.

The Bank has also become significantly more active in the securities market. LATEKO BANKA has participated in organising and distributing of the emission of 100 million USD eurobonds issued by foreign bank.

The international financial magazine "The Banker" has named LATEKO BANKA the best bank in Latvia in 2005. Prior to granting the Bank of the Year award - a very prestigious award in the finance world an assessment of qualitative and quantitative achievements of the Bank, such as investments in technological development and in innovations, the financial indicators, and the development strategy chosen by the Bank, has been done.

In 2005 the Bank has opened thirteen new client service centers. The Bank received a permission from the Central Bank of the Republic of Belarus to open a representative office in Minsk. JSC LATEKO BANKA has become a member of the Association of Foreign Banks (in the United Kingdom) and a member of the Association of Russian Banks.

In conclusion, we would like to express our gratitude to employees and shareholders of the Bank for their investment into the Bank's development. We also thank our clients and partners for the successful cooperation and trust.

Chairman of the Supervisory Council
J. H. Gudmundsson

Chairman of the Management Board
S. Gusarovs

Riga, 27 March 2006

Supervisory Council as of 31 December 2005

Name	Position	Date of initial appointment
A. Svirčenkovs	Chairman of the Council	25/08/2004
J. Šapurovs	Deputy Chairman of the Council	18/02/2005
A. Bagautdinovs	Member of the Council	12/08/2005
V. Keiša	Member of the Council	02/05/2005

During the reporting period the following persons resigned their position:
- Deputy Chairman of the Council Ē. Rusbergs
- Member of the Council J. Bervjačonoka

During the reporting period the following persons were appointed:
- Deputy Chairman of the Council J. Šapurovs
- Member of the Council A. Bagautdinovs
- Member of the Council V. Keiša

Management Board as of 31 December 2005

Name	Position	Date of initial appointment
S. Gusarovs	Chairman of the Board	29/03/2005
I. Skobeļeva	First Vice President	27/07/2004
J. Svirčenkovs	Vice President	24/08/2004
O. Agarelova	Chief accountant	24/08/2004
N. Drozd	Vice President	12/08/2005

During the reporting period following persons resigned their position:
- Chairman of the Board O. Guļāns
- Vice President J. Šapurovs
- Vice President A. Bagautdinovs

During the reporting period the following persons were appointed:
- Chairman of the Board S. Gusarovs
- Vice President N. Drozd

Riga, 27 March 2006
On behalf of the Supervisory Council and Management Board:

Chairman of the Supervisory Council J. H. Gudmundsson	Chairman of the Management Board S. Gusarovs

The Management of JSC LATEKO BANKA is responsible for preparing the financial statements in accordance with the source documents and present fairly the Bank's financial position 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.
The management confirms that suitable accounting policies have been used and applied consistently, except as further described in note 2 to the financial statements, and reasonable and prudent judgments and estimates have been made in the preparation of the financial statements for the period from 1 January 2004 to 31 December 2004 and for the period from 1 January 2005 to 31 December 2005 set out on pages 7 to 42. The management also confirms that applicable International Financial Reporting Standards have been used in the preparation of the financial statements and that these financial statements have been prepared on a going concern basis and comply with the Regulations on the Preparation of Financial Statements of Banks issued by the Latvian Financial and Capital Market Commission in all material respects.
The Bank's management is also responsible for keeping proper accounting records, for taking reasonable steps to safeguard the assets of the Bank and to prevent and detect fraud and other irregularities. They are also responsible for managing the Bank in compliance with the Regulations on the Preparation of Financial Statements of Banks issued by the Latvian Financial and Capital Market Commission and Regulations on the Annual Reports of Credit Institutions and other legislation of the Republic of Latvia in all material respects.

Riga, 27 March 2006

On the behalf of the Supervisory Council and Management Board:

Chairman of the Supervisory Council J. H. Gudmundsson	Chairman of the Management Board S. Gusarovs

INDEPENDENT AUDITOR'S REPORT

To the shareholders of JSC "LATEKO BANKA":

We have audited the accompanying financial statements (page 7 to 42) of JSC "LATEKO BANKA" (the "Bank"), which comprise the balance sheet as of 31 December 2005, and the related 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. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements, taken as a whole, based on our audit.

We conducted our audit in accordance with International Standards on Auditing issued by the International Federation of Accountants. Those Standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank as of 31 December 2005, and the results of its operations, changes in equity and its cash flows for the year then ended in accordance with International Financial Reporting Standards and the financial reporting requirements of the Latvian Financial and Capital Market Commission.

We also audited the adjustments described in note 2(1) (page 12-13) that were applied to restate the 2004 financial statements to give retroactive effect to the change in accounting policies. In our opinion, such adjustments are appropriate and have been properly applied.

Without qualifying our opinion, we draw your attention to Note 40 of the financial statements regarding a legal claim against the Bank.

We have read the management report for the year ended 31 December 2005 as shown on page 3 of the annual report and we have not identified any material discrepancies between the historical financial information presented in the management report and the financial statements for the year ended 31 December 2005.

Deloitte Audits Latvia Ltd.
License No. 43

Kenneth Taylor Hansen
Authorised representative

Silvija Gulbe
Sworn auditor
Certificate №142

Riga, Latvia
27 March 2006

INCOME STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2005 AND 2004

	Notes	2005 LVL'000	2004 LVL'000 (as restated)
Interest income		12 075	7 799
Interest expense		(3 001)	(2 239)
Net interest income	4	**9 074**	**5 560**
Fee and commission income		5 818	8 755
Fee and commission expense		(1 616)	(1 994)
Net fee and commission income	5	**4 202**	**6 761**
Dividend income		14	14
Profit from available-for-sale financial assets, net	6	1 220	(100)
Profit from trading securities, net	7	293	962
Profit from trading and revaluation of foreign currency, net	8	2 938	2 615
Other income	9	427	368
Other expense		(192)	(90)
Operating income		**17 976**	**16 090**
Administrative expenses	10	(10 555)	(9 246)
Depreciation and amortization		(766)	(700)
Provisions for doubtful debts	18	15	(296)
Increase in provisions		*(106)*	*(382)*
Release of provisions and recovery of previous write-off's		*121*	*86*
(Loss) / gain from subsidiaries		-	(12)
Operating expense		**(11 306)**	**(10 254)**
Net operating profit before corporate income tax		**6 670**	**5 836**
Corporate income tax	11	(718)	(793)
Profit for the year		**5 952**	**5 043**
Basic and Diluted Earnings per share (LVL)	31	0.44	0.43

The accompanying notes on pages 12 to 42 form an integral part of these financial statements.
The financial statements on pages 7 to 42 were approved by the Supervisory Council and the Management Board on 27 March 2006, and signed on their behalf by:

Chairman of the Supervisory Council
J. H. Gudmundsson

Chairman of the Management Board
S. Gusarovs

	Notes	31.12.2005 LVL'000	31.12.2004 LVL'000 (as restated)
Assets			
Cash and balances with the central bank	12	20 380	15 053
Balances due from credit institutions	13	94 179	173 159
Demand deposits		*65 194*	*137 088*
Other balances due from credit institutions		*28 985*	*36 071*
Trading securities	14	24 073	20 791
Derivative assets	15	306	478
Available-for-sale financial assets	16	7 783	19 715
Loans	17	109 553	75 268
Deferred expenses and accrued income	19	430	804
Investments in subsidiaries		-	1 000
Intangible assets	20	412	163
Tangible fixed assets	21	5 224	5 526
Other assets	22	2 622	2 090
Total assets		**264 962**	**314 047**

The accompanying notes on pages 12 to 42 form an integral part of these financial statements.
The financial statements on pages 7 to 42 were approved by the Supervisory Council and the Management Board on 27March 2006, and signed on their behalf by:

Chairman of the Supervisory Council
J. H. Gudmundsson

Chairman of the Management Board
S. Gusarovs

	Notes	31.12.2005 LVL'000	31.12.2004 LVL'000 (as restated)
Liabilities			
Due to credit institutions	24	59 514	64 915
Demand deposits		*9 504*	*6 336*
Term deposits		*34 463*	*38 333*
Financial liabilities as result of collateralised financial assets(repo)		*15 547*	*20 246*
Derivative liabilities	15	214	192
Customer deposits	25	180 288	225 868
Subordinated debt	26	2 030	2 026
Deferred income and accrued expenses	27	327	1 374
Provisions for other liabilities	28	204	182
Deferred tax	11	57	59
Other liabilities	29	1 103	1 971
Total liabilities		**243 737**	**296 587**
Equity			
Paid-in share capital	30	15 500	12 250
Capital reserve		7	7
Revaluation reserve of available-for-sale financial assets		(261)	(27)
Retained earnings		27	187
Profit for the year		5 952	5 043
Total equity		**21 225**	**17 460**
Total liabilities and equity		**264 962**	**314 047**
Commitments and contingencies			
Contingent liabilities		4 169	1 451
Off-balance sheet liabilities		16 231	16 414
Total commitments and contingencies	33	**20 400**	**17 865**
Contingent liabilities	**40**		

The accompanying notes on pages 12 to 42 form an integral part of these financial statements.
The financial statements on pages 7 to 42 were approved by the Supervisory Council and the Management Board on 27 March 2006, and signed on their behalf by:

Chairman of the Supervisory Council
J. H. Gudmundsson

Chairman of the Management Board
S. Gusarovs

STATEMENTS OF CHANGES IN EQUITY FOR THE YEARS ENDED 31 DECEMBER 2005 AND 2004

	Paid-in share capital	Capital reserve	Retained earnings	Revaluation reserve for available-for-sale financial assets	Total
	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000
As at 31 December 2003 (as previously reported)	**9 931**	**7**	**2 319**	**-**	**12 257**
Revaluation of available-for-sale financial assets (Note 2(1))	-	-	187	(187)	-
As at 31 December 2003 (as restated)	**9 931**	**7**	**2 506**	**(187)**	**12 257**
Revaluation of available-for-sale financial assets	-	-	-	160	160
Increase of share capital	2 319	-	(2 319)	-	-
Profit for the year (as restated)	-	-	5 043	-	5 043
As at 31 December 2004 (as restated)	**12 250**	**7**	**5 230**	**(27)**	**17 460**
Revaluation of available-for-sale financial assets	-	-	-	(234)	(234)
Increase of share capital	3 250	-	-	-	3 250
Dividends	-	-	(5 203)	-	(5 203)
Profit for the year	-	-	5 952	-	5 952
As at 31 December 2005	**15 500**	**7**	**5 979**	**(261)**	**21 225**

The accompanying notes on pages 12 to 42 form an integral part of these financial statements.
The financial statements on pages 7 to 42 were approved by the Supervisory Council and the Management Board on 27 March 2006, and signed on their behalf by:

Chairman of the Supervisory Council
J. H. Gudmundsson

Chairman of the Management Board
S. Gusarovs

CASH FLOW STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2005 AND 2004

	Note	2005 LVL'000	2004 LVL'000 (as re-stated)
Cash flows from (to) operating activities			
Profit before corporate income tax		6 670	5 836
Depreciation of intangible and tangible fixed assets		1 392	1 165
Increase in provisions for doubtful debts and off-balance sheet liabilities		21	311
Profit from foreign exchange revaluation		(3 321)	(1 476)
Loss from subsidiaries		-	12
Operating cash flows before changes in operating assets and liabilities		**4 762**	**5 848**
Increase in balances due from credit institutions		(6 817)	(1 490)
Increase in loans		(34 316)	(33 575)
Decrease/(increase) in available for sale financial assets		11 698	(1 656)
Increase in trading financial assets		(3 110)	(6 270)
Decrease/(increase) in deferred expenses and accrued income		374	(678)
(Increase)/decrease in other assets		(208)	868
Increase/(decrease) in term liabilities to credit institutions		1 422	(323)
(Decrease)/increase in deposits		(45 580)	2 380
Increase in trading financial liabilities		22	30
(Decrease)/increase in deferred income and accrued expenses		(1 047)	434
Decrease in other liabilities		(838)	(1 224)
Cash (used in) operating activities		**(73 638)**	**(35 656)**
Corporate income tax paid		(1 042)	(570)
Net cash used in operating activities		**(74 680)**	**(36 226)**
Cash flows from (to) investing activities			
Acquisition of intangible and tangible fixed assets		(1 369)	(3 213)
Proceeds from sale of intangible and tangible fixed assets –		30	204
Proceeds from sale of subsidiary		1 000	-
Net cash (used in) investing activities		**(339)**	**(3 009)**
Cash flows from (to) financing activities			
Increase of share capital		3 250	-
Subordinated debt		4	1 276
Payment of dividends		(5 203)	-
Net cash (used in)/provided by from financing activities		**(1 949)**	**1 276**
Net decrease in cash and cash equivalents		**(76 968)**	**(37 959)**
Cash and cash equivalents at the beginning of the year		121 155	157 638
Profit from foreign exchange revaluation		3 321	1 476
Cash and cash equivalents at the end of the year	32	**47 508**	**121 155**

The accompanying notes on pages 12 to 42 form an integral part of these financial statements.
The financial statements on pages 7 to 42 were approved by the Supervisory Council and the Management Board on 27 March 2006, and signed on their behalf by:

Chairman of the Supervisory Council
J. H. Gudmundsson

Chairman of the Management Board
S. Gusarovs

1. GENERAL INFORMATION

"LATEKO BANKA" ("the Bank") is a joint stock company incorporated in the Republic of Latvia, acting in accordance with Latvian legislation and License No. 30 issued by the Bank of Latvia on 27 April 1992. The legal address of JSC "LATEKO BANKA" is E. Birznieka-Upīša street 21, Riga LV-1011, Latvia.

The Bank has a central office, 8 branches, 67 accounting groups and one representative office in Minsk. The main banking operations are local and international money transfers, the issuance of loans, securities operations and foreign currency transactions.

2. SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES

(1) Basis of preparation

The accompanying financial statements are presented in the national currency of Latvia in thousands of lats ("LVL").
The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and the regulations of the Latvian Financial and Capital Market Commission (FCMC). In the current year, the Bank has adopted all of the new and revised Standards and Interpretations issued by the International Accounting Standards Board (the IASB) and the International Financial Reporting Interpretations Committee (IFRIC) of the IASB that are relevant to its operations and effective for accounting periods beginning on 1 January 2005. The adoption of these new and revised Standards and Interpretations has resulted in changes to the Bank's accounting policies as described below.
Changes in accounting policies

In accordance with changes in IAS 39 *Financial Instruments: Recognition and Measurement* (revised and effective 1 January 2005) and consequential changes in the Bank's accounting policies, a gain or loss arising from a change in the fair value of available-for-sale financial assets is recognised directly in equity in the caption revaluation reserve for available-for-sale financial assets (until 1 January 2005 revaluation has been reflected through the income statement). After derecognition of the financial asset, the cumulative gain or loss previously recognized in equity is recognized in the income statement.

The change in accounting policy has been accounted for retrospectively. The effect of the change on previously reported figures is tabulated below.

Income statement	**Note**	**31.12.2004 LVL'000 (restated)**	**31.12.2004 LVL'000 (previously reported)**
Profit from trade in available-for-sale financial assets, net	6	(100)	119
Profit from trading financial assets and financial liabilities, net	7	962	855
Profit from trade and revaluation of foreign currency, net	8	2 615	2 663
Total profit from financial instruments, net		**3 477**	**3 637**
Profit for the period		**5 043**	**5 203**

Balance sheet	**31.12.2004 LVL'000 (as restated)**	**31.12.2004 LVL'000 (previously reported)**
Equity		
Paid-in share capital	12 250	12 250
Capital reserve and other reserves	7	7
Revaluation reserve for available-for-sale financial assets	(27)	-
Retained earnings for previous years	187	-
Profit for the period	5 043	5 203
Total equity	**17 460**	**17 460**
Total liabilities and equity	**314 047**	**314 047**

As of 1 January 2005 the Bank recognises commission fee income during the validity of loan agreements.

Change in accounting estimate

As a result of amendments in *IAS 39, Financial Instruments: Recognition and Measurement*, from 1 January 2005 the Bank has changed the principles used for calculation of provisions for possible loan losses. The Bank developed and approved the internal procedure for loans assessment. According to the new loan assessment procedure, the Bank measures the amount of the loss as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. As of 31 December 2005 the application of the new method resulted in a decrease of provisions by LVL'000 161.

Adoption of new and revised International Financial Reporting Standards issued not yet effective

At the date of approval of these financial statements following IFRS were issued but not yet effective. The Bank anticipates that the adoption of these Standards and Interpretations in future periods will have no material impact on the financial statements of the Bank.

New standard, interpretation, amendment	Issued	Effective for annual periods beginning on or after
Amendments to IAS 39	2004	1 January 2006
Amendment to IAS 1 to add capital disclosures	2005	1 January 2007
IFRS 6 Exploration for and evaluation of mineral resources (IFRS 1 amended accordingly)	2004	1 January 2006
IFRS 7 Financial Instruments: Disclosure (supersedes IAS 30)	2005	1 January 2007
IFRIC 4 – Determining whether an Agreement contains a Lease	2004	1 January 2006
IFRIC 5 Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds	2004	1 January 2006
IFRIC 6 Liabilities arising from Participation in a specific market – Waste electrical and electronic references	2005	1 December 2005
IFRIC 7 Applying the restatement approach under IAS 29 Financial reporting in hyperinflationary economies	2005	1 March 2006
IFRIC 8 Scope of IFRS 2	2006	1 May 2006
IFRIC 9 Reassessment of embedded derivatives	2006	1 June 2006

(2) Foreign currency translation

Transactions denominated in foreign currencies are translated into Latvian lat (LVL) at the official Bank of Latvia exchange rate on the date of the transaction, which approximates the prevailing market rates. Monetary assets and liabilities, including unmatured commitments to deliver or acquire foreign currencies under spot exchange transactions, if any, are translated at the exchange rate on the balance sheet date.

All realised gains and losses are recorded in the income statement in the period in which they arise. Unrealised gains and losses on exchange rate translation are credited or charged at foreign exchange rates prevailing at the year-end to the income statement.
The foreign currency exchange rates for the principal currencies that were used as of the end of the period were as follows (lats for one foreign currency unit):

	Bank of Latvia exchange rates as of 31 December 2005	Bank of Latvia exchange rates as of 31 December 2004
EUR	0.702804	0.703000
RUR	0.020600	0.018600
USD	0.593000	0.516000

(3) Financial assets and liabilities

Financial asset or financial liability at fair value through profit or loss
Financial assets and liabilities held for trading are those that have been acquired or have arisen, mainly for the purpose of gaining profit from short-term fluctuations in prices. These include trading securities and derivative financial transactions.
Trading securities are initially recorded at their purchase value (including securities purchase costs); subsequently these securities are recorded at their fair value, based on quoted market price. Any realized and unrealized profit or loss is recorded in the income statement as net profit or loss from trading securities. In recording trading securities the Bank uses the date of purchase or sale of securities.
The Bank operates with derivative financial instruments such as future currency agreements (forwards), currency exchange agreements (swaps) and future currency agreements traded on stock exchange *(futures)*. Derivatives do not qualify for hedge accounting purposes. Fair value of derivative transactions is recorded in balance sheet accounts as "derivatives". Changes in the fair value of derivatives are included in the income statement on a daily basis.

Available-for-sale financial assets are those non-derivative financial assets that are designated as available for sale or are not classified as loans and receivables, held-to-maturity investments or financial assets at fair value through income statement. Available-for-sale financial assets include money market placements and certain debt and equity investments.

Securities available for sale are initially recorded at their purchase value (including expenses on purchase of the securities). Subsequently, securities are stated at their fair value based on quoted market prices. If securities are not a subject for active sale its fair value is stated using alternative methods (for example, prices of similar investments).

