RIETUMU BANK GROUP

Consolidated and Bank Financial Statements and Auditor's Report for the year ended 31 December 2005

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1 Operating and financial review

2005 was very successful and promising from an operational, financial and strategic viewpoint. The Bank's financial performance is significantly better than expected. This growth was achieved in a controlled manner without compromising internal standards. The Bank continued to improve its reputation as one of the best managed and stable financial institutions in the Baltic States. This success has been achieved while upholding the objectives of being a Bank for mid-sized corporate customers and the Bank sees itself as a bridge between east and west as many of its costumers operate in Latvia, the Baltics, Western Europe, Russia and other CIS countries.

2 Operating results

On 29 August 2005 the Bank concluded the most significant shareholding transaction in Latvia's financial sector in recent years. A leading European investor, Irish businessman Dermot Desmond, acquired a 33.1% shareholding in the Bank. Mr. Desmond and one of his representatives joined the Supervisory Council of the Bank, which was increased to 6 members. The Bank welcomes this new strategic investor.

In December 2005, the Bank signed a syndicated loan agreement for EUR 60 million. EUR 20 million of the loan was for the account of the EBRD and €40 million was syndicated among a number of commercial banks. The loan will support the growth of Rietumu Banka as a bank focused on medium-sized enterprises, while the syndication helped it gain its first exposure to the commercial debt market. The Bank plans to continue its plans to diversify its funding base and plans to raise more funding in the syndicated lending market in 2006.

The focus on improving our credit products and service over the previous two years is paying dividends. The Bank is well positioned to compete and grow its loan portfolio in the increasing competitive lending environment in Latvia. We achieved significant success in our target corporate customer market whilst maintaining a conservative lending policy. This conservatism is reflected in the low loan loss provisioning for the 12 months ended 31 December 2005. The Bank continued its lending outside Latvia in accordance with its strategy of expanding its international corporate lending portfolio.

Much effort was put into improving our remote banking services, especially internet banking. We successfully launched a retail version of our internet banking products. The Bank completed a significant internal re-organization during 2005 to maximize the Bank's competitive advantage and future growth. As part of this re-organization, the Bank has made significant efforts to streamline its branch network and during 2005 the Bank closed some branches. The Bank is represented outside Latvia by representative offices in Moscow, Kiev, Minsk, Almata, Saint Petersburg, Tallinn, Vilnius and Prague. The Bank plans to open a representative office in Bucharest in the first half of 2006.

As part of this restructuring the Bank has operationally divided its brokerage subsidiary splitting asset management and brokerage into two separate profit centers. Risk management and compliance were completely restructured. Customer Relationship Management and Sales were also significantly restructured. In addition, many management reporting lines were re-allocated and improved. The Bank also employed new senior management specialists throughout the Bank and the intention is to continue to strengthen the Bank's management through new recruitments in 2006.

3 Financial results

	2005	2004	2003	2002
At year end (Ls'000)				
Total assets	704,197	603,209	477,024	377,912
Loans and advances to customers	256,276	192,011	160,992	92,033
Other interest earning assets	79,241	80,876	66,251	251,909
Due to customers	602,578	539,585	435,093	343,132
Total shareholders' equity	71,942	44,380	31,216	24,443
For the year (Ls'000)				
Net income before tax	22,052	16,510	9,952	7,027
Net income after tax	18,960	14,568	8,317	5,511
Operating income	42,978	31,919	23,814	20,600

4 Ratios

Earnings per share (Ls)				
After tax	0.89	0.71	0.41	0.272
Before tax	1.03	0.80	0.48	0.346
Dividend per share (Ls)	0.225	0.144	0.095	0.072
Dividend growth	69%	53%	32%	44%
Capital adequacy				
Basle	16.14%	14.35%	11.99%	12.5%
Financial & Capital Markets Commission	13.99%	14.11%	12.42%	13.2%
Return on equity				
Before tax	37.92%	43.68%	35.76%	32.57%
After tax	32.60%	38.54%	29.89%	25.54%
Return on assets				
Before tax	3.13%	2.74%	2.09%	1.86%
After tax	2.69%	2.42%	1.74%	1.46%
Profit margin (before tax)	52.46%	51.72%	41.79%	34.11%
Number of employees	648	578	561	522

During 2005, total assets grew to Ls 704 from Ls 603 m on 31 December 2004. This represents a growth of 17% . Due to customers increased by 12% from Ls 540 m on 31 December 2004 to Ls 603 m on 31 December 2005. Current accounts and term deposits were Ls 516 m and Ls 86 m respectively (31 December 2004: Ls 503 m and Ls 37 m respectively).

The Bank's group net profit before tax for the year ended 31 December 2005 was Ls 22,052 m (year ended 31 December 2004: Ls 16,510 m) representing an increase of Ls 5.5 m. Total shareholders equity increased from Ls 44 million on 31 December 2004 to Ls 72 million on 31 December 2005.

The Bank has been paying annual dividends for all financial years ended since 2001. For the financial year ended 2005, the Bank's management proposes to pay a dividend of 0.225 Ls per share (2004: 0.144 Ls per share) or Ls 5,063 thousand in total (2004: Ls 2,989 thousand). The 2005 dividend represents a dividend growth of 69%. It is the intention of management that shareholders achieve dividend growth, having made prudent provision for future business growth and regulatory requirements.

We are looking forward to 2006 and beyond and we firmly believe that we will continue to offer the best corporate service of any bank in the Baltic States. We owe our success to our customers and business partners and we would like to express our appreciation to them for the trust that they have placed in us.

Leonid Esterkin
Chairman of the Council

Michael J. Bourke
Chairman of the Board of Directors

8 March 2006

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

<u>The Council of Rietumu bank</u>
1 January 2005 – 16 September 2005

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

<u>The Council of Rietumu bank</u>
16 September 2005 – 31 December 2005

Name	*Position*	*Date of appointment*
Leonid Esterkin	Chairman of the Council	15/04/98 (16/09/05 – 16/09/08)
Arkady Suharenko	Deputy Council Chairman	15/04/98 (16/09/05 – 16/09/08)
Brendan Murphy	Deputy Council Chairman	16/09/05 (16/09/05 – 16/09/08)
Dermot F Desmond	Member of the Council	16/09/05 (16/09/05 – 16/09/08)
Vitali Lipanov	Member of the Council	16/09/05 (16/09/05 – 16/09/08)
Valentin Bluger	Member of the Council	15/04/98 (16/09/05 – 16/09/08)

<u>The Board of Directors</u>
1 January 2005 – 31 December 2005

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

There were no changes in the Board of Directors of the Bank during the period beginning 31 December 2005 through to the date of the signing of these financial statements.

There are two vacancies on the Executive Board.

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

The consolidated financial statements on pages 8 to 46 are prepared in accordance with the source documents and present fairly the financial position of the Group as of 31 December 2005 and the results of its operations and cash flows for the year ended 31 December 2005 as well as the financial position of the Bank as of 31 December 2005 and the results of its operations and cash flows for the year ended 31 December 2005.

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

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

On behalf of the Management of the Bank:

8 March 2006	Leonid Esterkin Chairman of the Council	Michael J. Bourke Chairman of the Board of Directors

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AUDITORS' REPORT

To the shareholders of the joint stock company Rietumu Banka

We have audited the accompanying unconsolidated balance sheet of A/S Rietumu Bank as of 31 December 2005 and the related unconsolidated statements of income, changes in equity and cash flows for the year then ended. We have also audited the accompanying consolidated balance sheet of A/S Rietumu Bank and subsidiaries ("the Group") as of 31 December 2005 and the related consolidated statements of income, changes in equity and cash flows for the year then ended. These financial statements which have been presented together to report the financial position, results of operations, and changes in cash flows for both the parent company and the consolidated group, as set out on pages 8 to 46, are the responsibility of the parent company's management. Our responsibility is to express an opinion on the unconsolidated financial statements of A/S Rietumu Bank and the consolidated financial statements of the Group based on our audit. In addition, it is our responsibility to assess whether the accounting information included in the Management Report is consistent with the financial statements.

We conducted our audit in accordance with International Standards on Auditing as promulgated by the International Federation of Accountants. Those Standards require that we plan and perform the audit 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 management, as well as evaluating the overall financial statement presentation. Our work with respect to the Management Report was limited to the aforementioned scope, and did not include a review of any information other than drawn from the financial statements of A/S Rietumu Bank. We believe that our audit provide a reasonable basis for our opinion.

In our opinion, the unconsolidated parent company financial statements give a true and fair view of the financial position of A/S Rietumu Bank as of 31 December 2005, and of the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards promulgated by the International Accounting Standards Board.

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as of 31 December 2005 and of the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards promulgated by the International Accounting Standards Board. The management report is consistent with the financial statements.

Patrick Querubin
Partner
KPMG Baltics SIA
Riga, Latvia
8 March 2006

Inga Lipšāne
Sworn Auditor
Certificate No. 112

STATEMENT OF INCOME FOR THE YEAR ENDED 2005

	Notes	2005 Group LVL'000	2005 Bank LVL'000	2004 Group LVL'000	2004 Bank (restated) LVL'000
Interest income	4	28,982	27,423	17,548	16,122
Interest expense	5	(6,478)	(5,796)	(3,510)	(3,355)
Net interest income		**22,504**	**21,627**	**14,038**	**12,767**
Commission and fee income	6	13,839	12,251	12,187	10,349
Commission and fee expense	7	(1,996)	(1,786)	(2,140)	(1,775)
Net commission and fee income		**11,843**	**10,465**	**10,047**	**8,574**
Profit from trading with financial instruments, net	8	7,414	6,690	7,365	5,913
Dividends received	18	37	6,614	17	17
Other operating income		1,180	819	452	284
Operating income		**42,978**	**46,215**	**31,919**	**27,555**
Administrative expense	9	(16,562)	(15,099)	(12,108)	(11,665)
Amortization and depreciation expense	10	(2,009)	(1,973)	(1,572)	(1,542)
Other operating expense		(1,624)	(53)	(1,730)	(24)
Impairment losses (recoveries)	11	(579)	(579)	1	1
Goodwill impairment losses	11	(138)	-	-	-
Asset impairment losses		(14)	(14)	-	-
INCOME BEFORE INCOME TAX AND MINORITY INTEREST		**22,052**	**28,497**	**16,510**	**14,325**
Corporate income tax	12	(3,092)	(3,009)	(1,945)	(1,840)
NET INCOME AFTER TAX		**18,960**	**25,488**	**14,565**	**12,485**
MINORITY INTEREST		-	-	3	-
NET INCOME		**18,960**	**25,488**	**14,568**	**12,485**
Earning per share	27	0.89	1.19	0.71	0.61

The accompanying notes on pages 14 to 46 are an integral part of these consolidated financial statements.

The consolidated and Bank financial statements are authorized for issue by the Council and the Board of Directors of the Bank on 8 March 2006 and signed on their behalf by:

Leonid Esterkin
Chairman of the Council

Michael J. Bourke
Chairman of the Board of Directors

BALANCE SHEET AND MEMORANUM ITEMS AS AT 31 DECEMBER 2005

	Notes	31 December 2005 Group	31 December 2005 Bank	31 December 2004 Group	31 December 2004 Bank (restated)
		LVL'000	LVL'000	LVL'000	LVL'000
ASSETS					
Cash and balances with central banks	13	52,080	52,056	24,270	24,266
Balances due from credit institutions	14	289,121	288,522	287,274	286,871
Demand deposits		*231,545*	*230,946*	*224,381*	*223,978*
Other deposits		*57,576*	*57,576*	*62,893*	*62,893*
Loans and advances to non-banking customers	15	256,276	248,313	192,011	174,670
Derivative assets	17	836	836	-	-
Government bonds with fixed income		33,395	33,307	34,456	34,456
- trading portfolio	16	*88*	-	-	-
- investment securities - available- for- sale		-	-	*8,162*	*8,162*
- held-to-maturity	17	*33,307*	*33,307*	*26,294*	*26,294*
Other fixed income securities		45,846	45,846	46,420	46,420
- trading portfolio	16	*378*	*378*	-	-
- investment securities - available- for- sale	17	*595*	*595*	*516*	*516*
- held-to-maturity	17	*44,873*	*44,873*	*45,904*	*45,904*
Shares and other non-fixed income securities		2,427	1,580	1,483	1,106
- trading portfolio	16	*1,381*	*1,381*	*968*	*966*
-investment securities - available- for- sale	17	*1,046*	*199*	*515*	*140*
Investments in subsidiaries and associates	18	146	11,411	12	2,325
Intangible assets	19	4,198	4,198	4,279	4,140
Property and equipment	20	14,947	14,773	9,397	9,291
Prepayments and accrued income	21	1,902	1,836	1,729	1,507
Other assets	22	3,023	1,147	1,878	1,282
Total assets		**704,197**	**703,825**	**603,209**	**586,334**

The accompanying notes on pages 14 to 46 are an integral part of these consolidated financial statements.

BALANCE SHEET AND MEMORANUM ITEMS AS AT 31 DECEMBER 2005

	Notes	31 December 2005 Group LVL'000	31 December 2005 Bank LVL'000	31 December 2004 Group LVL'000	31 December 2004 Bank (restated) LVL'000
LIABILITIES					
Balances due to other banks	23	20,686	20,686	14,922	14,922
Demand deposits		*14,675*	*14,675*	*2,769*	*2,769*
Term deposits		*6,011*	*6,011*	*12,153*	*12,153*
Due to customers	24	602,578	605,500	539,585	528,870
Demand deposits		*516,380*	*519,302*	*502,577*	*492,017*
Term deposits		*86,198*	*86,198*	*37,008*	*36,853*
Derivative liabilities		110	110	287	287
Deferred income and accrued expense	25	5,275	4,674	3,803	3,553
Current tax liabilities		*227*	*224*	*331*	*327*
Deferred tax liabilities		*1,538*	*1,538*	*515*	*515*
Other deferred income and accrued expenses		*3,510*	*2,912*	*2,957*	*2,711*
Other liabilities		3,606	1,284	232	157
Total liabilities		**632,255**	**632,254**	**558,829**	**547,789**
SHAREHOLDERS' EQUITY					
Paid-in share capital	26	22,500	22,500	20,757	20,757
Share premium		4,809	4,809	151	151
Legal reserve		16	16	16	16
Revaluation reserve - *property*	20	4,739	4,739	636	636
Revaluation reserve – *available-for-sale assets*		-	-	(23)	(23)
Currency translation reserve		1,064	-	-	-
Retained earnings		38,814	39,507	22,843	17,008
Total shareholders' equity		**71,942**	**71,571**	**44,380**	**38,545**
Total liabilities and shareholders' equity		**704,197**	**703,825**	**603,209**	**586,334**
MEMORANDUM ITEMS					
Contingent liabilities (guarantees)		6,955	6,955	7,942	7,942
Letters of credit		6,741	6,741	3,355	3,355
Financial commitments (unutilized credit lines)		63,121	89,688	15,558	15,558
		76,817	**103,384**	**26,855**	**26,855**

The accompanying notes on pages 14 to 46 are an integral part of these consolidated financial statements.

The consolidated and Bank financial statements are authorized for issue by the Council and the Board of Directors of the Bank on 8 March 2006 and signed on their behalf by:

Leonid Esterkin
Chairman of the Council

Michael J. Bourke
Chairman of the Board of Directors

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE YEAR ENDED 31 DECEMBER 2005

BANK

	Paid-in share capital	Share premium	Legal reserve	Revaluation reserve – property and subsidiaries	Revaluation reserve – available-for-sale investments	Retained earnings	Total Shareholders' equity
	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000
Balance at 31 December 2003 as reported	**20,548**	**25**	**16**	**652**	**(236)**	**10,211**	**31,216**
Dividends paid	-		-	-	-	(1,952)	(1,952)
Net profit for the year	-		-	-	-	14,581	14,581
Transfers	-		-	(16)	-	16	-
Treasury shares purchased	3	3	-	-	-	-	6
Revaluation of available-for-sale investments	-	-	-	-	213	-	213
Share issue	206	123	-	-	-	-	329
Balance at 31 December 2004 as reported	**20,757**	**151**	**16**	**636**	**(23)**	**22,856**	**44,393**
Restatement due to change in accounting policy (note 2)	-	-	-	-	-	(5,848)	(5,848)
Balance at 31 December 2004 as restated	**20,757**	**151**	**16**	**636**	**(23)**	**17,008**	**38,545**
Dividends paid (note 26)	-	-	-	-	-	(2,989)	(2,989)
Net profit for the year	-	-	-	-	-	25,488	25,488
Revaluation of property (note 20)	-	-	-	4,103	-	-	4,103
Revaluation of available-for-sale investments	-	-	-	-	23	-	23
Share issue (note 26)	1,743	4,658	-	-	-	-	6,401
As of 31 December 2005	**22,500**	**4,809**	**16**	**4,739**	**-**	**39,507**	**71,571**

The accompanying notes on pages 14 to 46 are an integral part of these financial statements.

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE YEAR ENDED 31 DECEMBER 2005

GROUP

	Paid-in share capital	Share premium	Legal reserve	Currency translation reserve	Revaluation reserve – property	Revaluation reserve – available-for-sale assets	Retained earnings	Total equity
	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000
Balance at 31 December 2003	**20,548**	**25**	**16**	**-**	**652**	**(236)**	**10,211**	**31,216**
Dividends paid	-		-	-	-	-	(1,952)	(1,952)
Net profit for the year	-		-	-	-	-	14,568	14,568
Transfers	-		-	-	(16)	-	16	-
Treasury shares purchased	3	3	-	-	-	-	-	6
Revaluation of available-for-sale investments	-	-	-	-	-	213	-	213
Share issue	206	123	-	-	-	-	-	329
Balance at 31 December 2004	**20,757**	**151**	**16**	**-**	**636**	**(23)**	**22,843**	**44,380**
Dividends paid (note 26)	-	-	-	-	-	-	(2,989)	(2,989)
Net profit for the year	-	-	-	-	-	-	18,960	18,960
Revaluation reserve	-	-	-	1,064	-	-	-	1,064
Revaluation reserve – property (note 20)	-	-	-	-	4,103	-	-	4,103
Revaluation of available-for-sale investments	-	-	-	-	-	23	-	23
Share issue (note 26)	1,743	4,658	-	-	-	-	-	6,401
As of 31 December 2005	**22,500**	**4,809**	**16**	**1,064**	**4,739**	**-**	**38,814**	**71,942**

The accompanying notes on pages 14 to 46 are an integral part of these financial statements.