Available-for-sale assets, for which the market price is not quoted and which fair value is not possible to measure by using other previously mentioned alternative methods, are recorded at their purchase value less allowance for permanent diminution in value, when appropriate.

Unrealised gains or losses on available-for-sale investments are recognized directly in equity, except for impairment losses and foreign exchange gains and losses until the financial asset is derecognized, at which time the cumulative gain or loss previously recognized in equity is recognized in the income statement.

Loans are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.
Loans are measured at amortised cost using the effective interest rate method. The amortised cost of a loan is the amount at which the loan is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.
Finance lease
A finance lease is a lease that transfers substantially all the risks and rewards incident to ownership to the lessee at the inception of the lease. Receivables arising from finance lease are recognised as loans granted to clients. Received lease payments, less principal amount, are recognised as interest

income using effective interest rate method.
When a finance lease receivable is uncollectible it is written off against the related impairment provision; subsequent recoveries are credited to the provision expense in the income statement.

Fair value of financial assets and liabilities
Fair value represents the amount at which an asset could be exchanged or a liability settled on an arm's length basis. Where, in the opinion of the management, the fair values of financial assets and liabilities differ materially from their carrying values, such fair values are separately disclosed in the notes to the financial statements.

Impairment of financial assets

The Bank assesses, at each balance sheet date, whether there is objective evidence that a financial asset or group of financial assets is impaired.

The Bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant and for all loans with overdue payments or interest regardless of the size of the outstanding principal. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in the collective assessment of impairment.

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and estimated present value of future cash flows. Due to the fact that the Bank's portfolio mainly consists of loans with collateral the Bank uses discounted collateral realisation value as an approximation of the present value of future cash flows.

For the measurement of collective impairment the bank assumes that all contractual cash flows will be received and recognises impairment loss based on historical loss experience which is adjusted on the basis of currently available data.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics mainly based on collateral type.

The carrying amount of the asset is reduced through the use of an allowance and the increase/decrease in the amount of the impairment loss is recognised in the income statement.

(4) Intangible and tangible fixed assets

All fixed tangible and intangible assets are recorded at their cost net of depreciation. Depreciation is calculated on a straight-line basis using the following depreciation rates:

Intangible assets:	*Annual charge*
Licenses	20 %
Software	33 %
Tangible fixed assets:	
Buildings	10 %
Other	10 % - 33%

(5) Leasehold improvements
Leasehold improvements are capital investments (internal re-planning and interior work) in the office building of the Bank. Leasehold improvements are amortized over a period of 5 years.

(6) Investments in subsidiaries
Investments in subsidiaries are shown at cost. At least once each year an impairment test is performed.
(7) Income and expense recognition

Interest income and expenses are recognized in the income statement on accrual basis of accounting using the effective interest rate method for all interest bearing financial assets and liabilities.
Loan origination fees are included in determining the loan value at amortized cost using the effective interest rate method.
Fees and commissions are generally recognised on an accrual basis when the service has been provided. Income and expenses relating to the reporting period are disclosed in the income statement irrespective of the date of receipt or payment.

(8) Cash and cash equivalents
Cash and cash equivalents comprise cash and deposits with the Bank of Latvia and other credit institutions with a maturity of less than 3 months when purchased less balances due to the Bank of Latvia and credit institutions with a maturity of less than 3 months.

(9) Taxes
Corporate income tax is calculated in conformity with the tax legislation of the Republic of Latvia. Deferred taxation is provided for all temporary differences arising between the accounting and taxation treatment of income and expenses according to accounting and taxation legislation. The deferred taxation liability is calculated based on the tax rates that are expected to apply when the temporary differences reverse. The principal temporary differences arise from the differing rates of amortisation (depreciation) on intangible and tangible assets and tax losses carried forward. When an overall deferred tax asset arises, this is only recognised in the financial statements where its recoverability is foreseen with reasonable certainty.

(10) Managed assets and liabilities
This includes assets and liabilities held by the Bank on behalf of clients and registered in the name of the Bank. The Bank does not carry credit, interest rate or any other risk connected with these managed assets.

(11) Use of estimates
In preparing the financial statements, the management of the Bank makes estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

3. RISK MANAGEMENT

To ensure the control and management over financial risks, the Management Board and Supervisory Council of the Bank has approved an internal financial risks control policy regarding the significant risks, liquidity risk, credit risk and market risk, and regulates the other documents, that comprise the system for the Bank's financial risk management.
The Bank's Internal Financial Risk Management Policy determines ***Liquidity risk*** control and management, and includes the treatment of the risk of the untimely settlement of customer and other legal creditor claims. The Management Board of the Bank and the Assets and Liabilities Committee state general liquidity risk management criteria by regulating the volumes, terms and directions of the Bank's activities. The Treasury department manages *liquidity's I Reserve fund* (cash, balances with correspondent bank accounts and short term interbanking deals).
Liquidity risk management and control is based on asset and liability term analysis, internal limit regulations regarding the net liquidity position, the effective usage of *liquidity`s I Reserve fund* and liquidity regulation for the remaining free resources, etc.
Credit risk includes the risk of untimely or incomplete settlement of debtor balances. The Bank manages the total credit risk, including the country risk, in accordance with the Bank's Internal Financial Risk Policy, Credit Policy and Country Risk Management Policy. The system of credit risk management includes the approval of the evaluation of credit risks in connection with partners, creditors and issuers, regulations regarding credit types (by credit volumes and terms) and investments in the Bank's portfolio, and regular evaluation of assets and off-balance sheets. The Board and the Credit Committee manage this credit risk, and the Credit Department continuously monitors compliance with related procedures and limits. In 2005 a new internal procedure for assessment of loans has been developed and approved in order to meet the requirements of *IAS 39 Financial Instruments: Recognition and Measurement* (revised and effective 1 January 2005).
Market risk relates to the possibility of experiencing losses as a result of unfavourable fluctuations in interest rates, exchange rates and prices on securities. The management of market risk is carried out according to the Internal Financial Risk Management Policy, the Foreign Currency Risk Management Policy and Trading Portfolio Policy. When analysing the maturity and interest rates of assets and liabilities, and the net interest margin and liquidity in connection with currencies and directions of operations, the Management Board and Tariff Committee states the basic interest rate for deposits

and loans for each currency group and period.
The Bank's Foreign Currency Risk Management Policy governs foreign exchange risk control and management. This policy is based on meeting the restrictions of the net open position of each foreign currency and the total amount of the net open position of foreign currencies, in compliance with the requirements of the Latvian Financial and Capital Market Commission. In order to avoid losses arising from adverse changes in exchange rates, the Treasury Department continuously supervises compliance with the restrictions on foreign currency positions.
The Asset and Liability Management Committee and Investment Committee states the restrictions on the quality of issuers, and on the volume and terms of the open position in the trading portfolio.
Operational risk presents the possibility to incur losses due to the impact of inadequate or unsuccessful internal processes, activities by personnel, systems, or external circumstances. The Management Board of the Bank and appropriate organisational units of the Bank exercise supervision and control over the operational risk, on the basis of the approved Operational Risk Management Policy. For securing the continuity of the activity, the Bank maintains necessary resources. At the end of the year a loss database has been created, in which events causing the operational risk (incidents) are registered and analysed.

Anti-Money Laundering Policies
The Latvian Financial Capital and Market Commission (FCMC) - the Latvian financial and capital market regulator and supervisory institution – conducts regular checks of the Bank's internal control procedures, with the purpose of securing a stable environment in the Latvian financial and capital markets.
In 2005 amendments to the Latvian law "On the Prevention of Money Laundering of Proceeds Derived from Criminal Activity" and the Recommendations made by the FCMC have increased the legislative requirements related to prevention of money laundering activities in the financial sector. Latvia has introduced in their laws the requirements of the European Union Directive No. 2005/60/EK concerning anti-money laundering activities and prevention of the terrorism financing. The main changes in the law are related to the requirements for identification of the beneficial owner, the description of the procedures, which ensure implementation of the principle "know your client", collection of information and analysis of clients' transactions, the duty of the client to submit to the Bank information about the origin of the funds and the beneficial owner thereof.
In 2005 in compliance with the new legislative requirements, the Bank has amended its policies in the areas relating to prevention of criminally obtained funds and terrorism financing, approximating its controls to the best bank practice. The Bank's internal policies require the principle „know your client" (KYC), and, in the events provided for in the procedures, conducts a client due diligence. At the end of 2005 the Bank has been removed from intensive supervision. Therefore the Bank considers that the FCMC has acknowledged that the Bank's procedures for anti-money laundering activities comply with the legislation and the requirements set in the FCMC recommendations.

4. INTEREST INCOME, NET

	2005 LVL'000	2004 LVL'000
Interest income	**12 075**	**7 799**
Loans to non-banks	7 801	4 216
Balances due from credit institutions and central banks	2 417	2 437
Debt securities	1 841	1 141
Other	16	5
Interest expense	**3 001**	**2 239**
Customer deposits	1 815	1 466
Balances due to credit institutions	662	150
Subordinated debt	164	150
Other	360	473
incl. payments in the Deposit Guarantee Fund	*360*	*473*
Interest income, net	**9 074**	**5 560**

5. FEE AND COMMISSION INCOME, NET

	2005 LVL'000	2004 LVL'000
Fee and commission income	**5 818**	**8 755**
Account services and money transfer fees	3 695	6 621
Payment cards	660	769
Asset management fees	584	326
Commission on loan and guarantees issuance and servicing	148	185
Brokerage services on securities	229	183
Commission for public utility payments	259	159
Cash withdrawal	97	150
Other	146	362
Fee and commission expense	**1 616**	**1 994**
Services of correspondent banks	851	1 238
Payment cards	479	495
Securities purchase and brokerage services	234	223
Other	52	38
Fee and commission income, net	**4 202**	**6 761**

6. PROFIT FROM TRADE IN AVAILABLE-FOR-SALE FINANCIAL ASSETS, NET

	2005 LVL'000	2004 LVL'000 (as restated)
Bonds and other fixed income securities	734	(100)
Shares and other non-fixed income securities	486	-
Total	**1 220**	**(100)**

7. PROFIT FROM TRADING FINANCIAL ASSETS AND LIABILITIES, NET

	2005 LVL'000	2004 LVL'000 (as restated)
Trading bonds and other fixed income securities	**34**	**647**
Net trading (loss)/gain	(119)	741
Revaluation result	153	(94)
Derivative instruments	**259**	**315**
Net trading gain/(loss)	168	29
Revaluation result	91	286
Total	**293**	**962**

8. PROFIT FROM TRADE AND REVALUATION OF FOREIGN CURRENCY, NET

	2005 LVL'000	2004 LVL'000 (as restated)
Net trading (loss)/gain	(383)	1 187
Revaluation result	3 321	1 428
Total	**2 938**	**2 615**

9. OTHER INCOME

	2005 LVL'000	2004 LVL'000
Rent of premises	151	171
Penalties	169	75
Other	107	122
Total	**427**	**368**

10. ADMINISTRATIVE EXPENSES

	2005 LVL'000	2004 LVL'000
Personnel expense	**3 890**	**3 147**
Personnel remuneration	2 943	2 474
Supervisory Council and Management Board remuneration	202	63
Social security contributions	745	610
Other expense	**6 665**	**6 099**
Professional services	1 952	1 201
Computer repair	618	436
Rent	575	368
VAT	522	760
Public utilities and maintenance	520	554
Communications	507	606
Advertising	422	730
Write-off of leasehold improvement	390	272
Stationary and miscellaneous	174	119
Business trip	147	142
Donations	139	172
Security	103	92
Real estate tax	23	43
Other administrative expenses	573	604
Total	**10 555**	**9 246**

The average number of employees in 2005 was 548, including 4 Supervisory Council and 5 Management Board members. (2004: 502, incl. 6 Management Board members, 3 Supervisory Council members (No compensation was paid to Supervisory Council members in 2004 for performance of their duties).

11. CORPORATE INCOME TAX

	2005 LVL'000	2004 LVL'000
Corporate income tax expense for the year	720	825
Deferred tax	(2)	(32)
Total	**718**	**793**

Reconciliation of accounting profit to tax charge:

	2005 LVL'000	2004 LVL'000
Profit before taxation	6 670	5 836
Expected corporate income tax	1 001	899
Tax effect of:		
(Non-deductible income)/non-deductible expense	(105)	42
Sponsorship	(117)	(146)
Tax exemptions	(61)	(2)
Total	**718**	**793**

Deferred tax:	2005 LVL'000	2004 LVL'000
Deferred tax at the beginning of year	59	91
Deferred tax for the year	(2)	(32)
Deferred tax liability	**57**	**59**

12. CASH AND BALANCES WITH THE CENTRAL BANK

	31.12.2005 LVL'000	31.12.2004 LVL'000
Cash	5 506	5 183
Due from the central bank	14 874	9 870
Total	**20 380**	**15 053**

Balances with the Bank of Latvia represent funds held in the Bank's clearing account. In accordance with the regulations set by the Bank of Latvia, the Bank's average monthly correspondent account balance should not be less than the amount of the statutory reserve which is calculated on the basis of the balance of liabilities included in the reserve base, as at the end of month. As at 31 December 2005 and 2004 the amount of the statutory reserve of the Bank was LVL'000 13 602 and LVL'000 8 906, respectively.

13. BALANCES DUE FROM CREDIT INSTITUTIONS

	31.12.2005 LVL'000	31.12.2004 LVL'000
Credit institutions of OECD countries	74 555	144 669
Credit institutions of other countries	18 378	28 359
Credit institutions of the Republic of Latvia	1 246	131
Total	**94 179**	**173 159**

14. TRADING SECURITIES

	31.12.2005 LVL'000	31.12.2004 LVL'000
OECD country bonds	6 387	12 592
Latvian bonds	777	772
Other country bonds	16 909	7 427
Total	**24 073**	**20 791**

15. DERIVATIVE ASSETS AND LIABILITIES

	Fair value			
	Assets LVL'000		Liabilities LVL'000	
	31.12.2005	31.12.2004	31.12.2005	31.12.2004
Forward foreign-exchange contracts not traded on stock exchange *(forward)*	9	131	7	17
Cross-currency swap not traded on stock exchange *(swap)*	295	308	197	175
On stock exchange traded future contracts *(futures)*	2	39	10	-
	306	**478**	**214**	**192**

Derivative contracts notional basic value was as follows:

	Off-balance assets LVL'000		Off-balance liabilities LVL'000	
	31.12.2005	**31.12.2004**	**31.12.2005**	**31.12.2004**
Forward foreign-exchange contracts not traded on stock exchange *(forward)*	7 508	31 454	7 501	31 341
Cross-currency swap not traded on stock exchange *(swap)*	150 713	149 667	150 624	149 534
On stock exchange traded future contracts *(futures)*	12 908	11 389	12 997	11 426
	171 129	**192 510**	**171 122**	**192 301**

	Notional value*, LVL'000				
	Up to 1 month	**From 1 to 3 months**	**From 3 to 6 months**	**From 6 months to 1 year**	**Total**
Forward foreign-exchange contracts not traded on stock exchange *(forward)*	7 108	36	17	347	7 508
Cross-currency swap not traded on stock exchange *(swap)*	150 796	-	-	-	150 796
On stock exchange traded future contracts (futures)	-	-	12 997	-	12 997
	157 904	**36**	**13 014**	**347**	**171 301**

* Notional value of derivatives is calculated based on FCMC regulation On calculation of capital adequacy.

16. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	31.12.2005 LVL'000	31.12.2004 LVL'000
Bonds and other fixed income securities	**7 428**	**18 272**
OECD country bonds	3 018	4 735
Latvian bonds	3 817	13 021
Other country bonds	593	516
Shares and other non-fixed income securities	**355**	**1 443**
Latvian residents	3	3
Other residents	352	1 440
Total	**7 783**	**19 715**

17. LOANS

	31.12.2005 LVL'000	31.12.2004 LVL'000
Loans	**109 699**	**75 679**
Loans to private companies	90 049	64 011
Loans to individuals	19 440	10 413
Loans to state owned companies	210	1 255
Provisions for doubtful debts (Note 18)	(146)	(411)
Net loans to customers	**109 553**	**75 268**

Analysis of loans by type	**109 699**	**75 679**
Industrial loans	31 785	24 018
Commercial loans	23 984	17 712
Reverse Repo transactions	21 547	12 558
Overdrafts	11 432	8 867
Finance leases	2 385	3 916
Mortgage loans	7 856	3 039
Factoring loans	1 973	1 602
Consumer loans	5 131	954
Credit card balances	3 031	536
Other	575	2 477
Provisions for doubtful debts (Note 18)	(146)	(411)
Net loans to customers	**109 553**	**75 268**

Geographical segmentation of loans	**109 699**	**75 679**
Loans to residents of Latvia	56 879	40 123
Loans to residents of the other countries	44 153	25 616
Loans to residents of OECD countries	8 667	9 940

Finance leases		
Gross investments	**2 698**	**4 120**
Within 1 year	1 073	1 538
From 1 year to 5 years	1 475	2 328
More than 5 years	150	254
Unearned income	**(313)**	**(204)**
Within 1 year	125	13
From 1 year to 5 years	179	170
More than 5 years	9	21
Net investments	**2 385**	**3 916**
Within 1 year	948	1 525
From 1 year to 5 years	1 296	2 158
More than 5 years	141	233

18. PROVISIONS FOR DOUBTFUL DEBTS AND OFF-BALANCE SHEET LIABILITIES

	Loans LVL'000	Accrued income on loans LVL'000	Off-balance sheet LVL'000	Total LVL'000
At 31 December 2004	**411**	**3**	**10**	**424**
Increase in provisions for doubtful debts	104	2	-	106
Write-off	(297)	(3)	-	(300)
Released from provisions	(74)	(1)	(10)	(85)
Foreign exchange revaluation	1	-	-	1
At 31 December 2005	**145**	**1**	**-**	**146**

	2005 LVL'000	2004 LVL'000
Release of provisions and previous write-off's	**121**	**86**
Decrease in provisions for doubtful debts	85	71
Recovery of previously written-off assets	36	15

19. DEFERRED EXPENSES AND ACCRUED INCOME

	31.12.2005 LVL'000	31.12.2004 LVL'000
Deferred expenses	287	477
Accrued interest	144	329
Provisions (Note 18)	(1)	(2)
Total	**430**	**804**

20. INTANGIBLE ASSETS

LVL `000	Intangible assets	Advance payments for formation of intangible assets	Total
Historical cost			
At 31 December 2004	**445**	**-**	**445**
Additions	330	44	**374**
Disposals	-	(43)	**(43)**
At 31 December 2005	**775**	**1**	**776**
Amortisation			
At 31 December 2004	**282**	**-**	**282**
Charge	82	-	82
Disposals	-	-	-
At 31 December 2005	**364**	**-**	**364**
Net book value			
At 31 December 2004	**163**	**-**	**163**
At 31 December 2005	**411**	**1**	**412**

21. TANGBLE FIXED ASSETS

LVL'000	Land and Buildings	Vehicles	Office equipment and other fixed assets	Advance payments for formation of tangible fixed assets	Leasehold improvements	Total
Historical cost						
At 31 December 2004	**4 827**	**124**	**2 241**	**13**	**1 213**	**8 418**
Additions	72	212	226	253	8	771
Reclassification	-	-	210	(210)	-	-
Disposals	-	(29)	(193)	-	(387)	(609)
At 31 December 2005	**4 899**	**307**	**2 484**	**56**	**834**	**8 580**
Depreciation						
At 31 December 2004	**1 210**	**63**	**1 619**	**-**	**-**	**2 892**
Charge	274	37	373	-	-	684
Disposals	-	(29)	(191)	-	-	(220)
At 31 December 2005	**1 484**	**71**	**1 801**	-	**-**	**3 356**
Net carrying value						
At 31 December 2004	**3 617**	**61**	**622**	**13**	**1 213**	**5 526**
At 31 December 2005	**3 415**	**236**	**683**	**56**	**834**	**5 224**