STATEMENT OF CASH FLOW FOR THE YEAR ENDED 31 DECEMBER 2005

	Notes	2005 Group LVL'000	2005 Bank LVL'000	2004 Group LVL'000	2004 Bank LVL'000
CASH INFLOW FROM OPERATING ACTIVITIES					
Profit before income tax and minority interest		22,052	28,497	16,510	14,325
Amortization and depreciation		2,009	1,973	1,572	1,542
Impairment losses (recoveries)		717	579	(70)	(70)
Increase in cash and cash equivalents before changes in assets and liabilities, as a result of ordinary operations		**24,778**	**31,049**	**18,012**	**15,797**
(Increase)/decrease in prepayments and accrued income		(173)	(329)	247	343
Increase/(decrease) in deferred income and accrued expense		553	201	1,320	1,121
(Increase)/ decrease other assets		(1,041)	52	(1,362)	(767)
Increase/ (decrease) in other liabilities		3,374	1,127	(447)	(216)
(Increase)/ decrease in trading portfolio		(879)	(792)	4,040	4,040
Increase/(decrease) in derivative financial instruments		659	659	75	75
(Increase)/ decrease in held-to-maturity and available-for-sale instruments		(79)	392	(19,117)	(18,757)
(Increase)/decrease in balances due from other credit institutions		5,317	5,317	(38,138)	(38,138)
(Increase)/decrease in loans and advances to non-banking customers		(63,885)	(74,139)	(31,039)	(40,303)
Increase/ (decrease) in balances due to other credit institutions		(6,142)	(6,142)	7,451	7,451
Increase due to customers		62,993	76,630	104,492	115,250
Increase in minority interest		-	-	3	
Increase in cash and cash equivalents from operating activities before corporate income tax		**25,475**	**34,025**	**45,537**	**45,896**
Corporate income tax paid		(2,904)	(2,820)	(1,795)	(1,679)
Net cash and cash equivalents from operating activities		**22,571**	**31,205**	**43,742**	**44,217**
CASH OUTFLOW FROM INVESTING ACTIVITIES					
Purchase of property and equipment and intangible assets		(3,339)	(3,097)	(2,231)	(1,993)
Proceeds from sale of property and equipment		557	418	172	128
Purchase of equity investments in other entities and acquisition of subsidiaries		(134)	(9,086)	(12)	(1,083)
Decrease in cash and cash equivalents from investing activities		**(2,916)**	**(11,765)**	**(2,071)**	**(2,948)**
CASH INFLOW FROM FINANCING ACTIVITIES					
Share issue		6,401	6,401	329	329
Treasury shares purchased		-	-	6	6
Dividends paid		(2,989)	(2,989)	(1,952)	(1,952)
Increase in cash and cash equivalents from financing activities		**3,412**	**3,412**	**(1,617)**	**(1,617)**
Net cash inflow for the period		**23,067**	**22,852**	**40,054**	**39,652**
Cash and cash equivalents at the beginning of the year		**245,882**	**245,475**	**205,828**	**205,823**
Cash and cash equivalents at the end of the year	29	**268,949**	**268,327**	**245,882**	**245,475**

The accompanying notes on pages 14 to 46 are an integral part of these financial statements.

1 INCORPORATION AND PRINCIPAL ACTIVITIES

A/s Rietumu Banka (the Bank) was established on 13 May 1992 and incorporated in the Republic of Latvia as a joint stock company, in which the shareholders have limited liability. The main areas of operation of the Bank and subsidiaries (the Group) include granting loans, transferring payments and exchanging foreign currencies both for its customers and for trading purposes. The Bank's legal address is 54 Brīvības street, Riga LV 1011, Latvia.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

a) Statement of Compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) and its interpretations as adopted by the International Accounting Standards Board (IASB) in force as at the balance sheet date.

b) Going concern

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

c) Reporting currency

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

d) Basis of accounting

These financial statements are prepared in accordance with International Financial Reporting Standards (IFRS). The financial statements are prepared under the historical cost convention as modified by the revaluation of property, financial instruments including derivatives, available-for-sale investment securities and financial assets and financial liabilities held for trading which are accounted for at fair value. Other financial assets and liabilities and non-financial assets and liabilities are stated at amortized cost or historical cost.

The preparation of financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

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

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

e) Basis of consolidation

At 1 January 2005, the Bank adopted the amended IAS 27 and designated its investments in unlisted company equity investments (subsidiaries) as financial assets measured at cost. The Bank recognises income from the investment only to the extent that the Bank receives dividends from accumulated profits of the subsidiaries arising after the date of acquisition. In the prior year financial statements, investments in subsidiaries were accounted for under the equity method. Under the equity method, the Bank's share of the post-acquisition profits or losses of subsidiaries was recognised in the income statement. The comparative figures of the Bank for previous periods of 31 December 2003 and 2004 have been restated. The impact of the change is to reduce reported net profit for the year ended 31 December 2004 by Ls 2.1 million to Ls 12.5 million and to reduce the reported shareholders' equity at 31 December 2004 by Ls 5.8 million.

Subsidiary undertakings, which are those companies and other entities in which the Group, directly or indirectly, has power to exercise control over financial and operating policies, have been consolidated.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Subsidiaries are consolidated from the date on which effective control is transferred to the Group and are no longer consolidated from the date of disposal. The purchase method of accounting is used to account for the acquisition of subsidiaries. The cost of an acquisition is measured at the fair value of the assets given up, shares issued or liabilities undertaken at the date of acquisition, plus costs directly attributable to the acquisition. The excess of the cost of acquisition over the fair value of the net assets of the subsidiary acquired is recorded as goodwill. See Note *k)* for the accounting policy on goodwill. The financial statements of the subsidiaries are consolidated in the Group's financial statements on a line-by-line basis by adding together similar types of assets and liabilities as well as income and expenses. For the purposes of consolidation, intra-group balances and intra-group transactions including interest income and expense as well as unrealized profits and loss resulting from intra-group transactions are eliminated in the Group's financial statements. Where necessary, the accounting policies used by subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

Balances of the foreign subsidiary have been included in the consolidated financial statements at the exchange rate set by the Bank of Latvia as at the end of the reporting period. Balance sheet, statement of income and statement of cash flows of foreign entity are translated into lats at the year end rate. Difference in translation of the functional currency to the Latvian lat statements of the Bank are recognized as a separate component of equity.

Joint ventures
The Group's share in joint ventures, where the Group has contractually agreed sharing of control over an economic activity, and that exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control (the venturers), is recorded in the Group by applying proportionate consolidation whereby the Group's share of each of the assets, liabilities, income and expenses of a jointly controlled entity is combined line by line with similar items in the Group financial statements or reported as separate line items in the Group financial statements.

f) Loans and advances to non-banking customers

For the purposes of these financial statements, loans and advances to non-banking customers include regular loans, credit card balances, as well as any other outstanding credit balances from non-banking customers.

All loans and advances are recognized when cash is advanced to borrowers.

Loans and advances to non-banking customers are carried at amortized cost, which is defined as the fair value of cash consideration given to originate those loans as is determinable by reference to market prices at origination date. Certain expenses, such as legal fees or sales commissions for employees acting as agents incurred in securing a loan are treated as part of the cost of the transaction and amortized over the effective yield of the loans.

Any impairment losses on loans and advances to customers are provided for. The amount of the impairment provision is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows, including amounts recoverable from guarantees and collateral, discounted at the original effective interest rate of loans.

The Bank provides commercial and consumer loans to customers throughout its market area. The economic condition of the market area may have an impact on the borrowers' ability to repay their loans. The management has considered both specific and general risks when determining the balance of impairment allowances for loan losses.

The impairment allowances for possible credit losses are composed of the estimated figures.

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

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

g) Financial instruments

Classification

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

Recognition

Financial instruments are recognized in the balance sheet on a settlement date basis. Originated loans and receivables are recognized on the day they are transferred to or originated by the Bank.

Measurement

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

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

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

Gains and losses on subsequent measurement

Gains and losses arising from a change in the fair value of all financial assets and liabilities at fair value through profit and loss are recognized in the income statement. The Bank does not apply hedge accounting.

Available-for-sale securities are stated at fair value, with any resultant gain or loss being recognised directly in equity, except for impairment losses and, in the case of monetary items such as debt securities, foreign exchange gains and losses. When these investments are derecognised, the cumulative gain or loss previously recognised directly in equity is recognised in the income statement. Where these investments are interest-bearing, interest calculated using the effective interest method is recognised in the income statement.

The Bank assesses at each balance sheet date whether there is any objective evidence that available-for-sale financial asset or group of financial assets is impaired. If any such evidence exists, the cumulative loss, representing the difference between the acquisition cost and current fair value, less any impairment loss previously recognised, that had been recognised directly in equity is removed from equity and recognised in the income statement. An impairment loss in respect of an investment in an equity instrument classified as available-for-sale is not reversed through the income statement. If the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the income statement, the impairment loss shall be reversed, with the amount of the reversal recognised in the income statement.

h) Derivative financial instruments

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

i) Derecognition

A financial asset is recognized when the Bank becomes a party to the contractual provisions of the instrument. A financial asset is derecognised when the Bank transfers substantially all the risks and rewards of ownership of the financial asset. Purchases and sales of financial instruments are recognised based on trade date method.

j) Impairment

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

An impairment loss is recognized whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. The other impairment losses are recognized in the income statement.

Calculation of recoverable amount

The recoverable amount of the Bank's investments in held-to-maturity securities and receivables is calculated as the present value of expected future cash flows, discounted at the original effective interest rate inherent in the asset. Receivables with a short duration are not discounted. The recoverable amount of the Bank's trading investments and investments available-for-sale is their fair value.

The recoverable amount of other assets is the greater of their net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

Reversals of impairment

An impairment loss in respect of a held-to-maturity security or receivable is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

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

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

k) Goodwill

Goodwill represents the excess of the cost of an acquisition over the net fair value of the identifiable assets, liabilities and contingent liabilities of the fair value of the Bank's share of the net assets of the acquired subsidiary/associated undertaking at the date of acquisition. Prior to 1 January 2004, goodwill on acquisitions of subsidiaries was amortized using the straight-line method over 5 years. The management has decided to apply the requirements of the IFRS 3 *Business Combinations*, the revised IAS 36 *Impairment of Assets* and the revised IAS 38 *Intangible Assets* prospectively as from 1 January 2004. Thus it discontinued amortising such goodwill and eliminated the carrying amount of the related accumulated amortisation with a corresponding decrease in goodwill.

At each balance sheet date the Bank assesses whether there is any indication of impairment. If such indications exist an analysis is performed to assess whether the carrying amount of goodwill is fully recoverable. A write down is recognised if the carrying amount exceeds the recoverable amount.

l) Intangible assets

Intangible assets are recognized when it is probable that the asset will generate future economic benefits and their cost can be measured reliably. Intangible assets are amortized over the period of their useful economic life on a straight-line basis. Computer software is treated as an intangible asset only when it is not an integral part of the related hardware. Software is amortized over 4 years.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

m) *Property and equipment*

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

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

Buildings and constructions	50 years
Leasehold improvements	20 years
Office equipment	4 - 5 years
Vehicles	5 years
Other fixed assets	2 - 5 years

Revaluation is made on the basis of valuations performed by independent external valuer. Increases in the carrying amount arising on revaluation of property are credited to the revaluation reserve in shareholders equity. Decreases that offset previous increases are the same asset are charged against that reserve; all other decreases are charged to the statement of income. Each year the difference between the depreciation based on the revalued carrying amount of the asset (the depreciation charged to the statement of income) and depreciation based on the asset's original cost is transferred from revaluation reserve to retained earnings.

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

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

n) *Interest bearing liabilities*

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

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

o) Funds under trust management

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

p) Income and expense recognition

All interest income and expense items are recognized on an accrual basis using the effective yield method based on actual purchase price. No interest income is recognized on non-performing loans and advances (see paragraph *f*) in which interest is unlikely to be collected. The recognition of interest income ceases when the payment of interest or principal is in doubt and accrued interest is automatically provided for. Interest income includes coupons earned on fixed income investment and trading securities and accrued discount and premium on treasury bills and other discounted instruments.

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

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

q) Foreign currency translation

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

All translation differences on debt securities and other monetary financial assets measured at fair value are included in foreign exchange gains and losses, whereas translation differences on items such as equities held for trading are reported as part of the fair value gain or loss. Thus, underlying translation differences on available-for-sale equities are included in the revaluation reserve in equity.

The principal rates of exchange (LVL to 1 foreign currency unit) set forth by the Bank of Latvia and used in the preparation of the Bank's balance sheet as of 31 December 2005 and 31 December 2004 were as follows:

31.12.2005		**31.12.2004**	
USD	0.5930	USD	0.516
EUR	0.70284	EUR	0.703
RUB	0.0206	RUB	0.0186
UAH	0.1170	UAH	0.0971

r) Corporate income tax

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

Deferred tax is calculated separately for each of the Group companies, using the liability method, with respect to all temporary differences arising between the carrying value of assets and liabilities in the balance sheet and the value attributable to these assets and liabilities for tax calculation purposes. Currently enacted tax rates are used in determination of deferred income tax. When an overall deferred tax asset arises, it is only recognized in the balance sheet where its recoverability is foreseen with reasonable certainty.

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

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

s) Cash and cash equivalents

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

t) Treasury shares

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

u*) Provisions*

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The Group's criteria for a derivative instrument to be accounted for as a hedge include:
- formal documentation of the hedging instrument, hedged item, hedging objective, strategy and relationship is prepared before hedge accounting is applied;
- the hedge is documented showing that it is expected to be highly effective in offsetting the risk in the hedged item throughout the reporting period; and
- the hedge is highly effective on an ongoing basis.

Changes in the fair value of the effective portions of derivatives that are designated and qualify as fair value hedges and that prove to be highly effective in relation to hedged risk, are recorded in the income statement, along with the corresponding change in fair value of the hedged asset or liability that is attributable to that specific hedged risk.

If the hedge no longer meets the criteria for hedge accounting, an adjustment to the carrying amount of a hedged interest-bearing financial instrument is amortized to net profit or loss over the period to maturity. The adjustment to the carrying amount of a hedged equity security remains in retained earnings until the disposal of the equity security.

v) Sale and repurchase agreements and lending of securities

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

w) Regulatory requirements

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

x) Reclassifications

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

3 FINANCIAL RISK MANAGEMENT

A Strategy in using financial instruments

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

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

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

B Capital adequacy

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

FINANCIAL RISK MANAGEMENT (continued)

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

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

A detailed analysis of the Group Capital Adequacy is presented in Note 32.

C Credit risk

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

Derivatives

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

Credit related commitments

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

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

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

FINANCIAL RISK MANAGEMENT (continued)

D Market risk

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

E Currency risk

The Group takes on exposure to effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Board of Directors sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily. The Group's exposure to foreign currency risk is presented in Note 31.

F Interest rate risk

The Group takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise. The Board of Directors sets limits on the level of mismatch of interest rate repricing that may be undertaken, which is monitored daily. The Group's exposure to interest rate risk is presented in Note 34.

G Liquidity risk

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

Note 33 analyses assets and liabilities of the Group into relevant maturity groupings based on the remaining period at balance sheet date to the contractual maturity date.

Maturities of assets and liabilities

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

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

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

H Fiduciary activities

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

4 INTEREST INCOME

Interest income is comprised of the following:

	2005 Group LVL'000	2005 Bank LVL'000	2004 Group LVL'000	2004 Bank LVL'000
On balances due from credit institutions	8,777	8,777	3,594	3,594
On loans granted to customers	16,186	14,630	10,675	9,249
On fixed income securities	4,019	4,016	3,279	3,279
Total	**28,982**	**27,423**	**17,548**	**16,122**

5 INTEREST EXPENSE

Interest expense is comprised of the following:

	2005 Group LVL'000	2005 Bank LVL'000	2004 Group LVL'000	2004 Bank LVL'000
On due to customers	4,291	4,205	2,156	2,001
On balances due to other banks	923	406	406	406
Other	1,264	1,185	948	948
Total	**6,478**	**5,796**	**3,510**	**3,355**

6 COMMISSION AND FEE INCOME

Commission and fee income is comprised of the following:

	2005 Group LVL'000	2005 Bank LVL'000	2004 Group LVL'000	2004 Bank LVL'000
Money transfers	7,063	7,063	6,412	6,412
Cash withdrawals	378	378	420	420
Commission income from payment cards	1,999	1,999	1,884	1,884
Revenue from customer asset management and brokerage commissions	1,694	139	1,973	167
Account opening	22	22	205	205
Commission income from loans	918	918	680	680
Other	1,765	1,732	613	581
Total	**13,839**	**12,251**	**12,187**	**10,349**

7 COMMISSION AND FEE EXPENSE

Commission and fee expense is comprised of the following:

	2005 Group LVL'000	2005 Bank LVL'000	2004 Group LVL'000	2004 Bank LVL'000
Banks	836	836	1,041	1,041
Brokerage commission	189	61	391	43
Cash withdrawals	18	18	25	24
Credit card expenses	755	755	648	648
Other commission	198	116	35	19
Total	**1,996**	**1,786**	**2,140**	**1,775**

8 PROFIT FROM TRADING WITH FINANCIAL INSTRUMENTS, NET

	2005 Group LVL'000	2005 Bank LVL'000	2004 Group LVL'000	2004 Bank LVL'000
Foreign exchange profit from conversion of currencies	6,677	6,607	5,966	5,963
(Loss)/income from foreign currency revaluation	(1,360)	(1,216)	(513)	(542)
Profit from deals with trading securities	1,709	915	1,599	192
(Loss)/profit from revaluation of securities	498	494	403	403
Loss from deals with other financial instruments	(110)	(110)	(10)	(10)
Other	-	-	(80)	(93)
Total profit from trading with securities and foreign currencies, net	**7,414**	**6,690**	**7,365**	**5,913**

Foreign currency contracts

The table below summarizes the contractual amounts of the Group's forward exchange contracts outstanding at 31 December 2005. The resultant unrealized gains and losses on these unmatured contracts, along with the amounts payable and receivable on the matured but unsettled contracts, have been recognized in the income statement and in prepaid expenses and accrued income and other liabilities.

	Notional amount		Fair value			
	2005	2004	2005		2004	
			Assets	Liabilities	Assets	Liabilities
	LVL '000	LVL '000	LVL '000	LVL '000	LVL '000	LVL '000
Forward contracts	91,112	40,430	266	(154)	542	(156)

The resulting assets of LVL 266 thousand are included in prepayments and accrued income (note 21) and the resulting liabilities of LVL 154 thousand are included in accrued expense.

As of 31 December 2005 there were 118 outstanding foreign exchange agreements (2004: 104).

9 ADMINISTRATIVE EXPENSE

Salaries, wages and related social security contributions represent the basic remuneration of the employees, social security contributions as well as other remuneration. During the years ended 31 December 2005 and 2004, the Bank employed on average 648 and 578 employees, respectively.

Administrative expense is comprised of the following:

	2005 Group LVL'000	2005 Bank LVL'000	2004 Group LVL'000	2004 Bank LVL'000
Salaries to Board of Directors and Council	1,640	1,639	857	850
Staff salaries	6,170	5,760	4,354	4,191
Social tax	1,306	1,236	1,044	1,015
Accruals for annual leave	107	107	60	60
Communications	1,020	999	1,102	1,080
Professional fees	627	91	169	141
Advertising and marketing	323	243	256	255
Charitable donations	784	784	531	531
Utilities and maintenance	180	180	130	64
Representation	94	93	92	95
Travel	289	264	221	205
Rent	363	282	241	240
Stationary	84	84	86	86
Training	69	69	36	36
Security	8	7	19	19
Property tax	109	109	106	106
Other	3,389	3,152	2,804	2,691
Total	**16,562**	**15,099**	**12,108**	**11,665**

10 AMORTIZATION AND DEPRECIATION EXPENSE

	2005 Group LVL'000	2005 Bank LVL'000	2004 Group LVL'000	2004 Bank LVL'000
Property and equipment depreciation	1,355	1,319	1,249	1,219
Intangible assets amortization	654	654	323	323
Total	**2,009**	**1,973**	**1,572**	**1,542**

11 IMPAIRMENT LOSSES (RECOVERIES)

	2005 Group LVL'000	2005 Bank LVL'000	2004 Group LVL'000	2004 Bank LVL'000
Impairment losses:				
Loans and advances to non-banking customers	(896)	(896)	(601)	(601)
Goodwill	-	-	(6)	(6)
Investment securities	-	-	-	-
Other assets	(83)	(83)	(1)	(1)
	(979)	**(979)**	**(608)**	**(608)**
Reversal of impairment losses:				
Loans and advances no non-banking customers	400	400	578	578
Investment securities	-	-	31	31
Net impairment losses	**(579)**	**(579)**	**1**	**1**
Goodwill impairment loss	**138**	**-**	**-**	**-**

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

	Loans	Invest-ments	Accrued income	Other	Total
Allowance for impairment losses as of 31 December 2003	**1,081**	**1,416**	**-**	**1**	**2,498**
Reversal of impairment losses	(576)	(31)	-	-	(607)
Net impairment losses	601	-	-	1	602
Written off assets	(61)	-	-	(1)	(62)
Currency revaluation	(5)	(66)	-	-	(71)
Allowance as of 31 December 2004	**1,040**	**1,319**	**-**	**1**	**2,360**
Reversal of impairment losses	(400)	-	-	-	(400)
Net impairment losses	896	-	73	10	979
Written off assets	(444)	-	-	-	(444)
Currency revaluation	17	197	-	-	214
Allowance as of 31 December 2005	**1,109**	**1,516**	**73**	**11**	**2,709**