22. OTHER ASSETS

	31.12.2005 LVL'000	31.12.2004 LVL'000
Amounts deposited with the Guarantee Fund	1 172	1 525
Due from related parties	612	-
Overpayment of corporate income tax	322	-
Cards transactions	76	179
Current contracts (Foreign currency exchange (spot) contracts)	64	110
Other debtors	376	277
Provisions (Note 18)	-	(1)
Total	**2 622**	**2 090**

23. MANAGED TRUST ASSETS AND LIABILITIES

	31.12.2005 LVL'000	31.12.2004 LVL'000
Managed trust assets	**58 378**	**81 584**
Loans	49 396	76 008
Due from credit institutions	2 461	3 225
Debt securities	6 212	1 569
Property	-	439
Shares and other securities with non-fixed income	309	343
Managed trust liabilities	**58 378**	**81 584**
Credit institutions	-	37 771
Private companies	28 355	26 996
Individuals	30 023	16 817

24. DUE TO CREDIT INSTITUTIONS

	31.12.2005 LVL'000	31.12.2004 LVL'000
Demand deposits	**9 504**	**6 336**
Credit institutions registered in Latvia	6 492	1 243
Credit institutions in other countries	3 012	5 093
Term deposits	**34 463**	**38 333**
Credit institutions registered in OECD countries	34 372	35 872
Credit institutions registered in Latvia	91	2 461
Financial liabilities as result of collateralised financial assets	**15 547**	**20 246**
Credit institutions registered in OECD countries	11 892	8 509
Credit institutions registered in Latvia	3 655	11 737
Total	**59 514**	**64 915**

As at 31 December 2005, the financial assets that have been provided as collateral for repo transactions to credit institutions of Latvia and OECD countries are as follows:

	Carrying value of collateralized securities LVL'000	Nominal value of collateralized securities LVL'000	Repo loan LVL'000
Trading debt securities	**14 375**	**13 844**	**12 530**
Central government debt securities	2 023	1 924	1 718
Credit institutions debt securities	10 141	9 785	8 882
Private companies debt securities	2 211	2 135	1 930
Available-for-sale securities	**3 675**	**3 506**	**3 017**
Central government debt securities	3 675	3 506	3 017
Total	**18 050**	**17 350**	**15 547**

25. CUSTOMER DEPOSITS

	31.12.2005 LVL'000	31.12.2004 LVL'000
Current accounts	**111 497**	**181 645**
Private companies	98 190	167 036
Individuals	12 737	14 406
Public organizations	409	167
Central and local government	161	36
Fixed-term deposits	**68 791**	**44 223**
Private companies	45 186	31 925
Individuals	23 605	12 298
Total	**180 288**	**225 868**

26. SUBORDINATED DEBT

As at 31 December 2005 and 2004 depositors with more than 10% of the subordinated debt amount were as follows:

	Maturity	Interest rate (%)	Currency	31.12.2005 LVL'000	31.12.2004 LVL'000
A. Babenko	01.07.2003.-10.06.2006.	8	LVL	250	250
I. Bukovskis	07.07.2003.-10.07.2010.	8	LVL	258	258
J. Šapurovs	09.08.2004.-09.08.2011.	8	LVL	100	100
J. Šapurovs*	01.12.2004.-29.07.2009.	8	LVL	550	550
J. Šapurovs*	01.12.2004.-10.07.2010.	8	LVL	121	121
A. Svirčenkovs*	01.12.2004.-29.07.2009.	8	LVL	550	550
A. Svirčenkovs*	01.12.2004.-10.07.2010.	8	LVL	121	121
Other persons		6-8	LVL, USD	80	76
Total				**2 030**	**2 026**

*These subordinated debts arose due to the assignment agreements signed on 1 December 2004, taken over by J.Šapurov and A. Svirčenkov and due to I. Bukovskis (LVL'000 258). Initial terms of subordinated debt agreement were as follows: LVL '000 1 100 with period from 29 January 2004 to 29 July 2009; LVL '000 500 with period 7 July 2003 to 10 July 2010. The subordinated deposits holders may not request principal amount repayment before maturity. Subordinated liabilities can not be converted to equity.

27. DEFERRED INCOME AND ACCRUED EXPENSES

	31.12.2005 LVL'000	31.12.2004 LVL'000
Deferred income	11	220
Accrued interest expense	-	198
Other accrued expenses	316	956
Total	**327**	**1 374**

28. PROVISIONS FOR OTHER LIABILITIES

	31.12.2005 LVL'000	31.12.2004 LVL'000
Accruals for vacations	204	172
Provisions for off-balance sheet items	-	10
Total	**204**	**182**

29. OTHER LIABILITIES

	31.12.2005 LVL'000	31.12.2004 LVL'000
Suspense amounts	416	1 338
Cards transactions	230	87
Current contracts (Foreign currency exchange (spot) contracts)	47	158
Cheques	18	173
Other	392	215
Total	**1 103**	**1 971**

Suspense amounts represent payments received by the Bank where the beneficiary is not clearly identified and are cleared after year-end.

30. SHARE CAPITAL

	31.12.2005		31.12.2004	
	Quantity`000	LVL `000	Quantity`000	LVL `000
Registered and paid – in share capital	**15 500**	**15 500**	**12 250**	**12 250**

On 21 March 2005, Bank`s Shareholders` made a decision to pay dividends in the amount of LVL `000 2 000 from the profit for 2004.
On 23 May 2005, the Shareholders' Meeting of the Bank made a decision to pay to the shareholders dividends from the profit for 2004, in the amount of LVL 3 202 795 and to increase the share capital by issuing 3 250 000 new registered voting shares with nominal value of 1 LVL. As of 31 December 2005, all the issued shares are fully paid and the Bank's paid-in share capital amounts to LVL `000 15 500 (as of 31 December 2004: LVL `000 12 250).

As of 31 December 2005, shareholders were as follows:

	Number of shares	% of total shares	Paid up share capital LVL'000
JSC "Lateko Invest"	7 393 843	47.70	7 394
A. Svirčenkovs	2 981 344	19.23	2 981
J. Šapurovs	2 968 465	19.15	2 968
Other (individually less than 10%)	2 156 276	13.92	2 157
Total	**15 499 928**	**100.00**	**15 500**

As of 31 December 2004, shareholders were as follows:

	Number of shares	% of total shares	Paid up share capital LVL'000
JSC "Lateko Invest"	5 843 514	47.70	5 844
A. Svirčenkovs	2 343 927	19.13	2 344
J. Šapurovs	2 333 749	19.05	2 334
Other (individually less than 10%)	1 728 738	14.12	1 728
Total	**12 249 928**	**100.00**	**12 250**

31. EARNINGS PER SHARE

Earnings per share are based on net profit divided by the average weighted number of issued shares. As of 31 December 2005 and 2004 there is no difference between basic and diluted earnings per share calculation.

	2005	2004
Net profit (LVL'000)	5 952	5 043
Average weighted number of ordinary shares	13 604	11 670
Earnings per share (LVL)	**0.44**	**0.43**

32. CASH AND CASH EQUIVALENTS

	31.12.2005 LVL'000	31.12.2004 LVL'000
Cash and balances due on demand from the Bank of Latvia	20 380	15 053
Balances due from other credit institutions within 3 months	84 869	170 666
Balances due to credit institutions within 3 months	(57 741)	(64 564)
Total	**47 508**	**121 155**

33. OFF-BALANCE SHEET ITEMS

	31.12.2005 LVL'000	31.12.2004 LVL'000
Issued liabilities		
Guarantees	4 169	1 451
Off-balance sheet liabilities		
Unused credit lines	15 768	16 414
Letters of credit	463	-
Total off-balance sheet items, gross	**20 400**	**17 865**

The main purpose of these instruments is to ensure the availability of necessary funds for the clients. Guarantees and letters of credit, that include irrevocable liabilities - the ones that the Bank will have to pay in the event of failure by the clients to meet their obligations to third parties, - are assigned the same risk as for loans. Letters of credit, in accordance with which the Bank has the right, on behalf of the client, to accept invoices from third parties, and that are secured with goods being transported, are connected with lesser risk than direct lending.

Unused part of credit lines is viewed as liabilities arising from credit lines. As regards the credit risk, the Bank is potentially exposed to losses arising also from liabilities under unused credit lines.

34. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

The following table summaries the carrying values and fair values of those financial assets and liabilities not presented on the balance sheet at their fair value:

	31.12.2005		31.12.2004	
ASSETS	Fair value LVL'000	Carrying value LVL'000	Fair value LVL'000	Carrying value LVL'000
Other balances due from credit institutions	*29 301*	*28 985*	35 230	36 071
Loans and receivables	109 810	109 553	76 263	75 268
LIABILITIES				
Customer deposits	*180 725*	*180 288*	230 372	225 868

The fair value of customers and banks loans and customer deposits is estimated as the present value of discounted future cash flows using average market interest rates.

35. MATURITY ANALYSIS OF ASSETS AND LIABILITIES

According to remaining terms under agreements, the allocation of assets, liabilities and off-balance sheet liabilities, as at 31 December 2005, is as follows:

	Up to 1 month	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	Other	Total
	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000
ASSETS								
Cash and due from the central bank	20 380	-	-	-	-	-	-	**20 380**
Balances due from credit institutions	83 645	1 224	6 234	-	1 882	-	1 194	**94 179**
Trading securities	24 073	-	-	-	-	-	-	**24 073**
Derivative assets	303	-	-	3	-	-	-	**306**
Available for sale financial assets	7 428	-	-	-	352	-	3	**7 783**
Loans	12 532	13 859	11 958	21 250	32 261	17 693	-	**109 553**
Deferred expenses and accrued income	430	-	-	-	-	-	-	**430**
Tangible fixed assets	-	-	-	-	-	-	5 224	**5 224**
Intangible assets	-	-	-	-	-	-	412	**412**
Other assets	2 566	-	-	-	-	-	56	**2 622**
Total assets	**151 357**	**15 083**	**18 192**	**21 253**	**34 495**	**17 693**	**6 889**	**264 962**
LIABILITIES								
Due to credit institutions	51 740	6 001	1 060	713	-	-	-	**59 514**
Derivative liabilities	214	-	-	-	-	-	-	**214**
Customer deposits	137 764	12 974	11 227	14 553	3 770	-	-	**180 288**
Subordinated debt	-	-	250	-	1 630	150	-	**2 030**
Deferred income and accrued expenses	327	-	-	-	-	-	-	**327**
Provisions for other liabilities		-	-	204	-	-	-	**204**
Deferred tax	-	-	-	-	-	-	57	**57**
Other liabilities	1 103	-	-	-	-	-	-	**1 103**
Total liabilities	**191 148**	**18 975**	**12 537**	**15 470**	**5 400**	**150**	**57**	**243 737**
Off-balance sheet items	19 491	-	-	-	-	-	-	**19 491**
Liquidity risk as of 31/12/05	**(59 282)**	**(3 892)**	**5 655**	**5 783**	**29 095**	**17 543**	**6 832**	

According to the regulations of the Latvian Financial and Capital Market Commission, securities that are available for sale or that the Bank is able to sell without any significant losses or use them as security assets for loan issue are classified in the group "Up to 1 month".

According to remaining terms under agreements, the allocation of assets, liabilities and off-balance sheet liabilities, as at 31 December 2004, is as follows:

	Up to 1 month	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	Other	Total
	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000
ASSETS								
Cash and due from the central bank	15 053	-	-	-	-	-	-	**15 053**
Balances due from credit institutions	148 579	22 087	1 762	5	-	-	726	**173 159**
Trading securities	20 791	-	-	-	-	-	-	**20 791**
Derivative assets	478	-	-	-	-	-	-	**478**
Available for sale financial assets	18 761	-	-	-	399	-	555	**19 715**
Loans	2 555	11 679	12 384	10 288	31 298	7 064	-	**75 268**
Deferred expenses and accrued income	804	-	-	-	-	-	-	**804**
Investments in subsidiaries	-	-	-	-	-	-	1 000	**1 000**
Tangible fixed assets	-	-	-	-	-	-	5 526	**5 526**
Intangible assets	-	-	-	-	-	-	163	**163**
Other assets	2 034	-	-	-	-	-	56	**2 090**
Total assets	**209 055**	**33 766**	**14 146**	**10 293**	**31 697**	**7 064**	**8 026**	**314 047**
LIABILITIES								
Due to credit institutions	64 564	-	351	-	-	-	-	**64 915**
Derivative liabilities	184	2	6	-	-	-	-	**192**
Customer deposits	209 802	3 706	3 752	5 776	2 832	-	-	**225 868**
Subordinated debt	-	-	-	-	1 376	650	-	**2 026**
Deferred income and accrued expenses	1 374	-	-	-	-	-	-	**1 374**
Provisions for other liabilities	10	-	-	172	-	-	-	**182**
Deferred tax	-	-	-	-	-	-	59	**59**
Other liabilities	1 971	-	-	-	-	-	-	**1 971**
Total liabilities	**277 905**	**3 708**	**4 109**	**5 948**	**4 208**	**650**	**59**	**296 587**
Off-balance sheet items	17 730	-	-	-	-	-	-	**17 730**
Liquidity risk as of 31/12/04	**(86 580)**	**30 058**	**10 037**	**4 345**	**27 489**	**6 414**	**7 967**	

According to the regulations of the Latvian Financial and Capital Market Commission, securities that are available for sale or that the Bank is able to sell without any significant losses or use them as security assets for loan issue are classified in the group "Up to 1 month"

36. INTEREST RATE REPRICING

Interest rate risk concerns the impact of changes in interest rates on the financial position of the Bank. The Bank is continuously subject to the risk, that it is influenced by the maturity of assets and liabilities in connection with income and expenses and the date of interest rate revaluations. According to the minimal remaining terms until possible changes in interest rates, the allocation of assets, liabilities and off-balance sheet liabilities, as at 31 December 2005, is as follows:

	Up to 1 month	From 1 to 3 months	From 3 months to 6 months	From 6 months to 1 year	More than 1 year	Non-interest bearing	Other	Total
	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000
ASSETS								
Cash and due from the central bank	13 602	-	-	-	-	6 778	-	**20 380**
Balances due from credit institutions	65 051	1 224	5 493	-	1 839	20 572	-	**94 179**
Trading securities	24 073	-	-	-	-	-	-	**24 073**
Derivative assets	-	-	-	-	-	306	-	**306**
Available for sale financial assets	-	593	141	-	6 694	355	-	**7 783**
Loans	39 116	16 551	10 411	10 690	32 785	-	-	**109 553**
Deferred expenses and accrued income	-	-	-	-	-	430	-	**430**
Tangible fixed assets	-	-	-	-	-	-	5 224	**5 224**
Intangible assets	-	-	-	-	-	-	412	**412**
Other assets	-	-	-	-	-	2 622	-	**2 622**
Total assets	**141 842**	**18 368**	**16 045**	**10 690**	**41 318**	**31 063**	**5 636**	**264 962**
LIABILITIES, CAPITAL AND RESERVES								
Due to credit institutions	51 030	6 001	1 773	-	-	710	-	**59 514**
Derivative liabilities	-	-	-	-	-	214	-	**214**
Customer deposits	77 602	12 912	11 270	15 386	2 914	60 204	-	**180 288**
Subordinated debt	-	-	250	-	1 780	-	-	**2 030**
Deferred income and accrued expenses	-	-	-	-	-	327	-	**327**
Provisions for other liabilities	-	-	-	-	-	204	-	**204**
Deferred tax	-	-	-	-	-	57	-	**57**
Other liabilities	-	-	-	-		1 103	-	**1 103**
Share capital and reserves	-	-	-	-	-	-	21 225	**21 225**
Total liabilities, capital and reserves	**128 632**	**18 913**	**13 293**	**15 386**	**4 694**	**62 819**	**21 225**	**264 962**
Net position of balance	**13 210**	**(545)**	**2 752**	**(4 696)**	**36 624**	**(31 756)**		
Net position of off-balance	**49**	**12 908**	**-**	**3**	**(12 997)**	**-**		
Total net position as of 31/12/05	**13 259**	**12 363**	**2 752**	**(4 693)**	**23 627**	**(31 756)**		

According to the minimal remaining terms until possible changes in interest rates, the allocation of assets, liabilities and off-balance sheet liabilities, as at 31 December 2004, is as follows:

	Up to 1 month	From 1 to 3 months	From 3 months to 6 months	From 6 months to 1 year	More than 1 year	Non-interest bearing	Other	Total
	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000
ASSETS								
Cash and due from the central bank	8 906	-	-	-	-	6 147	-	**15 053**
Balances due from credit institutions	39 546	1 448	1 762	-	-	130 403	-	**173 159**
Trading securities	20 791	-	-	-	-	-	-	**20 791**
Derivative assets	-	-	-	-	-	478	-	**478**
Available for sale financial assets	-	516	2 473	-	15 283	1 443	-	**19 715**
Loans	20 804	12 127	9 132	8 061	25 144	-	-	**75 268**
Deferred expenses and accrued income	-	-	-	-	-	804	-	**804**
Investments in subsidiaries	-	-	-	-	-	-	1 000	**1 000**
Tangible fixed assets	-	-	-	-	-	-	5 526	**5 526**
Intangible assets	-	-	-	-	-	-	163	**163**
Other assets	-	-	-	-	-	2 090	-	**2 090**
Total assets	**90 047**	**14 091**	**13 367**	**8 061**	**40 427**	**141 365**	**6 689**	**314 047**
LIABILITIES, CAPITAL AND RESERVES								
Due to credit institutions	58 226	-	352	-	-	6 337	-	**64 915**
Derivative liabilities	-	-	-	-	-	192	-	**192**
Customer deposits	130 711	3 576	3 789	6 111	2 469	79 212	-	**225 868**
Subordinated debt	-	-	-	-	2 026	-	-	**2 026**
Deferred income and accrued expenses	-	-	-	-	-	1 374	-	**1 374**
Provisions for other liabilities	-	-	-	-	-	182	-	**182**
Deferred tax	-	-	-	-	-	59	-	**59**
Other liabilities	-	-	-	-		1 971	-	**1 971**
Share capital and reserves	-	-	-	-	-	-	17 460	**17 460**
Total liabilities, capital and reserves	**188 937**	**3 576**	**4 141**	**6 111**	**4 495**	**89 327**	**17 460**	**314 047**
Net position of balance	**(98 890)**	**10 515**	**9 226**	**1 950**	**35 932**	**52 038**		
Net position of off-balance	**102**	**11 387**	**(6)**	**-**	**(11 426)**	**-**		
Total net position as of 31/12/04	**(98 788)**	**21 902**	**9 220**	**1 950**	**24 506**	**52 038**		

In 2005 and 2004 the Bank`s average annual interest rates for financial assets and liabilities are as follows:

	2005			2004		
	Average amount	Interest income/ expense	Average interest rate	Average amount	Interest income/ expense	Average interest rate
	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000
ASSETS						
Cash and due from the central bank	14 784	178	1.20	12 912	61	0.47
Balances due from credit institutions	82 963	2 239	2.70	183 823	2 376	1.29
Trading securities	20 644	1 480	7.17	19 426	300	1.55
Available for sale financial assets	11 201	361	3.22	19 000	841	4.42
Loans and receivables	100 196	7 801	7.79	54 228	4 216	7.77
Other assets (with interest income)	1 499	16	1.09	1 054	5	0.47
Other assets (without interest income)	9 385	-	-	8 032	-	-
Total assets	**240 672**	**12 075**	**5.02**	**298 475**	**7 799**	**2.61**
LIABILITIES, CAPITAL AND RESERVES						
Due to the central bank	-	-	-	1 018	35	3.44
Due to credit institutions	19 364	662	3.42	9 240	115	1.25
Customer deposits	197 178	2 175	1,10	268 258	1 939	0,72
Subordinated debt	2 028	164	8,08	1 852	150	8,10
Other liabilities(without interest expense)	2 497	**-**	**-**	3 184	-	-
Total liabilities	**221 067**	**3 001**	**1.36**	**283 552**	**2 239**	**0.79**
Share capital and reserves	19 605	-	-	14 923	-	-
Total liabilities, capital and reserves	**240 672**	**3 001**	**1.25**	**298 475**	**2 239**	**0.75**
Gross interest rate margin, %			**3.66**			**1.82**
Margin on investments, %			**3.77**			**1.86**

37. CURRENCY ANALYSIS OF ASSETS AND LIABILITIES

Table below summarises Bank`s assets and liabilities disclosed in foreign currencies as of 31 December 2005

	LVL	USD	EUR	Other currencies	Total
	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000
ASSETS					
Cash and due from the central bank	17 222	1 268	1 635	255	**20 380**
Balances due from credit institutions	501	62 771	22 936	7 971	**94 179**
Trading securities	777	19 349	-	3 947	**24 073**
Derivative assets	304	2	-	-	**306**
Available for sale financial assets	3 678	3 964	141	-	**7 783**
Loans and receivables	27 321	50 340	31 892	-	**109 553**
Deferred expenses and accrued income	368	55	7	-	**430**
Tangible fixed assets	5 224	-	-	-	**5 224**
Intangible assets	412	-	-	-	**412**
Other assets	751	1 182	67	622	**2 622**
Total assets	**56 558**	**138 931**	**56 678**	**12 795**	**264 962**
LIABILITIES, CAPITAL AND RESERVES					
Due to credit institutions	27	31 535	26 856	1 096	**59 514**
Derivative liabilities	204	10	-	-	**214**
Customer deposits	23 870	94 695	54 631	7 092	**180 288**
Subordinated debt	2 000	30	-	-	**2 030**
Deferred income and accrued expenses	296	19	8	4	**327**
Provisions for other liabilities	204	-	-	-	**204**
Tax liabilities	57	-	-	-	**57**
Other liabilities	416	552	55	80	**1 103**
Share capital and reserves	21 225	-	-	-	**21 225**
Total liabilities, capital and reserves	**48 299**	**126 841**	**81 550**	**8 272**	**264 962**
Net balance sheet long/(short) position	**8 259**	**12 090**	**(24 872)**	**4 523**	**-**
Spot foreign-exchange contracts long/(short) position	(8 272)	4 546	8 219	(4 547)	**(54)**
Forward foreign-exchange contracts long/(short) position	(58)	(17 283)	16 809	586	**54**
Net open long/(short) currency position	**(71)**	**(647)**	**156**	**562**	
Currency open position in % from capital as of 31/12/2005		(2.94)	0.71		

As at 31 December 2005, the Bank's open position was 3.0 % of the tier 1 and tier 2 of the share capital (2004: 1.3%).