12 CORPORATE INCOME TAX

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

	2005 Group LVL'000	2005 Bank LVL'000	2004 Group LVL'000	2004 Bank LVL'000
Profit before taxation	**22,052**	**28,497**	**16,510**	**14,325**
Theoretically calculated tax at tax rate of 15% [2004: 15%]	3,308	4,275	2,477	2,149
Expenses not deductible for tax purposes	1,830	874	1,918	1,918
Non-taxable income	(1,431)	(1,525)	(2,096)	(1,782)
Relief for donations	(615)	(615)	(445)	(445)
Effect of changing Corporate tax rates on deferred tax calculation	-	-	91	-
Tax expense	**3,092**	**3,009**	**1,945**	**1,840**
Prior year tax adjustment	38	38	-	-
Taxes paid outside of Latvia	18	18	-	-
Corporate income tax expense	2,744	2,661	1,945	1,840
Deferred tax expense	292	292	-	-
	3,092	**3,009**	**1,945**	**1,840**

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

	31 December 2005 Group LVL'000	31 December 2005 Bank LVL'000	31 December 2004 Group LVL'000	31 December 2004 Bank LVL'000
Temporary difference on depreciation of fixed assets	937	937	721	721
Revaluation reserve – property	731	731	-	-
Temporary difference on accruals for vacations and bonuses	(334)	(334)	(248)	(248)
Temporary differences from revaluation of other financial assets and liabilities	204	204	42	42
Deferred tax liability	**1,538**	**1,538**	**515**	**515**

13 CASH AND BALANCES WITH CENTRAL BANKS

	31 December 2005 Group LVL'000	31 December 2005 Bank LVL'000	31 December 2004 Group LVL'000	31 December 2004 Bank LVL'000
Cash	4,458	4,434	4,980	4,976
Deposits with the Bank of Latvia	47,622	47,622	19,290	19,290
Total cash and deposits with the Bank of Latvia	**52,080**	**52,056**	**24,270**	**24,266**

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

In accordance with the Bank of Latvia's regulations the Bank is required to maintain compulsory reserves based on the average monthly balance (calculated at four intervals during the month) of the following items:

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

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

14 BALANCES DUE FROM CREDIT INSTITUTIONS

	31 December 2005 Group LVL'000	31 December 2005 Bank LVL'000	31 December 2004 Group LVL'000	31 December 2004 Bank LVL'000
Demand placements with:				
Latvian commercial banks	3,857	3,857	5,005	5,005
OECD credit institutions	183,472	183,295	207,820	207,818
Non-OECD credit institutions	44,216	43,794	11,556	11,155
Total demand placements, net	**231,545**	**230,946**	**224,381**	**223,978**
Term placements with:				
Latvian commercial banks	18,446	18,446	23,883	23,883
OECD credit institutions	1,392	1,392	37,661	37,661
Non-OECD credit institutions	37,738	37,738	1,349	1,349
Total term placements	**57,576**	**57,576**	**62,893**	**62,893**
Total balances due from credit institutions, net	**289,121**	**288,522**	**287,274**	**286,871**

During 2005 the average interest rate received on balances due from credit institutions was 4.43 % per annum (during 2004 - 1.63%)

The largest balances due from credit institutions as of 31 December 2005 were as follows:

	31 December 2005 Group LVL'000	31 December 2005 Bank LVL'000
Hypovereins bank (Munich)	41,510	41,510
Erste bank (Austria)	29,650	29,650
NORD/LB (London)	38,545	38,545
Sberbank (Moscow)	28,522	28,100
Sudostroitelnij bank (Russia)	43,844	43,844
Deutche bank	1,983	1,983
Total	**184,054**	**183,632**

As at 31 December 2005 and 2004, term deposits and balances to banks and other financial institutions which individually comprised more than 10 % of deposits and balances received to banks and other financial institutions were as follows:

	31 December 2005 Group LVL'000	31 December 2004 Group LVL'000
Hypovereins bank (Munich)	41,510	-
Vereins und Westbank (Hamburg)	59	61,944
Erste bank (Austria)	29,650	25,800
NORD/LB (London)	38,545	38,700
Sberbank (Moscow)	28,522	-
Sudostroitelnij bank (Russia)	43,844	-
HSBC Bank (USA)	15,648	13,790
Total	**197,778**	**140,234**

Balances due from credit institutions in the amount of LVL 7,372 thousand have been pledged as security for interbank placements, letters of credit and guarantees with other credit institutions.

15 LOANS AND ADVANCES TO NON-BANKING CUSTOMERS

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

	31 December 2005 Group LVL'000	31 December 2005 Bank LVL'000	31 December 2004 Group LVL'000	31 December 2004 Bank LVL'000
Private companies	196,490	189,047	158,686	141,823
Amounts receivable under reverse repurchase agreements	-	-	*30,640*	*25,811*
Loans secured by securities	*41,078*	*32,736*	*13,570*	-
Loans to private individuals	60,895	60,375	34,365	33,887
Total gross loans and advances to non-banking customers	**257,385**	**249,422**	**193,051**	**175,710**
Specific loan impairment loss allowance (see Note 11)	(1,109)	(1,109)	(1,040)	(1,040)
Loans and advances to non-banking customers, net	**256,276**	**248,313**	**192,011**	**174,670**
Loans and advances secured by cash deposits	(3,476)	(3,476)	(2,437)	(2,437)
Loans and advances subject to credit risk, net	**252,800**	**244,837**	**189,574**	**172,233**

In 2005, the weighted average interest rates for loans were 8.41% (2004: 8.62%) and 9.09% (2004: 6.73%) for short-term and long-term loans, respectively.

Significant credit exposures

As at 31 December 2005 and 2004 the Bank had 1 borrower or groups of related borrowers, whose loan balances exceeded more than 10% of loans to customers. The gross value of these loans as of 31 December 2005 and 2004 were LVL 28,926 thousand and LVL 25,800 thousand respectively.

According to regulatory requirements, the Bank is not allowed to have a credit exposure to one client or a group of related clients of more than 25% of its equity (see Note 33 for definition of equity). As of 31 December 2005 the Bank was in compliance with this requirement.

The amount of loans, for which interest is not accrued, is LVL 5,846 thousand as of 31 December 2005 (2004: LVL 1,497 thousand).

15 LOANS AND ADVANCES TO NON-BANKING CUSTOMERS (CONTINUED)

The loan maturity analysis is as follows:

	Up to 1 months LVL'000	1 to 3 months LVL'000	3 to 12 months LVL'000	1 to 5 years LVL'000	More than 5 years LVL'000	Pledged LVL'000	Total LVL'000
31 December 2005							
Commercial & industrial companies	25,806	28,482	12,575	61,122	62,661	5,289	195,935
Individuals	1,465	5	6,611	17,796	34,464	-	60,341
Total	**27,271**	**28,487**	**19,186**	**78,918**	**97,125**	**5,289**	**256,276**
31 December 2004							
Commercial & industrial companies	57,213	12,360	14,451	25,014	44,305	4,434	157,777
Individuals	1,385	65	1,195	6,883	24,706	-	34,234
Total	**58,598**	**12,425**	**15,646**	**31,897**	**69,011**	**4,434**	**192,011**

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

	31 December 2005 LVL'000	31 December 2004 LVL'000
Latvia	180,116	114,708
Non-residents	76,160	77,303
Total	**256,276**	**192,011**

16 TRADING SECURITIES

	31 December 2005 Group LVL'000	31 December 2005 Bank LVL'000	31 December 2004 Group LVL'000	31 December 2004 Bank LVL'000
Brazilian government bonds	79	-	-	-
Ukrainian government bonds	9			
Russian corporate bonds	378	378	-	-
Shares listed on the Moscow stock exchange	719	719	467	467
Shares listed on the Riga stock exchange	662	662	499	499
Shares listed on the New York stock exchange	-	-	2	-
Total	**1,847**	**1,759**	**968**	**966**

17 INVESTMENT SECURITIES

Securities available-for-sale:

	31 December 2005 Group LVL'000	31 December 2004 Group LVL'000
Debt securities at fair value		
United States government bonds		
Cost	-	*7,786*
Revaluation	-	*324*
Accrued coupon	-	*52*
Carrying value	-	8,162
US corporate bonds	595	516
Equity securities		
- Unlisted	1,046	515
Total securities available-for-sale	**1,641**	**9,193**

The Group holds certain equity investments in unlisted companies carried at cost. The fair value of the investments are not readily estimable and there is no active market for the investments. Gains, if any, are recognized when the investments are sold.

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

Securities held -to-maturity:

	31 December 2005 Group LVL'000	31 December 2004 Group LVL'000
Listed debt securities – at amortized cost		
United States government bonds	32,737	25,799
Argentina government bonds – cost	*2,086*	*1,814*
Provision for impairment of Argentina government bonds	*(1,516)*	*(1,319)*
Carrying value of Argentina government bonds	570	495
US corporate bonds	4,123	8,501
Great Britain corporate bonds	13,890	11,910
German corporate bonds	-	7,857
Luxemburg corporate bonds	11,782	7,736
Austrian corporate bonds	-	1,113
Norwegian corporate bonds	-	2,609
Japan corporate bonds	-	2,553
Holland corporate bonds	2,984	-
Australian corporate bonds	4,151	3,625
France corporate bonds	5,186	-
Russian corporate bonds	2,757	
Total securities held-to-maturity	**78,180**	**72,198**
Total investment securities	**79,821**	**81,391**
Total derivative assets	**836**	**-**

Investment securities at 31 December 2005 have been split into available-for-sale and held-to-maturity based on whether management had positive intent to hold certain securities until maturity at the date of purchase.

Allowance for impairment loss of the Eurobond 2031 has been made at 73% of their face value. Management considers that the estimates that have been used are prudent.

At 31 December 2005 the Group and the Bank had two bonds with index linked option contracts at a total fair value of LVL 836 thousand. Such options embedded in bonds, management has separated the fair value of such options from the host bond instrument. Change in the fair value of the option contracts is recognized through income statement.