According to the Law on Credit Institutions of the Republic of Latvia the total opening position should not exceed 20% of the stated share capital amount, and the open position for every currency should not exceed 10 %.

Table below summarises Bank`s assets and liabilities disclosed in foreign currencies as of 31 December 2004

	LVL	USD	EUR	Other currencies	Total
	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000
ASSETS					
Cash and due from the central bank	12 012	1 476	1 237	328	**15 053**
Balances due from credit institutions	-	126 641	25 447	21 071	**173 159**
Trading securities	772	20 019	-	-	**20 791**
Derivative assets	439	39	-	-	**478**
Available for sale financial assets	12 883	6 140	140	552	**19 715**
Loans and receivables	21 093	37 062	17 113	-	**75 268**
Deferred expenses and accrued income	538	196	70	-	**804**
Investments in subsidiaries	1 000	-	-	-	**1 000**
Tangible fixed assets	5 526	-	-	-	**5 526**
Intangible assets	163	-	-	-	**163**
Other assets	419	1 572	75	24	**2 090**
Total assets	**54 845**	**193 145**	**44 082**	**21 975**	**314 047**
LIABILITIES, CAPITAL AND RESERVES					
Due to credit institutions	-	24 967	39 934	14	**64 915**
Derivative liabilities	192	-	-	-	**192**
Customer deposits	18 219	154 807	45 052	7 790	**225 868**
Subordinated debt	2 000	26	-	-	**2 026**
Deferred income and accrued expenses	1 036	125	183	30	**1 374**
Provisions for other liabilities	173	-	9	-	**182**
Tax liabilities	59	-	-	-	**59**
Other liabilities	415	666	441	449	**1 971**
Share capital and reserves	17 460	-	-	-	**17 460**
Total liabilities, capital and reserves	**39 554**	**180 591**	**85 619**	**8 283**	**314 047**
Net balance sheet long/(short) position	**15 291**	**12 554**	**(41 537)**	**13 692**	**-**
Spot foreign-exchange contracts long/(short) position	(15 353)	5 228	25 296	(15 265)	**(94)**
Forward foreign-exchange contracts long/(short) position	19	(17 839)	16 270	1 644	**94**
Net open long/(short) currency position	**(43)**	**(57)**	**29**	**71**	
Currency open position in % from capital as of 31/12/2004		(0.30)	0.15		

38. CAPITAL ADEQUACY CALCULATION (In accordance with FCMC requirements)

ASSETS	Balance sheet value LVL'000	Notional risk level %	Weighted risk value LVL'000
Cash and due from the central bank	20 380	0%	-
Due from central governments of OECD countries (securities available for sale)	6 694	0%	-
Claims secured with securities issued by central governments of OECD countries (securities available for sale)	593	0%	-
Claims secured with term deposits placed with the bank	3 548	0%	-
Due from credit institutions of OECD countries excluding amounts that comprise share capital of credit institutions	75 512	20%	15 102
Due from Latvian Republic government institutions	210	20%	42
Loans fully secured on property registered in the Land Register	197	50%	99
Due from non-OECD credit institutions	16 175	100%	16 175
Due from borrowers with 100% risk	87 191	100%	87 191
Shares and other securities with non-fixed income	355	100%	355
Tangible fixed assets	5 224	100%	5 224
Other assets	2 051	100%	2 051
Deferred expenses and accrued income	430	100%	430
Intangible assets	412	*	-
Total assets with weighted risks	**218 972**		**126 669**
**Decreased Tier 1*			
OFF-BALANCE SHEET ITEMS	**Full value LVL'000**		
Items with 50% adjustment	10 461	100%	5 231
Items with 100% adjustment	3 101	100%	3 101
Amounts that are not included in the calculation of the weighted risk value	6 838	0%	-
Total off-balance sheet items	**20 400**		**8 332**
DERIVATIVES	**Nominal value LVL'000**		
Currency agreements with weighted risk value	490	**	9
Amounts that are not included in the calculation of the weighted risk value	170 811	-	-
Total derivatives	**171 301**		**9**
Total assets and off-balance sheet items	**410 673**		**135 010**

***Weighted risk value is calculated according to the Market value method (FCMC).*

	LVL'000
Tier 1	
Paid in share capital	15 500
Reserve capital	7
Retained earnings for previous years	27
Revaluation reserve of available for sale financial assets	(261)
Retained earnings	5 952
Intangible assets	(412)
Total tier 1	**20 813**
Tier 2	
Subordinated capital	1 228
Total tier 2	**1 228**
Total tier 1 and 2	**22 041**
Tier 3	
Short-term subordinated debt	250
Tier 1 for covering market risk	11 240
Eligible tier 3 capital	250
Eligible used tier 3 capital	**250**
Share capital	**22 291**
Summary	
Credit risk capital	10 801
Currency risk capital	61
Position risk capital	1 736
Capital covered by share capital	9 693
Capital adequacy rate as of 31.12.2005	**14,15%**
Capital adequacy rate as of 31.12.2004	**13,49%**
Minimal capital adequacy ratio (%) 2004 and 2005	**8,00%**

39. RELATED PARTIES

Related parties are shareholders, that have decisive influence over the banks operations and the relatives, children and parents of the shareholders, members of the Council and the Board, the director of the internal audit department and other Bank employees.

Loans, deposits and guarantees of related parties are as follows:

Assets	Average interest rate	Amount	Off-balance sheet items	2005, total	2004, total
	%	LVL'000	LVL'000	LVL'000	LVL'000
Loans, net	-	**313**	**98**	**411**	**402**
Bank-related undertakings and Individuals	7.93	136	39	175	308
Council and Board	3.77	119	38	157	42
Other senior executives	4.15	58	21	79	52
Provisions for loses on loans	-	-	-	-	-
Other assets		704	-	704	-
Total assets and off-balance sheet liabilities		**1 017**	**98**	**1 115**	**402**

Liabilities	Average interest rate	Amount	Off-balance sheet items	2005, total	2004, total
Deposits deposired by related parties	0.13	375	-	375	1 015
Subordinated debt	8.00	1 492	-	1 492	1 492
Total liabilities		**1 867**	-	**1 867**	**2 507**

The following table present income and expense resulting from above-mentioned related parties transactions

	2005 LVL'000	2004 LVL'000
Interest income	**18**	**22**
Interest expense	**(121)**	**(15)**
Net interest income	**(103)**	**7**

40. CONTINGENT LIABILITIES

The Bank is named a co-defendant, jointly and severally liable together with several other parties, in a civil litigation at the United States District Court for the Southern District of New York. The claim, which has arisen because of the alleged losses and damages incurred by approximately 200 investors in a financial investment scheme and managed by companies who had opened accounts in the Bank, is currently in the discovery stage.

The Bank has also been named as a codefendant by seven plaintiffs in the United States District Court for the Western District of Washington in connection with the same financial investment scheme referred to above. As at the date of these financial statements, no summons has been served on the Bank.

The Office of the United States Attorney has moved for leave to intervene for the purpose of making, and made an application to stay discovery in and the imminent trial of this action on the ground that these proceedings threaten to intervene with a pending criminal investigation. The Court has upheld request of the United States Attorney.

Furthermore, at no time in this investigation has Lateko Bank been asked to provide any information, statement or testimony.

The plaintiffs seek an undisclosed amount of punitive damages as well as treble damages. The Bank is confident that it has committed no wrongdoing and it will vigorously defend itself against the claim.

There are two claims made in 2005 in the Riga District Court against Bank and co-defendants for caused loss. After getting acquainted with case materials, Bank is confident that the instituted claims against Bank is baseless and should be declined.

The damages asserted by the plaintiffs' for all above mentioned claims amount to less than 10% of the Bank's equity as of 31 December 2005. No provision has been made in respect of these matters in these financial statements.

41. EVENTS AFTER THE BALANCE SHEET DATE

Changes in Bank's shareholders:
In January 2006 the Bank`s shareholders changed. At the date of signing these financial statements the shareholders are the following:

	Number of shares	% of total shares	Paid up share capital LVL'000
"Straumborg Ehf." (Iceland)	7 904 963	51,00	7 905
A. Svirčenkovs	3 058 172	19,73	3 058
J. Šapurovs	3 058 173	19,73	3 058
Other (individually less than 10 %)	1 478 620	9,54	1 479
Total	**15 499 928**	**100.00**	**15 500**

Changes in Supervisory Council of the Bank:
In accordance with 10 January 2006 extraordinary shareholder's meeting decision no. 1/2006 V.Keiša and A. Bagautdinovs are released from member of the Supervisory Council position from 17 January 2006.
In accordance with 10 January 2006 extraordinary shareholder's meeting decision no. 1/2006 J.H.Gudmundsson, T.Olafsson, H. Baldursson and S.Āboliņš-Ābols are appointed to the Supervisory Council members position from 17 January 2006.
In accordance with 17 January 2006 Supervisory Council meeting decision no. 9/2006, J.H.Gudmundsson is appointed to Chairman of the Council , T.Olafsson and A.Svirčenkovs are appointed to deputy chairmen of the Council.

*****

KAUPTHING BANK

Annex III

JUNE 2007

JSC “NORVIK BANKA”

A/S NORVIK BANKA

JUNE 2007

Annex III

Joint Stock Company
"NORVIK BANKA"

Financial statements prepared in accordance with International Financial Reporting Standards as adopted by the EU and the requirements of the Latvian Financial and Capital Market Commission for the year ended 31 December 2006 and independent auditors' report

CONTENTS

We are pleased to present for your evaluation the financial statements of JSC "NORVIK BANKA" for the year 2006.

At the beginning of the year the Bank has successfully attracted strategic investors. Among the bank's shareholders are the following respectable and experienced Latvian and Icelandic companies and individuals: 51.0 % of the shares are held by "Straumborg ehf." which is represented by Jon Helgi Gudmundsson, 19.8% - by Andrejs Svirčenkovs, 19.8% – by Jurijs Šapurovs, 9.0% – by "Ice-Balt Invest ehf." which is represented by Thorsteinn Olafsson and Vitālijs Gavrilovs, and 0.4% - by other shareholders.

In accordance with its strategy, the Bank puts a specific focus on domestic business and domestic customers. The share of loans granted to Latvian clients increased from 52% (as of 31 December 2005) to 65% (as of 31 December 2006). At the same time, there were changes in the funding base structure – there was a further increase in the share of local depositors from 27% of customer funds as at 31 December 2005 to 34% as at 31 December 2006.

Following the task to develop lending operations as a core business of the Bank, whilst still maintaining a particular emphasis on industrial and commercial loans for local SME's and consumer lending for private individuals, during 2006 the Bank's loan portfolio increased by 68%.

The Bank has expanded its offering of banking products and services with the development of new initiatives, such as the upgraded Internet bank system "e-norvik", a new type of payment cards, currency trading, currency operations 24 hours a day. JSC "NORVIK BANKA" also opened new client service centres – both branches and outlets, making the Bank's network the largest one in Latvia. The broad network will facilitate attracting new clients and will allow for provision of higher quality service levels to existing customers.

The Bank has registered its new name – JSC "NORVIK BANKA" in December 2006, which is considered to be a next logical step for implementation within the new strategy implementation that was encouraged and approved by the Icelandic investors.

In December 2006 JSC "NORVIK BANKA" has increased share capital to 22.5 million lats. The capital was increased by 28% compared with the amount of 17.5 million lats registered in May 2006.

The Bank has received 2 syndicated loans amounting to 42 million euro. Due to large interest gained from the financial market the volume of borrowed funds has even exceeded the expected amounts. The Bank also received additional access to funding in the form of bilateral credit facilities, the largest of which are for 50 million and 23 million euros.

In May 2006, the Bank acquired a 94.95% controlling interest in JSC "LVA Ieguldījumu Pārvaldes Sabiedrība", a successful second-tier pension plan investment management company. The company offers a full range of pension plan products and services – the conservative investment plan "DAUGAVA", balanced plan "VENTA" and the active plan "GAUJA". This acquisition represents an opportunity for JSC "NORVIK BANKA" to expand its activities in financial markets, and to encourage further growth of the investment management company.

In September 2006, the Bank started its activity in Yerevan, the capital of Armenia, by establishing a 100% owned subsidiary "Norvik Universal Credit Organisation" with the share capital of 500 thousand dollars. As at 31 December 2006 the Bank's share in "Norvik Universal Credit Organisation" capital amounted to 904 thousand lats.

The Bank's profit for the year 2006 decreased by 42.7% compared to the previous financial year. Such a decrease is related with investments in the Bank's overall development: starting from internal reorganization and development of new products and continuing with expanding the branch network, acquiring a second-tier pension plan investment management company and setting business in Armenia. All these activities are tools for the Bank to accomplish its goal – to become one of the top five largest Latvian banks.

In the year 2006, JSC "NORVIK BANKA" was approved as a member of the Banking Association of Central and Eastern Europe (BACEE), thus becoming so far the only Baltic bank among participants of the BACEE. The

Bank was also awarded by an international financial magazine "The Global Finance" as "The best emerging market bank 2006".

Another important event in the year 2006 was upgrading of the Bank's rating. The International Rating Agency "Fitch Ratings" raised the outlook of JSC „NORVIK BANKA" from stable to positive. Currently the Long-term foreign currency rating of the Bank is affirmed at the level „B+", Short-term „B", Individual „D" and Support rating „5".

In conclusion, we would like to express our gratitude to employees and shareholders of the Bank for their contribution to the Bank's development and prosperity. We also thank our clients and partners for their successful cooperation and trust.

Chairman of the Supervisory Council J. H. Gudmundsson	Chairman of the Management Board A. Svirčenkovs

Riga, 1 March 2007

Supervisory Council as of 31 December 2006

Name	Position	Date of appointment
J.H. Gudmundsson	Chairman of the Supervisory Council	17/01/2006
B. Halldorsdottir	Deputy Chairwoman of the Supervisory Council	01/11/2006
H. Baldursson	Member of the Supervisory Council	17/01/2006
S. Āboliņš-Ābols	Member of the Supervisory Council	17/01/2006
V. Keiša	Member of the Supervisory Council	01/04/2006
J. Svirčenkova	Member of the Supervisory Council	01/04/2006

During the current period the following persons resigned their position:
- Chairman of the Supervisory Council A.Svirčenkovs
- Deputy Chairman of the Supervisory Council J.Šapurovs
- Member of the Supervisory Council A.Bagautdinovs
- Member of the Supervisory Council V.Keiša
- Deputy Chairman of the Supervisory Council T.Olafsson.

During the current period the following persons were appointed:
- Chairman of the Supervisory Council J.H.Gudmundsson
- Deputy Chairman of the Supervisory Council T. Olafsson
- Member of the Supervisory Council H. Baldursson
- Member of the Supervisory Council S. Āboliņš-Ābols
- Member of the Supervisory Council V.Keiša
- Member of the Supervisory Council J. Svirčenkova
- Deputy Chairwoman of the Supervisory Council B. Halldorsdottir.

Management Board as of 31 December 2006

Name	Position	Date of appointment
A. Svirčenkovs	Chairman of the Management Board	01/04/2006
J. Šapurovs	Deputy Chairman of the Management Board	01/04/2006
S. Gusarovs	Member of the Management Board	29/03/2005
A.Upenieks	Member of the Management Board	01/12/2006
V.Kamalyan	Member of the Management Board	14/12/2006

During the current period the following persons resigned their position:
- Member of the Management Board J.Svirčenkovs,
- Member of the Management Board O. Agarelova,
- Member of the Management Board N.Drozd,
- Member of the Management Board I.Skobeleva,
- Member of the Management Board L.Stefan.

During the current period the following persons were appointed:
- Chairman of the Management Board A. Svirčenkovs,
- Deputy Chairman of the Management Board J. Šapurovs,
- Member of the Management Board L. Stefan,
- Member of the Management Board A.Upenieks,
- Member of the Management Board V.Kamalyan.

Riga, 1 March 2007
On behalf of the Supervisory Council and Management Board:

Chairman of the Supervisory Council
J. H. Gudmundsson

Chairman of the Management Board
A. Svirčenkovs

The Management of JSC NORVIK BANKA (the Bank) is responsible for preparing the Consolidated Financial Statements of the Bank and its subsidiaries (the Group).
The Consolidated Financial Statements are prepared in accordance with the source documents and present fairly the financial position of the Group as of 31 December 2006 and the results of its operations and cash flows for the financial year ended 31 December 2006, as well as the financial position of the Bank as 31 December 2006 and the results of its operations and cash flows for the financial year ended 31 December 2006.
The management confirms 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 Financial Statements for the year ended 31 December 2006 set out on pages 8 to 43. The management also confirms that applicable International Financial Reporting Standards have been followed and that the Consolidated and the Bank Financial Statements have been prepared on a going concern basis and complies with the Regulations on the Preparation of Financial Statements of Banks issued by the Latvian Financial and Capital Market Commission in all material respects.
The Bank's management is also responsible for keeping proper accounting records, for taking reasonable steps to safeguard the assets of the Group and of the Bank and to prevent and detect fraud and other irregularities. They are also responsible for operating the Bank in compliance with the Law on Credit Institution, Regulations on the Preparation of the Annual Reports of Credit Institutions issued by the Latvian Financial and Capital Market Commission (FCMC) and other legislation of the Republic of Latvia in all material respects.

Riga, 1 March 2007

On the behalf of the Supervisory Council and Management Board:

Chairman of the Supervisory Council
J. H. Gudmundsson

Chairman of the Management Board
A. Svirčenkovs

INDEPENDENT AUDITOR'S REPORT

To the shareholders of AS "NORVIK BANKA"

Report on the financial statements

We have audited the accompanying consolidated financial statements (pages 8 to 43) of AS "NORVIK BANKA" (the Bank) and its subsidiaries (the Group), which comprise the Bank's and the Group's balance sheet as at 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 International Financial Reporting Standards as adopted by the European Union and the requirements of the Financial and Capital Market Commission. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

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

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

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

Opinion

In our opinion, the financial statements of the Bank and the Group give a true and fair view of the financial position of the Bank and the Group as of 31 December 2006, and 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 and the requirements of the Financial and Capital Market Commission.

Report on the management report

We have read the report of the Chairman of the Supervisory Council and the Chairman of the Management Board (pages 3 to 4) of the annual report and we have not identified any material discrepancies between the financial information presented in these reports and the financial statements for the year ended 31 December 2006.

Deloitte Audits Latvia Ltd.
License No. 43

Kenneth Taylor Hansen
Authorised representative

Inguna Stasa
Sworn Auditor
Certificate №145

Riga, Latvia
1 March 2007

CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2006

	Notes	Group 2006 LVL'000	Bank 2006 LVL'000	Bank 2005 LVL'000
Interest income		16 953	16 906	12 075
Interest expense		(6 338)	(6 339)	(3 001)
Net interest income	4	**10 615**	**10 567**	**9 074**
Fee and commission income		5 596	5 577	5 818
Fee and commission expense		(1 288)	(1 275)	(1 616)
Net fee and commission income	5	**4 308**	**4 302**	**4 202**
Dividend income		4	4	14
Income on financial instruments, net	6	2 483	2 497	4 451
Other income	7	452	475	427
Other expense		(293)	(283)	(192)
Operating income		**17 569**	**17 562**	**17 976**
Administrative expenses	8	(12 627)	(12 452)	(10 555)
Depreciation and amortization		(852)	(841)	(766)
Provisions for debts impairment and liabilities	16	(282)	(277)	15
Operating expenses		**(13 761)**	**(13 570)**	**(11 306)**
Net operating profit before corporate income tax		**3 808**	**3 992**	**6 670**
Corporate income tax	9	(572)	(584)	(718)
Profit for the year		**3 236**	**3 408**	**5 952**
Attributable to:				
Equity holders of the parent		**3 241**		
Minority interest		(5)		
Basic and Diluted Earnings per share (LVL)	30	0.19	0.20	0.44

The accompanying notes on pages 12 to 43 form an integral part of these financial statements.
The financial statements on pages 8 to 43 were approved by the Supervisory Council and the Management Board on 1 March 2007, and signed on their behalf by:

Chairman of the Supervisory Council
J. H. Gudmundsson

Chairman of the Management Board
A. Svirčenkovs

CONSOLIDATED BALANCE SHEET AND OFF-BALANCE-SHEET ITEMS AS OF 31 DECEMBER 2006

	Note	Group 31.12.2006 LVL'000	Bank 31.12.2006 LVL'000	Bank 31.12.2005 LVL'000
Assets				
Cash and balances with the central bank	10	28 094	28 094	20 380
Balances due from credit institutions	11	30 930	30 695	94 179
Financial assets at fair value through profit or loss	12,13	42 313	42 313	24 443
Available-for-sale financial assets	14	5 681	5 681	7 783
Loans to customer and receivables	15	189 820	189 087	110 725
Deferred expenses and accrued income	18	265	282	430
Investment in subsidiaries	17	-	1 544	-
Goodwill	17	266	-	-
Other intangible assets	19	443	436	412
Tangible assets	20	5 362	5 304	5 224
Deferred tax assets		12	-	-
Other assets	21	1 364	1 351	1 386
Total assets		**304 550**	**304 787**	**264 962**
Liabilities				
Balances due to credit institutions	23	65 465	65 465	59 514
Financial liabilities at fair value through profit or loss	13	1 288	1 288	261
Customer deposits	24	202 156	202 308	180 288
Subordinated debt	25	1 777	1 777	2 030
Deferred income and accrued expenses	26	524	524	327
Provisions for other liabilities	27	180	170	204
Deferred tax liabilities	9	107	107	57
Other liabilities	28	1 367	1 302	1 056
Total liabilities		**272 864**	**272 941**	**243 737**
Equity				
Share capital	29	22 500	22 500	15 500
Capital reserves		7	7	7
Revaluation reserve of available-for-sale financial assets		(48)	(48)	(261)
Revaluation reserve of foreign currency		(8)	-	-
Retained earnings		5 979	5 979	27
Profit for the year		3 241	3 408	5 952
Equity attributable to equity holders of the Bank		**31 671**	**31 846**	**21 225**
Minority interest		**15**	**-**	**-**
Total equity		**31 686**	**31 846**	**21 225**
Total liabilities and equity		**304 550**	**304 787**	**264 962**
Commitments and contingencies				
Contingent liabilities		2 958	2 958	4 169
Commitments		33 620	35 302	16 231
Total commitments and contingencies	32	**36 578**	**38 260**	**20 400**

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Chairman of the Supervisory Council
J. H. Gudmundsson

Chairman of the Management Board
A. Svirčenkovs

Attributable to shareholders of the Bank

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEARS ENDED 31 DECEMBER 2006 AND 2005

Group	Paid-in share capital	Capital reserve	Retained earnings	Revaluation reserve	Equity attributable to the equity holders of the parent	Minority interest	Total Groups' equity
	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000
As at 31 December 2005	**15 500**	**7**	**5 979**	**(261)**	**21 225**	**-**	**21 225**
Increase of share capital	7 000	-	-	-	**7 000**	10	**7 010**
Revaluation of available-for-sale financial assets	-	-	-	213	**213**	-	**213**
Foreign currency translation gain*	-	-	-	(8)	**(8)**	-	**(8)**
Minority interest at acquisition	-	-	-	-	**-**	10	**10**
Profit for the year	-	-	3 241	-	**3 241**	(5)	**3 236**
As at 31 December 2006	**22 500**	**7**	**9 220**	**(56)**	**31 671**	**15**	**31 686**

*Revaluation reserve on consolidation of the subsidiary JSC "NORVIK Universal Credit Organization" (Armenia)

Bank	Paid-in share capital	Capital reserve	Retained earnings	Revaluation reserve	Total
	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000
As at 31 December 2004	**12 250**	**7**	**5 230**	**(27)**	**17 460**
Increase of share capital	3 250	-	-	-	**3 250**
Dividends	-	-	(5 203)	-	**(5 203)**
Revaluation of available-for-sale financial assets	-	-	-	(234)	**(234)**
Profit for the year	-	-	5 952	-	**5 952**
As at 31 December 2005	**15 500**	**7**	**5 979**	**(261)**	**21 225**
Increase of share capital	7 000	-	-	-	**7 000**
Revaluation of available-for-sale financial assets	-	-	-	213	**213**
Profit for the year	-	-	3 408	-	**3 408**
As at 31 December 2006	**22 500**	**7**	**9 387**	**(48)**	**31 846**

The accompanying notes on pages 12 to 43 form an integral part of these financial statements.
The financial statements on pages 8 to 43 were approved by the Supervisory Council and the Management Board on 1 March 2007, and signed on their behalf by:

Chairman of the Supervisory Council
J. H. Gudmundsson

Chairman of the Management Board
A. Svirčenkovs

CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2006

	Note	Group 2006 LVL'000	Bank 2006 LVL'000	Bank 2005 LVL'000
Cash flow from operations				
Profit before corporate income tax		3 808	3 992	6 670
Depreciation of intangible and tangible fixed assets and write off		1 833	1 822	1 392
Increase in provisions for debts impairments and liabilities		406	401	21
Loss/(profit) from foreign exchange revaluation		532	526	(3 321)
Operating cash flow before changes in operating assets and liabilities		**6 579**	**6 741**	**4 762**
Decrease/(increase) in balances due from credit institutions		4 711	4 701	(6 817)
(Increase) in loans to customers and receivables		(79 501)	(78 763)	(33 963)
Decrease in available-for-sale financial assets		2 315	2 315	11 698
(Increase) in financial assets at fair value through profit or loss		(17 870)	(17 870)	(3 064)
Decrease in deferred expenses and accrued income		167	148	374
Decrease/(increase) in other assets		83	90	(607)
Increase in non-current liabilities to credit institutions		28 429	28 429	1 422
Increase/ (decrease) in deposits		21 868	22 020	(45 580)
Increase/(decrease) in financial liabilities at fair value through profit or loss		1 027	1 027	(89)
Increase /(decrease) in deferred income and accrued expenses		197	197	(1 047)
Increase/(decrease) in other liabilities		334	262	(727)
Cash used in operating activities		**(31 661)**	**(30 703)**	**(73 638)**
Corporate income tax (paid)		(639)	(639)	(1 042)
Net cash used in operating activities		**(32 300)**	**(31 342)**	**(74 680)**
Cash flow from investing activities				
Acquisition of intangible and tangible fixed assets		(1 998)	(1 926)	(1 369)
Proceeds from sale of intangible and tangible fixed assets		-	-	30
Proceeds from sale of subsidiary		-	-	1 000
Acquisition of subsidiary	17	(438)	(1 544)	-
Net cash used in investing activities		**(2 436)**	**(3 470)**	**(339)**
Cash flow from financing activities				
Increase in share capital		7 000	7 000	3 250
Increase in subordinated debt		-	-	4
Payment of subordinated debt		(253)	(253)	-
Payment of dividends		-	-	(5 203)
Net cash provided by/(used in) financing activities		**6 747**	**6 747**	**(1 949)**
Net decrease in cash and cash equivalents		**(27 989)**	**(28 065)**	**(76 968)**
Cash and cash equivalents at the beginning of the period		47 633	47 508	121 155
Profit/(loss) from foreign exchange revaluation		(532)	(526)	3 321
Cash and cash equivalents at the end of the period	31	**19 112**	**18 917**	**47 508**

The accompanying notes on pages 12 to 43 form an integral part of these financial statements.
The financial statements on pages 8 to 43 were approved by the Supervisory Council and the Management Board on 1 March 2007, and signed on their behalf by:

Chairman of the Supervisory Council
J. H. Gudmundsson

Chairman of the Management Board
A. Svirčenkovs

42. GENERAL INFORMATION

"NORVIK BANKA" ("the Bank") is a joint stock company incorporated in the Republic of Latvia, acting in accordance with Latvian legislation and License No. 30 issued by the Bank of Latvia on 27 April 1992. In December 2006 Bank changed its legal name from JSC "LATEKO BANK" to JSC "NORVIK BANKA".
The legal address of JSC "NORVIK BANKA" is E. Birznieka-Upīša street 21, Riga LV-1011, Latvia.

The Bank has a central office, 12 branches, 78 accounting groups and one representative office in Minsk (Republic of Belorus). The main banking operations are local and international money transfers, the issuance of loans, securities operations and foreign currency transactions.

43. SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES

(3) Basis of preparation

The accompanying financial statements are presented in the national currency of Latvia in thousands of lats ("LVL").

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union (the EU) issued by the International Accounting Standards Board ("IASB"), Interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC") and the regulations of the Latvian Financial and Capital Market Commission (FCMC).

The consolidated financial statements have been prepared under the historical cost convention as modified by the remeasurement of available for sale securities, financial assets and financial liabilities held at fair value through profit or loss and all financial derivatives to fair value.

The accounting policies have been consistently applied by all Group enterprises. The principal accounting policies adopted are set out below.

Adoption of new and revised Standards

In the current year, the Group has adopted all of the new and revised Standards and Interpretations issued by the IASB and the IFRIC of the IASB that were endorsed by the EU Commission and that are relevant to the Group's operations. The adoption of these new and revised Standards and Interpretations has not resulted in changes to the Group's accounting policies.

The application of the amendments and interpretations listed below did not result in substantial changes to the Group's accounting policies:

IAS 19 Amendment – Actuarial Gains and Losses, Group Plans and Disclosures;
IAS 21 Amendment – Net Investment in a Foreign Operation;
IAS 39 Amendment – Cash Flow Hedge Accounting of Forecast Intragroup Transactions;
IAS 39 Amendment – The Fair Value Option;
IAS 39 and IFRS 4 Amendment – Financial Guarantee Contracts;
IFRS 1 (Amendment), First-time Adoption of International Financial Reporting Standards,
IFRS 6, Exploration for and Evaluation of Mineral Resources;
IFRIC 4, Determining whether an Arrangement contains a Lease;
IFRIC 5, Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds; and
IFRIC 6, Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment.

The Group has chosen not to early adopt the following standard and interpretations that were issued but not yet effective for accounting periods beginning on 1 January 2006:

IFRS 7 Financial Instruments: Disclosures (effective 1 January 2007);
IFRS 8, Operating Segments (effective 1 January 2008);
IFRIC 7, Applying the Restatement Approach under IAS 29 (effective 1 March 2006);

IFRIC 8, Scope of IFRS 2 (effective 1 May 2006);
IFRIC 9, Reassessment of embedded derivative (effective 1 June 2006);
IFRIC 10, Interim Financial Reporting and Impairment (effective 1 November 2006);
IFRIC 11, IFRS 2 – Group Treasury Share Transactions (effective 1 March 2007); and
IFRIC 12, Service Concession Arrangements (effective 1 January 2009).

The application of these new interpretations will not have a material impact on the entity's financial statements in the period of initial application.

Basis of Consolidation

The consolidated financial statements include all subsidiaries, which are those companies in which the Group directly or indirectly has an interest of more than half of the voting rights or otherwise has power to exercise control over operations. Control is achieved where the company has the power to govern the financial and operating policies of an investee enterprise so as to obtain benefits from its activities. The subsidiaries are consolidated from the date on which effective control is acquired by the Group and are no longer consolidated from the date of disposal.

In May 2006, the Bank has acquired 94.95% of the JSC "LVA ieguldījumu pārvaldes sabiedrība", whose purpose of activity is management of investment funds and second-tier pension plans. Currently, JSC "LVA ieguldījumu pārvaldes sabiedrība" runs the following second-tier pension plans – conservative "DAUGAVA", balanced "VENTA" and active "GAUJA". In December 2006 JSC "LVA ieguldījumu pārvaldes sabiedrība" changed name to JSC "NORVIK ieguldījumu pārvaldes sabiedrība".

In April 2006 it was decided to establish a 100% owned subsidiary in Armenia. On 4 July 2006, closed JSC "NORVIK Universal Credit Organization" has been registered in the Central Bank of Armenia. The principal activity of the "NORVIK Universal Credit Organization" is lending.

The Bank, JSC "NORVIK ieguldījumu pārvaldes sabiedrība" and JSC "NORVIK Universal Credit Organization" make up a group of entities under the control of the Bank as a parent entity ("the Group"). In accordance with IAS 27 "Consolidated and Separate Financial Statements" and the requirements of FCMC, the Bank has prepared consolidated financial statements for the Group and separate financial statements.

In the separate financial statements the Bank has recognized investments in the subsidiaries in accordance with the cost method. The separate financial statements of the Bank and its subsidiaries are consolidated line by line by combining items of assets, liabilities, off-balance sheets, income and expenses. Intragroup balances of the Bank and its subsidiary as well as intragroup transactions, including income and expenses, are eliminated.

In connection with the acquisition of the subsidiary, IFRS 3*"Business Combinations"* has been applied.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

After initial recognition, goodwill in the business combination is carried at cost less any impairment losses. Under IAS 36 *"Impairment of Assets"*, impairment reviews are required annually, or more frequently if there are indications that goodwill might be impaired.

Subsidiaries were acquired in 2006 and no comparatives with previous year are disclosed in these financial statements.

(4) Foreign currency translation

Transactions and balances
Transactions denominated in foreign currencies are translated into Latvian lat (LVL) at the official Bank of Latvia exchange rate on the date of the transaction, which approximates the prevailing market rates. Monetary assets and liabilities, including unmatured commitments to deliver or acquire foreign currencies under spot exchange transactions, if any, are translated at the exchange rate on the balance sheet date.
The fair value of available for sale monetary assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the balance sheet date.
All realised gains and losses are recorded in the income statement in the period in which they arise. Unrealised gains and losses at reporting dates are credited or charged to the income statement.
The foreign currency exchange rates for the principal currencies that were used as of the end of the period were as follows (lats for one foreign currency unit):

	Bank of Latvia exchange rates as of 31 December 2006	Bank of Latvia exchange rates as of 31 December 2005
EUR	0.702804	0.702804
USD	0.536000	0.593000

Group companies
The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions);
- all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities are taken to shareholders' equity. When a foreign operation is disposed of, or partially disposed of, such exchange differences are recognised in the income statement as part of the gain or loss on sale.

(3) Financial assets and liabilities

Financial asset or financial liability at fair value through profit or loss
Financial assets and liabilities held for trading are those that have been acquired or have arisen, mainly for the purpose of gaining profit from short-term fluctuations in prices and are designated as financial assets at fair value through profit and loss as such upon initial recognition. These include trading securities and derivative financial transactions.
Trading securities are initially recorded at their purchase value (including securities purchase costs); subsequently these securities are recorded at their fair value, based on quoted market price. Any realized and unrealized profit or loss is recorded in the income statement as net profit or loss from trading securities. In recording trading securities the Group uses the date of purchase or sale of securities.
The Group operates with derivative financial instruments such as future currency agreements (forwards), currency exchange agreements (swaps) and future currency agreements traded on stock exchange *(futures)*. Fair value of derivative transactions are included in balance sheet as "Financial assets or liabilities at fair value through profit or loss". Changes in the fair value of derivatives are included in the income statement on a daily basis.

Available-for-sale financial assets are those non-derivative financial assets that are designated as available for sale or are not classified as loans and receivables, held-to-maturity investments or financial assets at fair value through income statement. Available-for-sale financial assets include certain debt and equity investments.

Securities available for sale are initially recorded at their purchase value (including expenses on purchase of the securities). Subsequently, securities are stated at their fair value based on quoted market prices. If securities are not a subject for active sale its fair value is stated using alternative methods (for example, prices of similar investments).

Available-for-sale assets, for which the market price is not quoted and which fair value is not possible to measure by using other previously mentioned alternative methods, are recorded at their purchase value less allowance for permanent diminution in value, when appropriate.

Unrealised gains or losses on available-for-sale investments are recognized directly in equity, except for impairment losses and foreign exchange gains and losses until the financial asset is derecognized, at which time the cumulative gain or loss previously recognized in equity is recognized in the income statement.

Loans to customers and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.
Loans are measured at amortised cost using the effective interest rate method. The amortised cost of a loan is the amount at which the loan is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.

Finance lease

A finance lease is a lease that transfers substantially all the risks and rewards incident to ownership to the lessee at the inception of the lease. Receivables arising from finance lease are recognised as loans granted to clients. Received lease payments, less principal amount, are recognised as interest income using effective interest rate method.
When a finance lease receivable is uncollectible it is written off against the related impairment provision; subsequent recoveries are credited to the provision expense in the income statement.

Impairment of financial assets

The Group assesses, at each balance sheet date, whether there is objective evidence that a financial asset or group of financial assets is impaired.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant and for all loans with overdue payments or interest regardless of the size of the outstanding principal. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in the collective assessment of impairment.