Maturity analysis of government bonds and other fixed income securities is as follows:

	3 to12 months	1 – 5 years	Greater than 5 years	Pledged	Total
	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000
31 December 2005					
United States government bonds	-	-	-	32,737	32,737
Brazilian government bonds	-	79	-	-	79
Ukrainian government bonds	-	9	-	-	9
Argentina government bonds	-	-	570	-	570
US corporate bonds	-	4,718	-	-	4,718
Great Britain corporate bonds	-	-	13,295	595	13,890
Luxemburg corporate bonds	-	11,782	-	-	11,782
Holland corporate bonds	-	-	2,984	-	2,984
Australian corporate bonds	-	-	4,151	-	4,151
Russian corporate bonds	-	3,135	-	-	3,135
French corporate bonds	-	5,186	-	-	5,186
Total	**-**	**24,909**	**21,000**	**33,332**	**79,241**
31 December 2004					
United States government bonds	-	25,799	8,162	-	33,961
Argentina government bonds	-	-	495	-	495
US corporate bonds	4,926	3,575	-	516	9,017
Austrian corporate bonds	1,113	-	-	-	1,113
Great Britain corporate bonds	-	6,713	5,197	-	11,910
German corporate bonds	5,252	2,605	-	-	7,857
Luxemburg corporate bonds	-	2,584	5,152	-	7,736
Norwegian corporate bonds	-	-	2,609	-	2,609
Japan corporate bonds	-	-	2,553	-	2,553
Australian corporate bonds	-	-	3,625	-	3,625
Total	**11,291**	**41,276**	**27,793**	**516**	**80,876**

18 INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES

As of 31 December 2005 and 2004, the Bank's investments in subsidiaries are comprised of the following:

Company	Industry	Legal address	Amount of ownership (%)	Amount of investment	Amount of ownership (%)	Amount of investment
			31 December 2005		31 December 2004	
RB Securities Ltd	Financial services	Stasinou Street,1 Mitsi Building, 2nd floor, office 5, Plateia Elefttherias, P.C. 1060, Nicosia, Cyprus	99.99%	7,700	99.99%	1,012
SIA "DAM Property Investments"	Construction	Balasta dambis 1, Riga, Latvia	-	-	85%	17
SIA "RB Investments"	Investments	Brivibas iela 39, 7th floor, Riga, Latvia	100%	2,000	100%	1,000
SIA "Centrus"	Construction	Brivibas iela 54, Riga, Latvia	100%	246	100%	246
AS "RB Securities Latvia" IBS	Financial services	Brivibas iela 54-412, Riga, Latvia	100%	455	-	-
AS "RB Asset management" IPS	Financial services	Brivibas iela 54-406, Riga, Latvia	100%	700	-	-
SIA "RB Drošība"	Security services	Brivibas iela 54, Riga, Latvia	100%	2	-	-
SIA "RB Vidzeme"	Agriculture	Brivibas iela 39, 7th floor, Riga, Latvia	100%	50	100%	50
Alphyra Rietumu Financial Services Limited	Financial services	4 Heather Road, Sandyford Industrial Estate, Dublin 18 Ireland	49%	258	-	-
Total Bank investments in subsidiaries and associates				**11,411**		**2,325**
Total Group investments in subsidiaries and associates				**146**		**12**

AS "RB Securities Latvia" IBS was acquired from RB Securities Ltd on 31 August 2005, SIA "RB Drošība" was acquired by the Bank on 5 December 2005. AS "RB Asset management" IPS was established by the Bank in August 2005. A shareholders agreement was signed between Alphyra Group Limited and the Bank on 11 April 2005 on the establishing of Alphyra Rietumu Financial Services Limited. The investment is reported by the Bank as joint venture and proportionate consolidation has been applied as at 31 December 2005.

18 INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES (continued)

During the year ended 31 December 2005, the shareholders of "RB Securities" Ltd., a 99.99% subsidiary of the Bank, have resolved to declare dividends in the amount of USD 11,300 (LVL 6,588) thousand. In addition, the shareholders of this subsidiary resolved to increase share capital of "RB Securities" by the same amount and thus the Bank initially recognized a liability for the share capital increase. The Bank and the subsidiary agreed to offset the dividend receivable from the subsidiary against the Bank's payable for the increase in share capital as at 30 June 2005.

As at 31 December 2005 the Group has investment in 52.9% subsidiary SIA "Eco Diesel" amounting to LVL 146 thousand. The subsidiary has not been consolidated as the Group acquired the investment in June 2005 with a plan to dispose of the shares. The impact of non-consolidation is not material to the consolidated financial statements of the Group. The balance of LVL 12 thousand as at 31 December 2004 represents 50% investment by the Group in Rika Agro SIA. The Group disposed of this investment in 2005.

19 INTANGIBLE ASSETS

Intangible assets of the Bank are comprised as follows:

	Goodwill	Software	Work in progress	Advance payments for software	Trade marks	Total
Historical Cost						
Balance at 31 December 2004	**987**	**2,013**	**2,413**	**177**	**-**	**5,590**
Additions	-	372	91	244	5	712
Transfers	-	2,466	(2,323)	(143)	-	-
Balance at 31 December 2005	**987**	**4,851**	**181**	**278**	**5**	**6,302**
Amortization						
Balance at 31 December 2004	**-**	**1,450**	**-**	**-**		**1,450**
Amortization charge for the year	-	654	-	-	-	654
Balance at 31 December 2005	**-**	**2,104**	**-**	**-**	**-**	**2,104**
Net book value						
At 31 December 2004	**987**	**563**	**2,413**	**177**	**-**	**4,140**
At 31 December 2005	**987**	**2,747**	**181**	**278**	**5**	**4,198**

Intangible assets of the Group are comprised as follows:

	Goodwill	Software	Work in progress	Advance payments for software	Trade marks	Total
Historical Cost						
Balance at 31 December 2004	**1,125**	**2,014**	**2,413**	**177**	**-**	**5,729**
Additions	-	372	91	243	5	711
Transfers	-	2,466	(2,323)	(143)	-	-
Impairment loss	(138)	-	-	-	-	(138)
Balance at 31 December 2005	**987**	**4,852**	**181**	**277**	**5**	**6,302**
Amortization						
Balance at 31 December 2004	**-**	**1,450**	**-**	**-**		**1,450**
Amortization charge for the year	-	654	-	-	-	654
Disposals	-					
Balance at 31 December 2005	**-**	**2,104**	**-**	**-**	**-**	**2,104**
Net book value						
At 31 December 2004	**1,125**	**564**	**2,413**	**177**	**-**	**4,279**
At 31 December 2005	**987**	**2,748**	**181**	**277**	**5**	**4,198**

20 PROPERTY AND EQUIPMENT

Property and equipment of the Bank is comprised as follows:

	Building	Unfinished construction	Vehicles	Office equipment	Advance payments for fixed assets	Leasehold refurbish-ments	Total Fixed Assets
Historical cost or revaluation 31 December 2004	**7,204**	**-**	**1,351**	**4,947**	**208**	**320**	**14,030**
Additions	9	681	103	719	873	-	2,385
Revaluation	4,256	-	-	-	-	-	4,256
Disposals	(379)	-	(351)	(221)	(43)	(44)	(1,038)
Transfers	79	-	602	354	(969)	(66)	-
31 December 2005	**11,169**	**681**	**1,705**	**5,799**	**69**	**210**	**19,633**
Accumulated depreciation							
31 December 2004	**850**	**-**	**613**	**3,129**	**-**	**147**	**4,739**
Charge for the period	151	-	265	860	-	43	1,319
Revaluation	(617)	-	-	-	-	-	(617)
Disposals	(116)	-	(204)	(217)	-	(44)	(581)
31 December 2005	**268**	**-**	**674**	**3,772**	**-**	**146**	**4,860**
Net book value							
31 December 2004	**6,354**	**-**	**738**	**1,818**	**208**	**173**	**9,291**
31 December 2005	**10,901**	**681**	**1,031**	**2,027**	**69**	**64**	**14,773**

In November 2005, the Bank recorded revaluation in the amount of LVL 4,873 thousand of its office buildings located on Smilšu street and on Brīvības street. The buildings were valued by two independent valuation firms and the lowest values were used. The revaluation (LVL 4,873 thousand, less accumulated depreciation of the respective buildings, LVL 617), net of deferred tax asset (LVL 731 thousand), or LVL 4,142 thousand was recorded directly in the equity.

Revaluation reserve of LVL 39 thousand related to a building demolished in 2005 was charged to the related revalued fixed asset balance.

The carrying amount of the revalued buildings that would have been recognized had the assets been carried under the cost model (i.e., not revalued) is LVL 4,798 thousand.

Property and equipment of the Group is comprised as follows:

	Buildings	Unfinished construction	Vehicles	Office equipment	Advance payments for fixed assets	Leasehold refurbish-ments	Total Fixed Assets
Historical cost or revaluation 31 December 2004	**7,204**	**4**	**1,453**	**5,348**	**208**	**320**	**14,537**
Additions	9	686	147	870	875	41	2,628
Revaluation	4,256	-	-	-	-	-	4,256
Disposals	(379)	-	(468)	(316)	(43)	-	(1,206)
Transfers	79	-	602	354	(969)	(66)	-
31 December 2005	**11,169**	**690**	**1,734**	**6,256**	**71**	**295**	**20,215**
Accumulated depreciation							
31 December 2004	**850**	**-**	**641**	**3,502**	**-**	**147**	**5,140**
Charge for the period	151	-	293	868	-	43	1,355
Revaluation	(617)	-	-	-	-	-	(617)
Disposals	(116)	-	(251)	(243)	-	-	(610)
31 December 2005	**268**	**-**	**683**	**4,127**	**-**	**190**	**5,268**
Net book value							
31 December 2004	**6,354**	**4**	**812**	**1,846**	**208**	**173**	**9,397**
31 December 2005	**10,901**	**690**	**1,051**	**2,129**	**71**	**105**	**14,947**

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

21 PREPAYMENTS AND ACCRUED INCOME

Prepayments and accrued income are comprised of the following:

	31 December 2005 Group LVL'000	31 December 2005 Bank LVL'000	31 December 2004 Group LVL'000	31 December 2004 Bank LVL'000
Accrued interest income from loans	929	823	697	541
Accrued interest income on balances due from banks	233	233	84	84
Accrued income from forward deals	266	266	542	542
Other accrued income	16	16	116	78
Prepaid expenses	531	571	290	262
	1,975	**1,909**	**1,729**	**1,507**
Provision for accrued income (note 11)	(73)	(73)	-	-
Total	**1,902**	**1,836**	**1,729**	**1,507**

22 OTHER ASSETS

Other assets are comprised of the following:

	31 December 2005 Group LVL'000	31 December 2005 Bank LVL'000	31 December 2004 Group LVL'000	31 December 2004 Bank LVL'000
Traveler cheques	96	96	97	97
Advances for goods and services	88	88	33	33
Other assets	2,845	969	1,658	1,062
Non-interest bearing deposit with SWIFT	-	-	61	61
Cash advances to employees	5	5	30	30
	3,034	**1,158**	**1,879**	**1,283**
Provision for other assets (Note 11)	(11)	(11)	(1)	(1)
Total	**3,023**	**1,147**	**1,878**	**1,282**

23 BALANCES DUE TO OTHER BANKS

Balances due to credit institutions are comprised of the following:

	31 December 2005 Group LVL'000	31 December 2005 Bank LVL'000	31 December 2004 Group LVL'000	31 December 2004 Bank LVL'000
Balances due to credit institutions registered in Latvia	4,343	4,343	11,957	11,957
Balances due to credit institutions registered in OECD countries	2,247	2,247	1,715	1,715
Balances due to credit institutions registered in non-OECD countries	14,096	14,096	1,250	1,250
Total	**20,686**	**20,686**	**14,922**	**14,922**

The largest amounts due to banks were as follows:

	31 December 2005 Group LVL'000	31 December 2005 Bank LVL'000
Latvijas Tirdzniecības banka	4,300	4,300
Sudostroitelnij bank (Moscow)	11,860	11,860
EBRD	1,616	1,616
Total	**17,776**	**17,776**

The maturity profile of balances due to credit institutions were as follows:

	31 December 2005 Group LVL'000	31 December 2005 Bank LVL'000	31 December 2004 Group LVL'000	31 December 2004 Bank LVL'000
Demand deposits	14,675	14,675	2,769	2,769
Term deposits	6,011	6,011	12,153	12,153
Total	**20,686**	**20,686**	**14,922**	**14,922**

24 DUE TO CUSTOMERS

	31 December 2005 Group LVL'000	31 December 2005 Bank LVL'000	31 December 2004 Group LVL'000	31 December 2004 Bank LVL'000
Demand deposits from				
Municipality	-	-	1	1
State enterprises	5	5	4	4
Private companies	23,925	27,029	19,503	20,476
Individuals	36,616	36,616	23,387	23,387
Private companies non-residents	419,758	419,576	425,496	413,963
Individuals non-residents	36,076	36,076	34,186	34,186
Total demand deposits	**516,380**	**519,302**	**502,577**	**492,017**
Term deposits				
Private companies	2,466	2,466	4,210	4,055
Individuals	8,435	8,435	9,320	9,320
Private companies non-residents	64,548	64,548	19,397	19,397
Amounts payable under repurchase agreements	*32,574*	*32,574*	-	-
Individuals non-residents	10,749	10,749	4,081	4,081
Total term deposits	**86,198**	**86,198**	**37,008**	**36,853**
Total due to customers	**602,578**	**605,500**	**539,585**	**528,870**

The maturity profile of deposits from the public was as follows:

	Up to 1 month LVL'000	1 to 3 months LVL'000	3 to12 months LVL'000	1 to 5 years LVL'000	Greater than 5 year LVL'000	Pledged LVL'000	Total LVL'000
31 December 2005							
Private companies	460	910	880	105	111	-	2,466
Individuals	1,417	1,287	2,717	3,007	7	-	8,435
Non-residents	17,734	7,469	14,391	3,129	-	32,574	75,297
Total	**19,611**	**9,666**	**17,988**	**6,241**	**118**	**32,574**	**86,198**
31 December 2004							
Private companies	2,635	933	406	159	77	-	4,210
Individuals	902	2,995	3,351	2,065	7	-	9,320
Non-residents	9,354	7,065	4,360	2,699	-	-	23,478
Total	**12,891**	**10,993**	**8,117**	**4,923**	**84**	**-**	**37,008**

In 2005 the weighted average interest rate on term deposits was 2.59% and 5.61% (2004: 1.98% and 3.44%) for short and long-term deposits respectively.

As of 31 December 2005, the Group maintained customer deposit balances of LVL 15,123 thousand (2004: LVL 5.660 thousand) which were blocked by the Group as collateral for loans and off-balance sheet credit instruments granted by the Bank.

25 DEFERRED INCOME AND ACCRUED EXPENSE

	31 December 2005 Group LVL'000	31 December 2005 Bank LVL'000	31 December 2004 Group LVL'000	31 December 2004 Bank LVL'000
Deferred income	77	77	56	56
Accrued interest expense on deposits	369	369	366	365
Current tax liability	227	224	331	327
Deferred tax liability (see Note 12)	1,538	1,538	515	515
Deferred loan origination fees	307	307	-	-
Other	2,757	2,159	2,535	2,290
Total	**5,275**	**4,674**	**3,803**	**3,553**

26 PAID-IN SHARE CAPITAL

As of 31 December 2005 the authorized and issued share capital comprised of 22,500,000 (2004: 20,757,375) shares with a par value of LVL 1 per share, paid share capital comprised of 22,500,000 (2004: 20,757,375) shares. All shares are distributed as follows:

	31 December 2005 LVL'000	31 December 2004 LVL'000
Companies non-residents	-	571
Private persons	22,500	20,186
Total	**22,500**	**20,757**

The largest shareholders of the Bank as of 31 December 2005:

	31 December 2005 Paid capital LVL' 000	31 December 2005 Percentage holding
Leonid Esterkin	7,450	33.11
Dermot Desmond	7,450	33.11
Arkady Suharenko	3,900	17.33
Others	3,700	16.45
Total	**22,500**	**100**

On 29 August 2005, the Bank issued 1,743 thousand shares with a par value of LVL 1.

Final dividends are not accounted for until they have been ratified at the Annual General Meeting. At the Meeting on 8 March 2006, a dividend in respect of 2005 of LVL 0.225 per share (2004: actual dividend per share LVL 0.144) amounting to total of LVL 5,063 thousand (2004: actual LVL 2,989 thousand) is to be proposed. The financial statements of 2005 do not reflect this resolution, which will be accounted for in shareholders' equity as an appropriation of retained profits in the year ending 31 December 2006.

27 EARNINGS PER SHARE

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

	2005 Bank	2004 Bank
Net profit attributable to shareholders	**25,488,000**	**12,485,000**
Ordinary shares as at 1 January	20,757,375	20,548,875
Purchase of treasury shares	-	2,500
Number of ordinary shares issued during the year	1,742,625	206,000
Ordinary shares as at 31 December	22,500,000	20,757,375
Weighted average number of ordinary shares outstanding during the year	**21,338,250**	**20,565,916**
Basic earnings per share (expressed in LVL per share)	**1.19**	**0.61**

Net profit attributable to shareholders for 2004 in the amount of LVL 14,581,000 represents the net profit before restatements resulting from change in accounting policy on subsidiaries (see note 2).

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

28 MEMORANDUM ITEMS

Funds under trust management represent securities and other assets managed and held by the Group on behalf of customers. The Group earns commission income for holding such securities. The Group is not subject to interest, credit and currency risk with respect of these securities in accordance with the agreements with customers. All securities are stated at their market value. As at 31 December 2005 the Group held securities and other assets on behalf of customers as custodian and assets under management in the amount of LVL 138,802 thousand.

Legal Proceedings. As of 31 December 2005 there were 1 legal proceedings outstanding against the Group. Total amount disputed in these proceedings is LVL 927 thousand. Provisions are made for claims where management on the basis of professional advice to the Group, considers that it is likely that a loss may eventuate. (2004: 5 outstanding legal proceedings against the Bank).

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

Contingent liability

One of the Bank's subsidiaries, RB Securities Limited (''the subsidiary'') transacted with Refco Capital Markets Ltd for brokerage and asset management services for its customers, as well as custodian of customers' securities. As at 31 December 2005, customers' assets held in custody at Refco Capital Markets Ltd was US$ 62 million. In October 2005 Refco Capital Markets Ltd filed for Chapter 11 bankruptcy.

The subsidiary is proceeding with litigation against Refco Capital Markets Ltd in the United States to recover assets of its customers held under custody with Refco Capital Markets Ltd which are frozen as at 31 December 2005. The subsidiary is named as the creditor in the US courts, although the transactions were made by the subsidiary on behalf of its customers.

As at 31 December 2005 management of the subsidiary is not aware of any legal claims outstanding against the Group related to Refco Capital Markets Ltd. Management believes that agreements with customers reflect the risk of default by a third party is with customers and not the subsidiary. Management believes the case against Refco Capital Markets Ltd to recover assets is in the early stages and there is significant uncertainty in the ultimate amounts of customers' assets to be recovered. The subsidiary has recognized a provision for legal expenses of US$ 830,000 at 31 December 2005.

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

Debt

On 21 December 2005, the Bank entered into a loan agreement with the European Bank for Reconstruction and Development (EBRD) to receive EUR 60 million (LVL 42,168,000 at 31 December 2005). The debt includes two components: EUR 20 million, repayable in 5 equal semi-annual installments after 21 December 2008 with an interest rate of EUR LIBOR plus 1.6% and EUR 40 million, repayable on 22 December 2008 with an interest rate of EUR LIBOR plus 1.1%. As at 31 December 2005, no amounts have been drawn down from this loan agreement.