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and estimated present value of future cash flows. Due to the fact that the Bank's portfolio mainly consists of loans with collateral the Group uses discounted collateral realisation value as an approximation of the present value of future cash flows.

For the measurement of collective impairment the bank assumes that all contractual cash flows will be received and recognises impairment loss based on historical loss experience which is adjusted on the basis of currently available data.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics mainly based on collateral type.

The carrying amount of the asset is reduced through the use of an allowance and the increase/decrease in the amount of the impairment loss is recognised in the income statement.

(4) Intangible and tangible fixed assets

All fixed tangible and intangible assets are recorded at their cost less accumulated depreciation and amortisation. Depreciation and amortisation is calculated on a straight-line basis using the following depreciation and amortisation rates:

Intangible assets:	*Annual charge*
Licenses	20 %
Software	33 %
Tangible fixed assets:	
Buildings	10 %
Other	7 % - 33%

The Group periodically tests its intangible and tangible assets for impairment. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down to this recoverable amount. Write down is recorded in income statement line "Depreciation".

Repairs are charged to the income statement when the expenditure is incurred. Repair costs of the rented premises larger than 50 thousand LVL are written off over rental period.

(5) Leasehold improvements
Leasehold improvements are capital investments (internal re-planning and interior work) in the office building of the Bank. Leasehold improvements are amortized over the period of lease.

(6) Income and expense recognition
Interest income and expenses are recognized in the income statement on accrual basis of accounting using the effective interest rate method for all interest bearing financial assets and liabilities.
Loan origination fees are included in determining the loan value at amortized cost using the effective interest rate method.
Fees and commissions are generally recognised on an accrual basis when the service has been provided. Income and expenses relating to the reporting period are disclosed in the income statement irrespective of the date of receipt or payment.

(7) Cash and cash equivalents
Cash and cash equivalents comprise cash and deposits with the Bank of Latvia and other credit institutions with a maturity of less than 3 months when purchased less balances due to the Bank of Latvia and credit institutions with a maturity of less than 3 months.

(8) Taxes
Corporate income tax is calculated in conformity with the tax legislation of the Republic of Latvia. Deferred taxation is provided for all temporary differences arising between the accounting and taxation treatment of income and expenses according to accounting and taxation legislation. The deferred taxation liability is calculated based on the tax rates that are expected to apply when the temporary differences reverse. When an overall deferred tax asset arises, this is only recognised in the financial statements where its recoverability is foreseen with reasonable certainty.

(9) Managed assets and liabilities
This includes assets and liabilities held by the Bank on behalf of clients and registered in the name of the Bank. The Group does not carry credit, interest rate or any other risk connected with these managed assets.

(10) Use of estimates
In preparing the financial statements, the management of the Group makes estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

44. RISK MANAGEMENT

To ensure the control and management over financial risks, the Management Board and Supervisory Council of the Group has approved an internal financial risks control policy regarding the significant risks, liquidity risk, credit risk and market risk, and regulates the other documents, that comprise the system for the Group's financial risk management.
The Internal Financial Risk Management Policy determines ***Liquidity risk*** control and management, and includes the treatment of the risk of the untimely settlement of customer and other legal creditor claims. The Management Board of the Group and the Assets and Liabilities Committee state general liquidity risk management criteria by regulating the volumes, terms and directions of the Group's activities. The Treasury department manages *liquidity's I Reserve fund* (cash, balances with correspondent bank accounts and short term interbanking deals).
Liquidity risk management and control is based on asset and liability term analysis, internal limit regulations regarding the net liquidity position, the effective usage of *liquidity`s I Reserve fund* and liquidity regulation for the remaining free resources, etc. The maturity analysis of the Group assets and liabilities according to remaining contractual maturities is presented in Note 34.

Credit risk includes the risk of untimely or incomplete settlement of debtor balances. The Group manages the total credit risk, including the country risk, in accordance with the Internal Financial Risk Management Policy, Credit Policy and Country Risk Management Policy. The system of credit risk management includes the approval of the evaluation of credit risks in connection with partners, creditors and issuers, regulations regarding credit types (by credit volumes and terms) and investments in the Group's portfolio, and regular evaluation of assets and off-balance sheets. The Board and the Credit Committee manage this credit risk, and the Credit Department continuously monitors compliance with related procedures and limits.
The amount of the Group`s maximum exposure to credit risk without taking account of any collateral is represented by the carrying amount of each category of financial assets in the balance sheet and off-balance sheet items. Detailed analysis of of the Group`s exposure to credit risk is presented in Notes 15, 16.

Market risk relates to the possibility of experiencing losses as a result of unfavourable fluctuations in interest rates, exchange rates and prices on securities. The management of market risk is carried out according to the Internal Financial Risk Management Policy, the Foreign Currency Risk Management Policy and Trading Portfolio Policy. When analysing the maturity and interest rates of assets and liabilities, and the net interest margin and liquidity in connection with currencies and directions of operations, the Management Board and Tariff Committee states the basic interest rate for deposits and loans for each currency group and period.
The interest rate repricing analysis of the Group`s assets and liabilities according to the minimal remaining terms till possible changes of interest rates is presented in Note 35.
The Foreign Currency Risk Management Policy governs foreign exchange risk control and management. This policy is based on meeting the restrictions of the net open position of each foreign currency and the total amount of the net open position of foreign currencies, in compliance with the requirements of the Latvian Financial and Capital Market Commission. In order to avoid losses arising from adverse changes in exchange rates, the Treasury Department continuously supervises compliance with the restrictions on foreign currency positions. The sensitivity analysis for the Group`s foreign exchange risk is presented in Note 36.

Operational risk presents the possibility to incur losses due to the impact of inadequate or unsuccessful internal processes, activities by personnel, systems, or external circumstances. The Management Board and appropriate organisational units of the Group exercise supervision and control over the operational risk, on the basis of the approved Operational Risk Management Policy. For securing the continuity of the activity, the Group maintains necessary resources. At the end of the year a loss database has been created, in which events causing the operational risk (incidents) are registered and analysed.
Anti-Money Laundering Policies
The Financial Capital and Market Commission (FCMC), the Latvian financial and capital market regulator and supervisory institution, conducts regular checks of the Group's internal control procedures, with the purpose of securing a stable environment in the Latvian financial and capital markets.
In the year 2005 the FCMC has adopted "Regulations on Establishment of Internal Control System

for Prevention of Money Laundering and Terrorism Financing" No.93. These regulations establish the procedure in accordance with which the requirements of the European Union Directive No.2005/60/EK concerning counter-laundering activities and prevention of the terrorism financing are to be fulfilled. The main changes are related to requirements of identification and knowing of the beneficial owner, introduction of the risk-based system, the description of the procedures that ensure compliance with the principle "know your client", collection of information and analysis of clients' transactions. Introduction of these regulations has resulted in significant corrections in the everyday operation of the Group, allowing therefore to successfully fulfil requirements of the legislation related to prevention of the criminally obtained funds and terrorism financing in the financial sector.
In the year 2006, in compliance with new requirements of the FCMC, the Group has improved the controls in the areas relating to prevention of the criminally obtained funds and terrorism financing. The Group has implemented the Client Manager System that ensures that responsibility for compliance of each client and financial transactions of such client lies with a concrete person, whose duty is to know the client personally, supplement the client file with up-to-date information about the client's activity and financial situation and, in the event of suspicion, to report to competent state institutions. The introduced control system improvements ensure that in its everyday practice the Group observes the principle "know your client" (KYC), and, in the events provided for in the procedures, conducts the client due diligence and regular supervision of clients' financial transactions.

45. INTEREST INCOME, NET

	Group 2006 LVL'000	Bank 2006 LVL'000	Bank 2005 LVL'000
Interest income	**16 953**	**16 906**	**12 075**
Loans to customers and receivables	11 550	11 511	7 801
Debt securities	3 133	3 133	1 841
Balances due from credit institutions and central banks	2 103	2 095	2 417
Other	167	167	16
Interest expense	**6 338**	**6 339**	**3 001**
Customer deposits	3 738	3 739	1 815
Balances due to credit institutions	2 088	2 088	662
Payments in the Deposit Guarantee Fund	359	359	360
Subordinated debt	153	153	164
Interest income, net	**10 615**	**10 567**	**9 074**

46. FEE AND COMMISSION INCOME, NET

	Group 2006 LVL'000	Bank 2006 LVL'000	Bank 2005 LVL'000
Fee and commission income	**5 596**	**5 577**	**5 818**
Account services and money transfer fees	3 474	3 467	3 695
Payment cards	771	771	660
Commission for public utility payments	366	366	259
Asset management fees	361	361	584
Brokerage services on securities	227	227	229
Cash withdrawal	147	147	97
Commission on letters of credit and collection	112	112	104
Other	138	126	190
Fee and commission expense	**1 288**	**1 275**	**1 616**
Payment cards	537	537	479
Services of correspondent banks	459	459	851
Securities purchase and brokerage services	208	208	234
Other	84	71	52
Fee and commission income, net	**4 308**	**4 302**	**4 202**

47. INCOME ON FINANCIAL INSTRUMENTS, NET

	Group 2006 LVL'000	Bank 2006 LVL'000	Bank 2005 LVL'000
Profit/(loss) from trade in available-for-sale financial assets, net	**(303)**	**(303)**	**1 220**
Bonds and other fixed income securities	(76)	(76)	734
Shares and other non-fixed income securities	(227)	(227)	486
Profit from financial assets and liabilities at fair value through profit or loss, net	**1 443**	**1 438**	**(1 562)**
Trading bonds and other fixed income securities	*53*	*53*	*34*
Net trading loss	(182)	(182)	(119)
Fair value adjustment	235	235	153
Trading shares and other non- fixed income securities	*17*	*17*	-
Net trading gain	13	13	-
Fair value adjustment	4	4	-
Derivative instruments	*1 373*	*1 368*	*(1 596)*
Net trading gain/(loss)	1 588	1 583	(1 703)
Fair value adjustment	(215)	(215)	107
Profit from foreign exchange trading and revaluation of open position, net	**1 343**	**1 362**	**4 793**
Net trading gain	1 888	1 888	1 488
Fair value adjustment	(545)	(526)	3 305
Income on financial instruments, net	**2 483**	**2 497**	**4 451**

48. OTHER INCOME

49. ADMINISTRATIVE EXPENSES

	Group 2006 LVL'000	Bank 2006 LVL'000	Bank 2005 LVL'000
Personnel expense	**5 858**	**5 737**	**3 890**
Personnel remuneration	4 385	4 312	2 943
Supervisory Council and Management Board remuneration	417	386	202
Social security contributions	1 056	1 039	745
Other expense	**6 769**	**6 715**	**6 665**
Professional services	1 296	1 282	1 952
Computer repair and communications	1 104	1 097	1 125
Rent	1 021	1 003	575
Public utilities and maintenance	771	771	520
VAT	524	524	522
Advertising	450	449	422
Write-off of leasehold improvement	316	316	390
Stationary and miscellaneous	207	207	174
Business trip	171	171	147
Security	141	140	103
Donations	134	134	139
Real estate tax	21	21	23
Rebranding	7	7	-
Other administrative expenses	606	593	573
Total	**12 627**	**12 452**	**10 555**

During the 2006 the average number of employees by the Group and the Bank was 657 (including 6 Supervisory Council and 6 Management Board members) and 635 (including 6 Supervisory Council and 5 Management Board members), respectively.

The average number of Bank's employees in 2005 was 548 (including 5 Management Board members, 4 Supervisory Council members).

50. CORPORATE INCOME TAX

a) Components of corporate income tax

	Group 2006 LVL'000	Bank 2006 LVL'000	Bank 2005 LVL'000
Corporate income tax expense for the year	534	534	720
Deferred tax liability	50	50	(2)
Deferred tax asset	(12)	-	-
Total	**572**	**584**	**718**

b) Reconciliation of accounting profit to tax charge:

	Group 2006 LVL'000	Bank 2006 LVL'000	Bank 2005 LVL'000
Profit before taxation	**3 808**	**3 992**	**6 670**
Expected corporate income tax *	583	599	1 001
Tax effect of:			
(Non-deductible income)/non-deductible expense	145	141	(105)
Sponsorship	(114)	(114)	(117)
Tax exemptions	(42)	(42)	(61)
Total	**572**	**584**	**718**

*15% rate in Latvia and 20% rate in Armenia

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

	Group 2006 LVL'000	Bank 2006 LVL'000	Bank 2005 LVL'000
Deferred tax liability at the beginning of year	57	57	59
Deferred tax liability increase/(decrease) for the year	50	50	(2)
Deferred tax liability at the year end	**107**	**107**	**57**
Deferred tax asset at the beginning of year	-	-	-
Deferred tax asset increase for the year	(12)	-	-
Deferred tax asset at the year end	**(12)**	**-**	**-**

51. CASH AND BALANCES WITH THE CENTRAL BANK

	Group 31.12.2006 LVL'000	Bank 31.12.2006 LVL'000	Bank 31.12.2005 LVL'000
Cash	6 941	6 941	5 506
Due from the central bank	21 153	21 153	14 874
Total	**28 094**	**28 094**	**20 380**

Balances with the Bank of Latvia represent funds held in the Bank's clearing account. In accordance with the regulations set by the Bank of Latvia, the Bank's average monthly correspondent account balance should not be less than the amount of the statutory reserve which is calculated on the basis of the balance of liabilities included in the reserve base, as at the end of month. As at 31 December 2006 and 2005 the amount of the statutory reserve of the Bank was LVL'000 19 308 and LVL'000 13 602, respectively.

52. BALANCES DUE FROM CREDIT INSTITUTIONS

	Group 31.12.2006 LVL'000	Bank 31.12.2006 LVL'000	Bank 31.12.2005 LVL'000
Demand deposits	**22 422**	**22 343**	**65 194**
Credit institutions of OECD countries	18 159	18 159	54 626
Credit institutions of other countries	4 090	4 017	9 822
Credit institutions of the Republic of Latvia	173	167	746
Other balances due from credit institutions	**8 508**	**8 352**	**28 985**
Credit institutions of other countries	7 474	7 474	8 556
Credit institutions of OECD countries	813	813	19 929
Credit institutions of the Republic of Latvia	221	65	500
Total	**30 930**	**30 695**	**94 179**

53. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group 31.12.2006 LVL'000	Bank 31.12.2006 LVL'000	Bank 31.12.2005 LVL'000
Trading bonds and other fixed income securities	**41 189**	**41 189**	**24 073**
Other country bonds	38 279	38 279	16 909
OECD country bonds	2 161	2 161	6 387
Latvian bonds	749	749	777
Trading shares and other non- fixed income securities	**59**	**59**	**-**
Other country shares	59	59	-
Derivative instruments	**1 065**	**1 065**	**370**
Cross-currency swap not traded on stock exchange *(Swaps)*	761	761	295
Spot foreign exchange contracts *(Spot)*	150	150	64
Forward contracts not traded on stock exchange *(Forwards)*	101	101	9
On stock exchange traded future contract *(Futures)*	53	53	2
Total	**42 313**	**42 313**	**24 443**

54. DERIVATIVE ASSETS AND LIABILITIES

	Fair value LVL'000					
	Assets			Liabilities		
	31.12.2006		31.12.2005	31.12.2006		31.12.2005
	Group	Bank	Bank	Group	Bank	Bank
Swaps	761	761	295	742	742	197
Spots	150	150	64	194	194	47
Forwards	101	101	9	352	352	7
Futures	53	53	2	-	-	10
Total	**1 065**	**1 065**	**370**	**1 288**	**1 288**	**261**

Derivative contracts notional basic value was as follows:

	Off-balance assets LVL'000			Off-balance liabilities LVL'000		
	31.12.2006		31.12.2005		31.12.2006	31.12.2005
	Group	Bank	Bank	Group	Bank	
Swaps	418 340	418 340	150 713	418 310	418 310	150 624
Spots	122 095	122 095	119 498	122 140	122 140	119 481
Forwards	15 482	15 482	7 508	15 760	15 760	7 501
Futures	7 246	7 246	12 908	7 119	7 119	12 997
	563 163	**563 163**	**290 627**	**563 329**	**563 329**	**290 603**

Notional value*, LVL'000

As at 31 December 2006	Up to 1 month	From 1 to 3 months	From 3 to 6 months	From 6 months to 1 year	More than 1 year	Total
Swaps	413 945	900	2 750	744	-	418 339
Spots	122 095	-	-	-	-	122 095
Forwards	3 038	2 420	4 112	557	5 360	15 487
Futures	-	-	7 119	-	-	7 119
	539 078	**3 320**	**13 981**	**1 301**	**5 360**	**563 040**

*Notional value of derivatives is calculated based on FCMC regulation On calculation of capital adequacy.

55. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	Group 31.12.2006 LVL'000	Bank 31.12.2006 LVL'000	Bank 31.12.2005 LVL'000
Bonds and other fixed income securities	**5 681**	**5 681**	**7 428**
Latvian bonds	3 536	3 536	3 817
OECD country bonds	1 610	1 610	3 018
Other country bonds	535	535	593
Shares and other non-fixed income securities	**-**	**-**	**355**
Latvian residents	-	-	3
Other residents	-	-	352
Total	**5 681**	**5 681**	**7 783**

56. LOANS TO CUSTOMER AND RECEIVABLES

	Group 31.12.2006 LVL'000	Bank 31.12.2006 LVL'000	Bank 31.12.2005 LVL'000
Net loans to customers	**184 176**	**183 443**	**109 553**
Loans to private companies	131 957	134 390	90 049
Loans to individuals	52 410	49 239	19 440
Loans to state owned companies	-	-	210
Provisions for impairment (Note 16)	(191)	(186)	(146)
Receivables	**5 644**	**5 644**	**1 172**
Receivables to finances companies	5 644	5 644	1 172
Total loans and receivables	**189 820**	**189 087**	**110 725**
Geographical segmentation of loans and receivables	**184 176**	**183 443**	**109 553**
Loans to residents of Latvia	120 518	120 518	56 879
Loans to residents of the other countries	55 309	54 571	44 153
Loans to residents of OECD countries	8 540	8 540	8 667
Provisions for impairment (Note 16)	(191)	(186)	(146)
Receivables	**5 644**	**5 644**	**1 172**
Receivables to residents of OECD countries	5 644	5 644	1 172
Total loans and receivables	**189 820**	**189 087**	**110 725**
Analysis of loans to customers by type			
Industrial loans	46 871	46 871	31 772
Mortgage loans	38 099	36 221	7 856
Commercial loans	34 221	32 664	23 984
Reverse Repo transactions	27 287	27 287	21 547
Consumer loans	10 800	9 512	5 126
Overdrafts	9 267	13 257	11 400
Credit card balances	7 050	7 050	3 027
Factoring loans	2 608	2 608	1 973
Finance leases	1 635	1 635	2 293
Other	6 338	6 338	575
Net loans to customers	**184 176**	**183 443**	**109 553**
Finance leases			
Gross investments	**1 832**	**1 832**	**2 698**
Within 1 year	730	730	1 073
From 1 year to 5 years	1 041	1 041	1 475
More than 5 years	61	61	150
Unearned income	**(197)**	**(197)**	**(313)**
Within 1 year	90	90	125
From 1 year to 5 years	104	104	179
More than 5 years	3	3	9
Net investments	**1 635**	**1 635**	**2 293**
Within 1 year	640	640	903
From 1 year to 5 years	937	937	1 249
More than 5 years	58	58	141

57. PROVISIONS FOR DEBTS IMPAIRMENT AND LIABILITIES

The following table presents an analysis of the change in allowance account for impairment. The allowance for impairment losses is attributed to the loans granted by the Group.