29 CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of the following:

	31 December 2005 Group LVL'000	31 December 2005 Bank LVL'000	31 December 2004 Group LVL'000	31 December 2004 Bank LVL'000
Cash	4,458	4,434	4,980	4,976
Balances due from the Bank of Latvia	47,622	47,622	19,290	19,290
Demand deposits due from other banks	231,544	230,946	224,381	223,978
(Demand deposits due to other banks)	(14,675)	(14,675)	(2,769)	(2,769)
Total	**268,949**	**268,327**	**245,882**	**245,475**

30 RELATED PARTY TRANSACTIONS

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

Loans and advances issued to related parties were as follows:

	31 December 2005 Amount LVL'000	31 December 2004 Amount LVL'000
Loans:		
Loans at the beginning of year	2,404	1,997
Loans to management and directors issued during year	45,354	14,940
Transfers	(344)	
Loan repayment during the year	(41,270)	(14,533)
Loans to management as at end of year	6,144	2,404
Interest income earned	274	71
Deposits		
Deposits at the beginning of year	2,826	1,822
Deposits received during year	504,443	447,296
Transfers	(396)	-
Deposits repaid during the year	(501,947)	(446,292)
Deposits at the end of year	4,926	2,826
Interest expense on deposits	212	92
Guarantees and credit lines issued by the Bank to related parties	27,289	270

In 2005 the Bank paid LVL 53 thousand to a related party as a service commission for the cession and management of a loan portfolio from a third party. The related party retains servicing right and earns a fee.

No impairment losses have been recognized in respect of loans or guarantees given to related parties (2004: nil).

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

As of 31 December 2005, the Bank was in compliance with the regulations under the Law On Credit Institutions requiring that the total of non-zero risk credit exposures to related parties may not exceed 15% of the Bank's equity, as defined in Note 32.

31 FOREIGN EXCHANGE EXPOSURES

The following table provides analysis of the Bank's assets, liabilities and applicable memorandum items by currency as of 31 December 2005:

				31 December 2005		31 December 2004	
	Assets	**Liabilities**	**Net future open position**	**Open position**	**Percent of regulatory capital**	**Open position**	**Percent of share capital**
USD	435,587	455,110	18,111	(1,412)	(2.32)	(804)	(2.15)
RUB	43,604	44,565	1,558	597	0.98	305	0.82
GBP	8,687	8,710	20	(3)	-	(93)	(0.25)
LTL	67	82	-	(15)	(0.02)	31	0.08
Other (short)	1,288	1,435	1	(146)	(0.24)	(64)	(0.17)
Other (long)	1,731	1,504	-	227	0.37	84	0.22
Total	**703,825**	**632,406**	**19,690**	**(752)**	**(1.23)**	**434**	

	31 December 2005	31 December 2004
Total short position	**(1,576)**	**(961)**
Total long position	**824**	**1,395**
Total open position	**2.59%**	**3.73%**
Capital requirement for foreign currency exchange risk	**174**	**52**

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

As of 31 December 2005, the Bank was in compliance with the Law on Credit Institutions regulatory requirements requiring that open positions in any individual foreign currency may not exceed 10% of Bank's equity (see Note 32 for the definition of Bank's equity under the Finance and Capital Markets Commission guidelines), and that the total foreign currency open position may not exceed 20% of the Bank's equity.

32 CAPITAL ADEQUACY

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

Based on the requirements set forth by the Finance and Capital Market Commission in respect to share capitals of banks, the Bank's share capital to be utilized in the capital adequacy ratio as of 31 December 2005 has been calculated as follows:

Tier 1	
- paid-in share capital	22,500
- share premium	4,809
- reserve capital	16
- accumulated profit	14,019
- less: treasury shares	-
- profit of the year 2005	25,488
Deductions from the capital base	
Intangible assets	(4,198)
Dividends declared	(5,063)
Total Tier 1	**57,571**
70% of property revaluation reserve	3,317
Assets available-for-sale revaluation reserve	-
Total Tier 2	**3,317**
Equity to be utilized for the capital adequacy calculation in accordance with the guidelines of the Finance and Capital Market Commission	**60,888**

Tier 1	
- paid-in share capital	22,500
- share premium	4,809
- reserve capital	16
- reserve	1,064
- accumulated profit	19,854
- less: treasury shares	-
- profit of the year 2005	18,960
Deductions from the capital base	
Intangible assets	(4,198)
Dividends declared	(5,063)
Total Tier 1	**57,942**
70% of property revaluation reserve	3,317
Total Tier 2	**3,317**
Equity to be utilized for the capital adequacy calculation under the Basle Agreement	**61,259**

As of 31 December 2005, the Bank was in compliance with the Law On Latvian Credit Institutions and the requirements of the Finance and Capital Market Commission in respect to capital adequacy and the minimum equity level. The calculation of capital adequacy according to the Finance and Capital Market Commission requirements is presented in the following table:

	Assets 31 December 2005	Risk weighting %	Risk weighted assets
Balance sheet items			
Cash and deposits with the Bank of Latvia	52,056	0%	-
Balances due from governments and central banks within A zone countries	32,737	0%	-
Loans and advances secured by deposits and A zone government bonds	36,553	0%	-
Balances due from credit institutions within A zone countries	235,807	20%	47,161
Loans fully secured by mortgage on occupied residential property which is rented or is occupied by the borrower	16,722	50%	8,361
Accrued income and prepayments, excluding accrued interest	853	100%	853
Balances due from governments and central banks within B zone countries	570	100%	570
Balances due from credit institutions within B zone countries	53,688	100%	53,688
Claims on other borrowers, which are not credit institutions, central governments, central banks, municipalities, EU international development banks, excluding claims with lower risk	241,352	100%	241,352
Shares and other non-fixed income securities and investments in subsidiaries	11,610	100%	11,610
Property and equipment	14,773	100%	14,773
Other assets	1,147	100%	1,147
Total assets	**697,868**		**379,515**
Memorandum items			
Letters of credit	1,700	20%	340
Letters of credit with zero risk weighted	5,041	0%	-
Credit commitments	88,618	50%	44,309
Credit commitments with zero risk weighted	1,070	0%	-
Outstanding guarantees with 100% risk weighted	5,570	100%	5,570
Outstanding guarantees with zero risk weighted	1,385	0%	-
Total assets and memorandum items for capital adequacy			**429,734**
Capital requirement for credit risk of banking book			**34,379**
Capital requirement for position risk of trading book			**235**
Capital requirement for deal partners			**24**
Capital requirement for foreign currency exchange risk			**174**
Capital charges covered by own funds			**26,076**
Capital adequacy ratio			**13.99%**

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

As of 31 December 2005 Group's capital adequacy according to the Finance and Capital Market Commission's requirements was 13.99%. The Law On Credit Institutions and Finance and Capital Market Commission's requirements in respect of minimum capital adequacy are 8%.

The capital adequacy of the Group under the Basle agreement as of 31 December 2005 is calculated as follows:

	Assets As of 31 December 2005	Weighted Risk %	Risk Weighted Assets
Balance sheet items			
Cash and deposits with the Bank of Latvia	52,080	0%	-
Claims on OECD central governments and central banks	32,737	0%	-
Loans and advances secured by deposits and OECD countries government bonds	36,553	0%	-
Balances due from credit institutions within OECD area	235,984	20%	47,197
Balances due from credit institutions within non-OECD area	53,166	20%	10,633
Loans fully secured by mortgage on occupied residential property which is rented or is occupied by the borrower	16,722	50%	8,361
Claims on other borrowers, which are not credit institutions, central governments, central banks, municipalities, EU international development banks, excluding claims with lower risk	249,421	100%	249,421
Claims on central governments outside the OECD (unless denominated in national currency)	658	100%	658
Balances due from credit institutions within OECD area (with term 1 year and more)	944	100%	944
Shares and other non-fixed income securities and investments in subsidiaries	1,192	100%	1,192
Property and equipment	14,947	100%	14,947
Accrued income and prepayments, excluding accrued interest	813	100%	813
Other assets	3,023	100%	3,023
Total assets	**698,240**		**337,189**
Memorandum items			
Letters of credit	1,700	20%	340
Letters of credit with zero risk weighted	5,041	0%	-
Credit commitments	62,051	50%	31,026
Credit commitments with zero risk weighted	1,070	0%	-
Outstanding guarantees with 100% risk weighted	5,570	100%	5,570
Outstanding guarantees with zero risk weighted	1,385	0%	-
Total assets and memorandum items for capital adequacy			**374,125**
Capital requirement for credit risk of banking book			**29,930**
Capital requirement for position risk of trading book			**235**
Capital requirement for deal partners			**24**
Capital requirement for foreign currency exchange risk			**174**
Capital charges covered by own funds			**30,896**
Capital adequacy ratio			**16.14%**

The Group's risk based capital adequacy as of 31 December 2005 was 16.14% which is above the minimum ratio of 8% recommended under the Basle agreement.

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

The table below allocates the Group's assets, liabilities and shareholder's equity to maturity groupings based on the time remaining from the balance sheet date to the contractual maturity dates. The maturity profile based on the balances as of 31 December 2005 was the following:

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

34 INTEREST RATE RISK ANALYSIS

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

Maturity profile of assets, liabilities and shareholders' equity of the Group as at 31 December 2005 was as follows:

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

35 AVERAGE EFFECTIVE INTEREST RATES

The table below displays the Group's interest bearing assets and liabilities as at 31 December 2005 and their corresponding average effective interest rates as at that date. These interest rates are an approximation of the yields to maturity of these assets and liabilities.

	Value LVL'000	2005 Average Effective Interest Rate	Value LVL'000	2004 Average Effective Interest Rate
Assets				
Balances due from credit institutions	283,323	3.39	298,802	1.66
Investments	79,507	4.38	80,381	3.45
Reverse repurchase agreements	-	4.01	30,629	2.60
Loans to customers	250,430	6.65	159,885	6.63
Total interest bearing assets	**613,260**	**4.85**	**569,697**	**3.46**
Liabilities				
Deposits and balances from banks	16,255	3.40	13,457	3.45
Current accounts and deposits from customers	172,209	2.32	154,610	2.13
Total interest bearing liabilities	**188,464**	**2.33**	**168,067**	**2.23**