	Group LVL'000	Bank LVL'000
At 31 December 2005	**146**	**146**
Increase in provisions for doubtful debts	469	464
Written off loans	(360)	(360)
Released from provisions	(63)	(63)
Foreign exchange	(1)	(1)
At 31 December 2006	**191**	**186**

	Group 2006 LVL'000	Bank 2006 LVL'000	Bank 2005 LVL'000
Result from provisions establishment	**(282)**	**(277)**	**15**
Increase in provisions for doubtful debts	(469)	(464)	(106)
Released from provisions for doubtful debts	63	63	85
Released from provisions for liabilities	34	34	-
Recovery of previously written-off assets	90	90	36

58. INVESTMENT IN SUBSIDIARIES

In May 2006 the Bank acquired a 94.95% controlling interest in JSC "LVA Ieguldījumu Sabiedrība" (in December 2006 changed name to JSC "NORVIK ieguldījumu pārvaldes sabiedrība"). During 2006, the Bank established a 100% owned subsidiary - closed JSC "NORVIK Universal Credit Organization"- in Armenia.

As at 31 December 2006 the Bank had the following investment in the subsidiaries:

Company	Country and address of registration	Business profile	Share capital LVL'000	Bank's investment LVL'000	Bank's share capital %	Total equity value LVL'000	Investment acquisition value LVL'000	Goodwill LVL'000
JSC "NORVIK Ieguldījumu pārvaldes sabiedrība"	Latvia, Riga, Blaumana str. 11/13-9	Finance	555	640	94.95	290	450	266
JSC "NORVIK Universal Credit Organization"	Armenia, Yerevan, Khanjyan str.41	Finance	904	904	100.00	833	-	-
TOTAL				**1 544**				

In October and December 2006, the JSC "NORVIK ieguldījumu pārvaldes sabiedrība" registered an increase in the share capital of LVL'000 200 up to LVL'000 555, accordingly the Bank's additional investment increased by LVL'000 190, totalling LVL'000 640.

As at the date of acquisition, the balance sheet of the JSC "LVA ieguldījumu pārvaldes sabiedrība" could be presented as follows:

	05.05.2006 (Unaudited) LVL'000
Assets	
Cash and balance due from credit institutions	187
Tangible and intangible assets	4
Other assets	7
Total assets	**198**
Liabilities	**4**
Equity	
Share capital	355
Accumulated deficit	(127)
Loss for the period	(34)
Total equity	**194**
Total liabilities and equity	**198**

The goodwill and net cash outflow arising on acquisition are as follows:

	LVL'000
Total consideration	450
Net assets acquired	(184)
Goodwill	**266**
Cash consideration paid	(450)
Cash and cash equivalents acquired	12
Net cash outflow	**(438)**

59. DEFERRED EXPENSES AND ACCRUED INCOME

	Group 31.12.2006 LVL'000	Bank 31.12.2006 LVL'000	Bank 31.12.2005 LVL'000
Deferred expenses	113	113	287
Accrued income	152	169	144
Provisions	-	-	(1)
Total	**265**	**282**	**430**

60. OTHER INTANGIBLE ASSETS

	Group 31.12.2006 LVL'000	Bank 31.12.2006 LVL'000	Bank 31.12.2005 LVL'000
Other intangible assets	442	435	411
Prepayments for intangible assets	1	1	1
Net book value of other intangible assets	**443**	**436**	**412**

The following table presents the changes in the Bank's other intangible assets for the year ended 31 December 2006:

LVL `000	Other intangible assets	Prepayments for other intangible assets	Total
Historical cost			
At 31 December 2005	**775**	**1**	**776**
Additions	170	26	**196**
Disposals	-	(26)	**(26)**
At 31 December 2006	**945**	**1**	**946**
Amortisation			
At 31 December 2005	**364**	**-**	**364**
Charge	146	-	146
Disposals	- -	-	-
At 31 December 2006	**510**	**-**	**510**
Net book value			
At 31 December 2005	**411**	**1**	**412**
At 31 December 2006	**435**	**1**	**436**

61. TANGIBLE FIXED ASSETS

	Group 31.12.2006 LVL'000	Bank 31.12.2006 LVL'000	Bank 31.12.2005 LVL'000
Lands and buildings	3 154	3 154	3 415
Vehicles	259	238	236
Office equipment and other fixed assets	1 182	1 145	683
Prepayments for tangible fixed assets	199	199	56
Leasehold improvements	568	568	834
Net book value of tangible fixed assets	**5 362**	**5 304**	**5 224**

The following table presents the changes in the Bank's tangible fixed assets for the year ended 31 December 2006:

LVL'000	Land and Buildings	Vehicles	Office equipment and other fixed assets	Prepayments for tangible fixed assets	Leasehold improvements	Total
Historical cost						
At 31 December 2005	**4 898**	**307**	**2 483**	**56**	**834**	**8 578**
Additions	172	34	853	620	51	**1 730**
Reclassification	(158)	-	-	-	-	**(158)**
Disposals	-	(3)	(161)	(477)	(317)	**(958)**
At 31 December 2006	**4 912**	**338**	**3 175**	**199**	**568**	**9 192**
Depreciation						
At 31 December 2005	**1 483**	**71**	**1 800**	**-**	**-**	**3 354**
Charge	275	32	388	-	-	**695**
Disposals	-	(3)	(158)	-	-	**(161)**
At 31 December 2006	**1 758**	**100**	**2 030**	**-**	**-**	**3 888**
Net book value						
At 31 December 2005	**3 415**	**236**	**683**	**56**	**834**	**5 224**
At 31 December 2006	**3 154**	**238**	**1 145**	**199**	**568**	**5 304**

62. OTHER ASSETS

	Group 31.12.2006 LVL'000	Bank 31.12.2006 LVL'000	Bank 31.12.2005 LVL'000
VAT	471	471	134
Overpayment of corporate income tax	427	427	322
Cards transactions	110	110	76
Due from related parties	-	-	612
Other debtors	356	343	242
Total	**1 364**	**1 351**	**1 386**

63. MANAGED TRUST ASSETS AND LIABILITIES

	Group 31.12.2006 LVL'000	Bank 31.12.2006 LVL'000	Bank 31.12.2005 LVL'000
Managed trust assets	**58 411**	**58 411**	**58 378**
Loans	41 926	41 926	49 396
Debt securities	13 560	13 560	6 212
Shares and other securities with non-fixed income	1 370	1 370	309
Due from credit institutions	617	617	2 461
Other	938	938	-
Managed trust liabilities	**58 411**	**58 411**	**58 378**
Individuals	32 274	32 274	30 023
Private companies	26 137	26 137	28 355

64. BALANCE DUE TO CREDIT INSTITUTIONS

	Group 31.12.2006 LVL'000	Bank 31.12.2006 LVL'000	Bank 31.12.2005 LVL'000
Demand deposits	**5 679**	**5 679**	**9 504**
Credit institutions registered in Latvia	5 130	5 130	6 492
Credit institutions in other countries	549	549	3 012
Term deposits	**59 786**	**59 786**	**34 463**
Credit institutions registered in OECD countries	55 097	55 097	34 372
Credit institutions registered in Latvia	2 604	2 604	91
Credit institutions in other countries	2 085	2 085	-
Financial liabilities as result of collateralised financial assets	**-**	**-**	**15 547**
Credit institutions registered in OECD countries	-	-	11 892
Credit institutions registered in Latvia	-	-	3 655
Total	**65 465**	**65 465**	**59 514**

65. CUSTOMER DEPOSITS

	Group 31.12.2006 LVL'000	Bank 31.12.2006 LVL'000	Bank 31.12.2005 LVL'000
Current accounts	**120 556**	**120 563**	**111 497**
Private companies	101 220	101 227	98 190
Individuals	18 642	18 642	12 737
Public organizations	467	467	409
Central and local government	227	227	161
Fixed-term deposits	**81 600**	**81 745**	**68 791**
Private companies	38 920	39 065	45 186
Individuals	42 680	42 680	23 605
Total	**202 156**	**202 308**	**180 288**

66. SUBORDINATED DEBT

As at 31 December 2006 and 2005 the Bank's depositors with more than 10% of the subordinated debt amount were as follows:

	Maturity	Interest rate (%)	Currency	**31.12.2006 LVL'000**	**31.12.2005 LVL'000**
J. Šapurovs	2009 - 2011	8	LVL	771	771
A. Svirčenkovs	2009 - 2010	8	LVL	671	671
I. Bukovskis	2010	8	LVL	258	258
A. Babenko	2006	8	LVL	-	250
Other persons	2009 - 2011	6-8	LVL, USD	77	80
Total				**1 777**	**2 030**

67. DEFERRED INCOME AND ACCRUED EXPENSES

	Group 31.12.2006 LVL'000	**Bank 31.12.2006 LVL'000**	**Bank 31.12.2005 LVL'000**
Deferred income	26	26	11
Other accrued expenses	498	498	316
Total	**524**	**524**	**327**

68. PROVISIONS FOR OTHER LIABILITIES

	Group 31.12.2006 LVL'000	**Bank 31.12.2006 LVL'000**	**Bank 31.12.2005 LVL'000**
Accruals for vacations	180	170	204
Total	**180**	**170**	**204**

69. OTHER LIABILITIES

	Group 31.12.2006 LVL'000	**Bank 31.12.2006 LVL'000**	**Bank 31.12.2005 LVL'000**
Payments collected on behalf of communal utilities providers	494	494	222
Cards transactions	428	428	230
Suspense amounts	257	257	416
Other	188	123	188
Total	**1 367**	**1 302**	**1 056**

Suspense amounts represent payments received by the Bank where the beneficiary is not clearly identified and are cleared after year-end.
Based on cooperation agreements *Payments collected on behalf of communal utilities providers* are transferred to providers after year end.

70. SHARE CAPITAL

	31.12.2006 Quantity`000	31.12.2006 LVL `000	31.12.2005 Quantity`000	31.12.2005 LVL `000
Registered and paid – in share capital	**22 500**	**22 500**	**15 500**	**15 500**

On 27 March 2006 at the Shareholders' Meeting of the Bank, it was decided to increase the share capital by issuing 2 000 000 new registered voting shares with a nominal value of 1 LVL each.

On 26 October 2006, the Shareholders' Meeting of the Bank made a decision to increase the share capital by issuing 5 000 000 new registered voting shares with nominal value of 1 LVL per share.

As at 31 December 2006, all issued shares are fully paid and the Bank's paid-in share capital amounts to LVL'000 22 500 (as at 31 December 2005: LVL'000 15 500).

As at 31 December 2006 and 2005, Bank's shareholders were as follows:

	31.12.2006			31.12.2005		
	Number of shares	% of total shares	Paid up share capital LVL'000	Number of shares	% of total shares	Paid up share capital LVL'000
"Straumborg Ehf." (Iceland)	11 487 459	51.06	11 488	-	-	-
J. Šapurovs	4 444 125	19.75	4 444	2 968 465	19.15	2 968
A. Svirčenkovs	4 444 123	19.75	4 444	2 981 344	19.23	2 981
Other (individually less than 10%)	2 124 221	9.44	2 124	2 156 276	13.92	2 157
JSC "Lateko Invest"	-	-	-	7 393 843	47.70	7 394
Total	**22 499 928**	**100.00**	**22 500**	**15 499 928**	**100.00**	**15 500**

71. EARNINGS PER SHARE

Earnings per share are based on net profit divided by the average weighted number of issued shares. As of 31 December 2006 and 2005 there is no difference between basic and diluted earnings per share calculation.

	Group 31.12.2006	Bank 31.12.2006	Bank 31.12.2005
Net profit (LVL'000)	3 241	3 408	5 952
Average weighted number of ordinary shares	16 667	16 667	13 604
Earnings per share (LVL)	**0.19**	**0.20**	**0.44**

72. CASH AND CASH EQUIVALENTS

	Group 31.12.2006 LVL'000	Bank 31.12.2006 LVL'000	Bank 31.12.2005 LVL'000
Cash and balances due on demand from the Bank of Latvia	28 094	28 094	20 380
Balances due from other credit institutions within 3 months	26 281	26 086	84 869
Balances due to credit institutions within 3 months	(35 263)	(35 263)	(57 741)
Total	**19 112**	**18 917**	**47 508**

73. OFF-BALANCE SHEET ITEMS

	Group 31.12.2006 LVL'000	Bank 31.12.2006 LVL'000	Bank 31.12.2005 LVL'000
Issued liabilities			
Guarantees	2 904	2 904	4 169
Other	54	54	-
Off-balance sheet liabilities			
Unused credit lines	31 595	33 277	15 768
Letters of credit	2 025	2 025	463
Total off-balance sheet items, gross	**36 578**	**38 260**	**20 400**

The main purpose of these instruments is to ensure the availability of necessary funds for the clients. Guarantees and letters of credit, that include irrevocable liabilities - the ones that the Bank will have to pay in the event of failure by the clients to meet their obligations to third parties, - are assigned the same risk as for loans. Letters of credit, in accordance with which the Bank has the right, on behalf of the client, to accept invoices from third parties, and that are secured with goods being transported, are connected with lesser risk than direct lending.

Unused part of credit lines is viewed as liabilities arising from credit lines. As regards the credit risk, the Bank is potentially exposed to losses arising also from liabilities under unused credit lines.

74. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

The following table summaries the carrying values and fair values of those financial assets and liabilities not presented on the balance sheet at their fair value:

	Group 31.12.2006.		Bank 31.12.2006.		Bank 31.12.2005.	
	Fair value LVL'000	Carrying value LVL'000	Fair value LVL'000	Carrying value LVL'000	Fair value LVL'000	Carrying value LVL'000
Assets						
Balance due from credit institutions	30 975	30 930	30 740	30 695	94 495	94 179
Loans to customers and receivables	189 803	189 820	189 070	189 087	110 982	110 725
Liabilities						
Balances due to credit institutions	65 816	65 465	65 816	65 465	59 514	59 514
Customer deposits	202 230	202156	202 382	202 308	180 725	180 288

The fair value of balance due from and to credit institution, loans and deposits is estimated as the present value of discounted future cash flows using average market interest rates.

75. MATURITY ANALYSIS OF ASSETS AND LIABILITIES

According to remaining terms under agreements, the allocation of assets, liabilities and off-balance sheet liabilities, as at 31 December 2006, is as follows:

As at 31 December 2006 - Group	Up to 1 month LVL'000	From 1 to 3 months LVL'000	From 3 to 6 months LVL'000	From 6 months to 1 year LVL'000	From 1 to 5 years LVL'000	5 years and over LVL'000	Other LVL'000	Total LVL'000
Assets								
Cash and balance with the central bank	28 094	-	-	-	-	-	-	**28 094**
Balances due from credit institutions	22 491	3 790	2 340	87	1 718	504	-	**30 930**
Financial assets at fair value through profit or loss	42 189	42	82	-	-	-	-	**42 313**
Available-for-sale financial assets	5 681	-	-	-	-	-	-	**5 681**
Loans to customers and receivables	6 551	17 017	25 524	24 407	83 882	31 288	1 151	**189 820**
Deferred expenses and accrued income	265	-	-	-	-	-	-	**265**
Goodwill	-	-	-	-	-	-	266	**266**
Other intangible assets	-	-	-	-	-	-	443	**443**
Tangible assets	-	-	-	-	-	-	5 362	**5 362**
Deferred tax assets	-	-	-	-	-	-	12	**12**
Other assets	1 321	-	-	-	-	-	43	**1 364**
Total assets	**106 592**	**20 849**	**27 946**	**24 494**	**85 600**	**31 792**	**7 277**	**304 550**
Liabilities								
Due to credit institutions	27 440	7 823	1 059	14 069	15 074	-	-	**65 465**
Financial liabilities at fair value through profit or loss	835	372	81	-	-	-	-	**1 288**
Customer deposits	155 827	9 600	14 684	18 189	3 826	30	-	**202 156**
Subordinated debt	-	-	-	-	-	1 777	-	**1 777**
Deferred income and accrued expenses	524	-	-	-	-	-	-	**524**
Provisions for other liabilities	-	-	-	180	-	-	-	**180**
Deferred tax	-	-	-	-	-	-	107	**107**
Other liabilities	1 367	-	-	-	-	-	-	**1 367**
Total liabilities	**185 993**	**17 795**	**15 824**	**32 438**	**18 900**	**1 807**	**107**	**272 864**
Off-balance sheet items	35 965	**-**	**-**	**-**	**-**	**-**	-	**35 965**
Liquidity risk as of 31/12/2006	**(115 366)**	**3 054**	**12 122**	**(7 944)**	**66 700**	**29 985**	**7 170**	

According to the regulations of the Latvian Financial and Capital Market Commission, securities that are available for sale or that the Bank is able to sell without any significant losses or use them as security assets for loan issue are classified in the group "Up to 1 month".

As at 31December 2006 - Bank	Up to 1 month	From 1 to 3 months	From 3 to 6 months	From 6 months to 1 year	From 1 to 5 years	5 years and over	Other	Total
	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000
Assets								
Cash and balance with the central bank	28 094	-	-	-	-	-	-	**28 094**
Balances due from credit institutions	22 412	3 674	2 300	87	1 718	504	-	**30 695**
Financial assets at fair value through profit or loss	42 189	42	82	-	-	-	-	**42 313**
Available-for-sale financial assets	5 681	-	-	-	-	-	-	**5 681**
Loans to customers and receivables	6 464	16 828	25 524	27 159	81 810	30 151	1 151	**189 087**
Deferred expenses and accrued income	282	-	-	-	-	-	-	**282**
Investments in subsidiaries	-	-	-	-	-	-	1 544	**1 544**
Other intangible assets	-	-	-	-	-	-	436	**436**
Tangible assets	-	-	-	-	-	-	5 304	**5 304**
Other assets	1 308	-	-	-	-	-	43	**1 351**
Total assets	**106 430**	**20 544**	**27 906**	**27 246**	**83 528**	**30 655**	**8 478**	**304 787**
Liabilities								
Balance due to credit institutions	27 440	7 823	1 059	14 069	15 074	-	-	**65 465**
Financial liabilities at fair value through profit or loss	835	372	81	-	-	-	-	**1 288**
Customer deposits	155 879	9 620	14 684	18 269	3 826	30	-	**202 308**
Subordinated debt	-	-	-	-	-	1 777	-	**1 777**
Deferred income and accrued expenses	524	-	-	-	-	-	-	**524**
Provisions for other liabilities	-	-	-	170	-	-	-	**170**
Deferred tax	-	-	-	-	-	-	107	**107**
Other liabilities	1 302	-	-	-	-	-	-	**1 302**
Total liabilities	**185 980**	**17 815**	**15 824**	**32 508**	**18 900**	**1 807**	**107**	**272 941**
Off-balance sheet items	37 687	-	-	-	-	-	-	**37 687**
Liquidity risk as of 31/12/2006	**(117 237)**	**2 729**	**12 082**	**(5 262)**	**64 628**	**28 848**	**8 371**	

As at 31 December 2005 - Bank

Total assets	**151 357**	**15 083**	**18 192**	**21 253**	**34 495**	**17 693**	**6 889**	**264 962**
Total liabilities	**191 148**	**18 975**	**12 537**	**15 470**	**5 400**	**150**	**57**	**243 737**
Off-balance sheet items	19 491	-	-	-	-	-	-	**19 491**
Liquidity risk as of 31/12/05	**(59 282)**	**(3 892)**	**5 655**	**5 783**	**29 095**	**17 543**	**6 832**	

76. INTEREST RATE REPRICING

Interest rate risk concerns the impact of changes in interest rates on the financial position of the Group. The Group is continuously subject to the risk, that it is influenced by the maturity of assets and liabilities in connection with income and expenses and the date of interest rate revaluations. According to the minimal remaining terms until possible changes in interest rates, the allocation of assets, liabilities and off-balance sheet liabilities, as at 31 December 2006, is as follows:

As at 31 December 2006 - Group	Up to 1 month LVL'000	From 1 to 3 months LVL'000	From 3 to 6 months LVL'000	From 6 months to 1 year LVL'000	More than 1 year LVL'000	Non-interest bearing LVL'000	Other LVL'000	Total LVL'000
Assets								
Cash and balance with the central bank	19 507	-	-	-	-	8 587	-	**28 094**
Balances due from credit institutions	13 579	3 071	2 320	-	2 166	9 794	-	**30 930**
Financial assets at fair value through profit or loss	41 248	-	-	-	-	1 065	-	**42 313**
Available-for-sale financial assets	-	535	3 041	1 610	495	-	-	**5 681**
Loans to customers and receivables	40 425	29 397	21 250	18 974	73 772	4 874	1 128	**189 820**
Deferred expenses and accrued income	-	-	-	-	-	265	-	**265**
Goodwill	-	-	-	-	-	-	266	**266**
Other intangible assets	-	-	-	-	-	-	443	**443**
Tangible assets	-	-	-	-	-	-	5 362	**5 362**
Deferred tax assets	-	-	-	-	-	12	-	**12**
Other assets	-	-	-	-	-	1 321	43	**1 364**
Total assets	**114 759**	**33 003**	**26 611**	**20 584**	**76 433**	**25 918**	**7 242**	**304 550**
Liabilities and equity								
Balance due to credit institutions	26 864	7 766	703	14 759	14 759	614	-	**65 465**
Financial liabilities at fair value through profit or loss	-	-	-	-	-	1 288	-	**1 288**
Customer deposits	101 827	9 473	14 911	18 985	2 963	53 997	-	**202 156**
Subordinated debt	-	-	-	-	1 777	-	-	**1 777**
Deferred income and accrued expenses	-	-	-	-	-	524	-	**524**
Provisions for other liabilities	-	-	-	-	-	180	-	**180**
Deferred tax	-	-	-	-	-	107	-	**107**
Other liabilities	-	-	-	-	-	1 367	-	**1 367**
Total liabilities	**128 691**	**17 239**	**15 614**	**33 744**	**19 499**	**58 077**	**-**	**272 864**
Share capital and reserves	-	-	-	-	-	-	31 671	**31 671**
Minority interest	-	-	-	-	-	-	15	**15**
Total liabilities and equity	**128 691**	**17 239**	**15 614**	**33 744**	**19 499**	**58 077**	**31 686**	**304 550**
Net position of balance	**(13 932)**	**15 764**	**10 997**	**(13 160)**	**56 934**	**(32 159)**		
Net position of off-balance		**7 246**			**(7 119)**			
Total net position as of 31/12/2006	**(13 932)**	**23 010**	**10 997**	**(13 160)**	**49 815**	**(32 159)**		

As at 31 December 2006 - Bank	Up to 1 month LVL'000	From 1 to 3 months LVL'000	From 3 to 6 months LVL'000	From 6 months to 1 year LVL'000	More than 1 year LVL'000	Non-interest bearing LVL'000	Other LVL'000	Total LVL'000
Assets								
Cash and balance with the central bank	19 507	-	-	-	-	8 587	-	**28 094**
Balances due from credit institutions	13 500	2 957	2 280	-	2 166	9 792	-	**30 695**
Financial assets at fair value through profit or loss	41 248	-	-	-	-	1 065	-	**42 313**
Available-for-sale financial assets	-	535	3 041	1 610	495	-	-	**5 681**
Loans to customers and receivables	40 348	29 225	21 250	21 802	70 460	4 874	1 128	**189 087**
Deferred expenses and accrued income	-	-	-	-	-	282	-	**282**
Investments in subsidiaries	-	-	-	-	-	-	1 544	**1 544**
Other intangible assets	-	-	-	-	-	-	436	**436**
Tangible assets	-	-	-	-	-	-	5 304	**5 304**
Other assets	-	-	-	-	-	1 308	43	**1 351**
Total assets	**114 603**	**32 717**	**26 571**	**23 412**	**73 121**	**25 908**	**8 455**	**304 787**
Liabilities and equity								
Balance due to credit institutions	26 864	7 766	703	14 759	14 759	614	-	**65 465**
Financial liabilities at fair value through profit or loss	-	-	-	-	-	1 288	-	**1 288**
Customer deposits	101 879	9 493	14 911	19 065	2 963	53 997	-	**202 308**
Subordinated debt	-	-	-	-	1 777	-	-	**1 777**
Deferred income and accrued expenses	-	-	-	-	-	524	-	**524**
Provisions for other liabilities	-	-	-	-	-	170	-	**170**
Deferred tax	-	-	-	-	-	107	-	**107**
Other liabilities	-	-	-	-	-	1 302	-	**1 302**
Share capital and reserves	-	-	-	-	-	-	31 846	**31 846**
Total liabilities and equity	**128 743**	**17 259**	**15 614**	**33 824**	**19 499**	**58 002**	**31 846**	**304 787**
Net position of balance	**(14 140)**	**15 458**	**10 957**	**(10 412)**	**53 622**	**(32 094)**		
Net position of off-balance	**-**	**7 246**	**-**	**-**	**(7 119)**	**-**		
Total net position as of 31/12/2006	**(14 140)**	**22 704**	**10 957**	**(10 412)**	**46 503**	**(32 094)**		
As at 31 December 2005 - Bank								
Total assets	**141 842**	**18 368**	**16 045**	**10 690**	**41 318**	**31 063**	**5 636**	**264 962**
Total liabilities and equity	**128 632**	**18 913**	**13 293**	**15 386**	**4 694**	**62 819**	**21 225**	**264 962**
Net position of balance	**13 210**	**(545)**	**2 752**	**(4 696)**	**36 624**	**(31 756)**		
Net position of off-balance	**49**	**12 908**	**-**	**3**	**(12 997)**	**-**		
Total net position as of 31/12/2005	**13 259**	**12 363**	**2 752**	**(4 693)**	**23 627**	**(31 756)**		

In 2006 and 2005 the Bank's average annual interest rates for financial assets and liabilities are as follows:

	Bank 2006			Bank 2005		
	Average amount LVL'000	Interest income/ expense LVL'000	Average interest rate LVL'000	Average amount LVL'000	Interest income/ expense LVL'000	Average interest rate LVL'000
Assets						
Cash and balance with the central bank	21 949	336	1.53	14 784	178	1.20
Balances due from credit institutions	39 466	1 759	4.46	82 963	2 239	2.70
Financial assets at fair value through profit or loss	37 170	2 888	7.77	22 188	1 480	6.67
Available-for-sale financial assets	6 987	245	3.50	11 201	361	3.22
Loans to customers and receivables	142 584	11 678	8.19	101 695	7 817	7.69
Other assets (without interest income)	7 725	-	-	7 841	-	-
Total assets	**255 881**	**16 906**	**6.61**	**240 672**	**12 075**	**5.02**
Liabilities						
Balances due to credit institutions	40 524	2 088	5.15	19 364	662	3.42
Financial liabilities at fair value through profit or loss	1 412	-	-	1 342	-	-
Customer deposits	185 443	4 098	2.21	197 178	2 175	1.10
Subordinated debt	1 888	153	8.08	2 028	164	8.08
Other liabilities (without interest expense)	2 286	**-**	**-**	1 155	**-**	**-**
Total liabilities	**231 553**	**6 339**	**2.74**	**221 067**	**3 001**	**1.36**
Share capital and reserves	24 328	-	-	19 605	-	-
Total liabilities, capital and reserves	**255 881**	**6 339**	**2.48**	**240 672**	**3 001**	**1.25**
Gross interest rate margin, %			**3.87**			**3.66**
Margin on investments, %			**4.13**			**3.77**

77. CURRENCY ANALYSIS OF ASSETS AND LIABILITIES

Table below summaries Group's assets and liabilities disclosed in foreign currencies as of 31 December 2006

As at 31 December 2006 - Group	LVL	USD	EUR	Other currencies	Total
	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000
Assets					
Cash and due from the central bank	23 607	1 351	2 390	746	**28 094**
Balances due from credit institutions	162	20 332	6 085	4 351	**30 930**
Financial assets at fair value through profit or loss	1 761	34 743	1 151	4 658	**42 313**
Available for sale financial assets	3 536	2 145	-	-	**5 681**
Loans to customers and receivables	44 274	66 096	78 597	853	**189 820**
Deferred expenses and accrued income	208	27	2	28	**265**
Goodwill	266	-	-	-	**266**
Other intangible assets	436	-	-	7	**443**
Tangible fixed assets	5 307	-	-	55	**5 362**
Deferred tax assets	-	-	-	12	**12**
Other assets	1 247	17	61	39	**1 364**
Total assets	**80 804**	**124 711**	**88 286**	**10 749**	**304 550**
Liabilities, capital and reserves					
Balance due to credit institutions	2 000	23 049	40 395	21	**65 465**
Financial liabilities at fair value through profit or loss	1 288	-	-	-	**1 288**
Customer deposits	38 733	95 759	60 162	7 502	**202 156**
Subordinated debt	1 750	27	-	-	**1 777**
Deferred income and accrued expenses	381	17	94	32	**524**
Provisions for other liabilities	176	-	-	4	**180**
Deferred tax	107	-	-	-	**107**
Other liabilities	898	347	43	79	**1 367**
Total liabilities	**45 333**	**119 199**	**100 694**	**7 638**	**272 864**
Share capital and reserves	31 671	-	-	-	**31 671**
Minority interest	15	-	-	-	**15**
Total liabilities, capital and reserves	**77 019**	**119 199**	**100 694**	**7 638**	**304 550**
Net balance sheet long/(short) position	**3 785**	**5 512**	**(12 408)**	**3 111**	
Spot foreign-exchange contracts long/(short) position	(820)	(14 305)	15 598	(473)	
Swap foreign-exchange contracts long/(short) position	(4 600)	7 203	(4 741)	2 138	
Forward foreign-exchange contracts long/(short) position	207	1 692	1 729	(3 628)	
Net open long/(short) currency position	**(1 428)**	**102**	**178**	**1 148**	
Currency open position in % from capital as of 31/12/2006		0.32	0.56		

As at 31 December 2006 - Bank	LVL	USD	EUR	Other currencies	Total
	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000
Assets					
Cash and due from the central bank	23 607	1 351	2 390	746	**28 094**
Balances due from credit institutions	-	20 328	6 084	4 283	**30 695**
Financial assets at fair value through profit or loss	1 761	34 743	1 151	4 658	**42 313**
Available for sale financial assets	3 536	2 145	-	-	**5 681**
Loans to customers and receivables	44 274	66 214	78 599	-	**189 087**
Deferred expenses and accrued income	225	27	2	28	**282**
Investments in subsidiaries	640	-	-	904	**1 544**
Other intangible assets	436	-	-	-	**436**
Tangible fixed assets	5 304	-	-	-	**5 304**
Other assets	1 241	17	61	32	**1 351**
Total assets	**81 024**	**124 825**	**88 287**	**10 651**	**304 787**
Liabilities, capital and reserves					
Balance due to credit institutions	2 000	23 049	40 395	21	**65 465**
Financial liabilities at fair value through profit or loss	1 288	-	-	-	**1 288**
Customer deposits	38 885	95 759	60 162	7 502	**202 308**
Subordinated debt	1 750	27	-	-	**1 777**
Deferred income and accrued expenses	381	17	94	32	**524**
Provisions for other liabilities	170	-	-	-	**170**
Deferred tax	107	-	-	-	**107**
Other liabilities	889	346	43	24	**1 302**
Share capital and reserves	31 846	-	-	-	**31 846**
Total liabilities, capital and reserves	**77 316**	**119 198**	**100 694**	**7 579**	**304 787**
Net balance sheet long/(short) position	**3 708**	**5 627**	**(12 407)**	**3 072**	
Spot foreign-exchange contracts long/(short) position	(820)	(14 305)	15 598	(473)	
Swap foreign-exchange contracts long/(short) position	(4 600)	7 203	(4 741)	2 138	
Forward foreign-exchange contracts long/(short) position	207	1 692	1 729	(3 628)	
Net open long/(short) currency position	**(1 505)**	**217**	**179**	**1 109**	
Currency open position in % from capital as of 31/12/2006		0.67	0.55		
Net open long/(short) currency position	**(71)**	**(647)**	**156**	**562**	
Currency open position in % from capital as of 31/12/2005		(2.94)	0.71		

As at 31 December 2006, the Bank's open position was 3.59 % of the tier 1 and tier 2 of the share capital (2005: 3.0%).

According to the Law on Credit Institutions of the Republic of Latvia the total opening position should not exceed 20% of the stated share capital amount, and the open position for every currency should not exceed 10 %.

78. CAPITAL ADEQUACY CALCULATION (In accordance with FCMC requirements)

As of 31 December 2006	Notional risk level %	Group Balance sheet value LVL'000	Group Weighted risk value LVL'000	Bank Balance sheet value LVL'000	Bank Weighted risk value LVL'000
Assets					
Cash and due from the central bank	0%	28 094	-	28 094	-
Due from central governments of OECD countries (securities available for sale)	0%	5 146	-	5 146	-
Claims secured with securities issued by central governments of OECD countries (securities available for sale)	0%	535	-	535	-
Claims secured with term deposits placed with the bank	0%	4 000	-	4 000	-
Due from credit institutions of OECD countries excluding amounts that comprise share capital of credit institutions	20%	19 334	3 867	19 172	3 834
Loans fully secured on property registered in the Land Register	50%	582	291	582	291
Due from non-OECD credit institutions	100%	11 530	11 530	11 458	11 458
Due from borrowers with 100% risk	100%	157 950	157 950	157 217	157 217
Investments in subsidiaries	100%	-	-	1 544	1 544
Tangible fixed assets	100%	5 362	5 362	5 304	5 304
Other assets	100%	1 364	1 364	1 351	1 351
Deferred expenses and accrued income	100%	284	284	282	282
Other intangible assets	*	443		436	
Total assets with weighted risks		**234 624**	**180 648**	**235 121**	**181 281**
**Decreased Tier 1*					
Off-balances sheet items		**Full value LVL'000**		**Full value LVL'000**	
Items with 50% adjustment	20%	122	12	122	12
Items with 50% adjustment	100%	26 044	13 022	26 044	13 022
Items with 100% adjustment	100%	428	428	2 110	2 110
Amounts that are not included in the calculation of the weighted risk value	0%	9 984	0	9 984	0
Total off-balance sheet items		**36 578**	**13 462**	**38 260**	**15 144**
Derivatives		**Nominal value LVL'000**		**Nominal value LVL'000**	
Currency agreements with weighted risk value	**	19 527	462	19 527	462
Amounts that are not included in the calculation of the weighted risk value		543 513	-	543 513	-
Total derivatives		**563 040**	**462**	**563 040**	**462**
Total assets and off-balance sheet items		**834 242**	**194 572**	**836 421**	**196 887**

***Weighted risk value is calculated according to the Market value method (FCMC).*

CAPITAL ADEQUACY CALCULATION (Continuation)

	Group LVL'000	Bank LVL'000
Tier 1		
Paid in share capital	22 500	22 500
Reserve capital	7	7
Retained earnings for previous years	5 979	5 979
Minority interest	15	-
Revaluation reserve of available for sale financial assets	(48)	(48)
Revaluation reserve of foreign currency	(8)	-
Retained earnings	3 241	3 408
Goodwill	(266)	-
Other intangible assets	(443)	(436)
Total tier 1	**30 977**	**31 410**
Tier 2		
Subordinated capital	871	871
Total tier 2	**871**	**871**
Total capital	**31 848**	**32 281**
Summary		
Credit risk capital	15 566	15 751
Currency risk capital	99	92
Position risk capital	3 770	3 770
Capital covered by share capital	12 413	12 668
Capital adequacy rate as of 31.12.2006	**13.11%**	**13.17%**
Capital adequacy rate as of 31.12.2005	**-**	**14.15%**
Minimal capital adequacy ratio (%) 2005 and 2006	**8.00%**	**8.00%**

79. RELATED PARTIES

Related parties are shareholders, which have decisive influence over the management policy of the Group, members of the Council and the Board, senior level executives, their immediate family members, and undertakings over which they have a controlling interest as well as associated companies of the Group.
Assets and liabilities of related parties are as follows:

Group	Average interest rate %	Amount LVL'000	Off-balance sheet items LVL'000	31.12.2006 Total LVL'000	31.12.2005 Total LVL'000
Assets		**4 372**	**144**	**4 516**	**1 115**
Loans, net		**4 191**	**144**	**4 335**	**411**
Related undertakings and Individuals	8.09	2 369	81	2 450	175
Council and Board	4.81	522	46	568	157
Other senior executives	16.15	1 300	17	1 317	79
Other assets		**181**		**181**	**704**
Liabilities		**6 335**	**-**	**6 335**	**1 867**
Deposits		**4 843**	**-**	**4 843**	**375**
Related undertakings and Individuals	2.36	896	-	896	185
Council and Board	3.21	3 812	-	3 812	189
Other senior executives	3.43	135	-	135	1
Subordinated debt		**1492**	**-**	**1 492**	**1 492**
Council and Board	8.00	1 492	-	1 492	1 492

Bank	**Average interest rate %**	**Amount LVL'000**	**Off-balance sheet items LVL'000**	**31.12.2006 Total LVL'000**	**31.12.2005 Total LVL'000**
Assets		**7 240**	**1 866**	**9 106**	**1 115**
Loans, net		**7 059**	**1 866**	**8 925**	**411**
Related undertakings and Individuals	6.75	6 359	1 803	8 162	175
Council and Board	4.81	522	46	568	157
Other senior executives	4.49	178	17	195	79
Other assets		**181**	**-**	**181**	**704**
Liabilities		**6 487**	**-**	**6 487**	**1 867**
Deposits		**4 995**	**-**	**4 995**	**375**
Related undertakings and Individuals	2.65	1 048	-	1 048	185
Council and Board	3.21	3 812	-	3 812	189
Other senior executives	3.43	135	-	135	1
Subordinated debt		**1 492**	**-**	**1 492**	**1 492**
Council and Board	8.00	1 492	-	1 492	1 492

The following table present income and expense resulting from above-mentioned related parties transactions:

	Group 2006 LVL'000	**Bank 2006 LVL'000**	**Bank 2005 LVL'000**
Interest income	**273**	**289**	**18**
Interest expense	**(296)**	**(297)**	**(121)**
Net interest income	**(23)**	**(8)**	**(103)**

80. CONTINGENT LIABILITIES

The Bank is named a co-defendant, jointly and severally liable together with several other parties, in a civil litigation at the United States District Court for the Southern District of New York. The claim, which has arisen because of the alleged losses and damages incurred by third parties in a financial investment scheme and managed by companies who had opened accounts in the Bank, is currently in the discovery stage. The claims of the great majority of the plaintiffs have been dismissed by the Court as to JSC "Norvik Banka".

The Office of the United States Attorney has moved for leave to intervene for the purpose of making, and made an application to stay discovery in and the imminent trial of this action on the ground that these proceedings threaten to intervene with a pending criminal investigation. The Court has upheld request of the United States Attorney.

The plaintiffs seek an undisclosed amount of punitive damages as well as treble damages and their attorneys' fees.

The Bank is confident that it has committed no wrongdoing and it will vigorously defend itself against the claim.

The Bank has also been named as a co-defendant by seven plaintiffs in the United States District Court for the Western District of Washington in connection with the same financial investment scheme referred to above. As at the date of these financial statements, no summons has been served on the Bank.

There are two claims made in 2005 in the Riga District Court against Bank and co-defendants for caused loss. After getting acquainted with case materials, Bank is confident that the instituted claims against Bank is baseless and should be declined.

In the best estimate of the Bank's legal council the potential damages sought by the plaintiffs in their responses to interrogatories would not exceed 2 million USD. No provision has been made in respect of these matters in these financial statements.

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