

**AS PARITATE BANKA**

**Consolidated and Bank Annual Report  
for the year ended 31 December 2005**

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**REPORT OF THE COUNCIL AND THE MANAGEMENT BOARD**

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**Dear shareholders, customers and partners!**

The year 2005 has been a successful year for AS "PARITATE BANKA". The Bank managed to achieve the goals it had set and to continue to develop and strengthen its positions in Latvian banking sector. The Bank's assets increased 1.3 times compared to 2004, loan portfolio – 5.3 times, profit – 1.7 times.

The Bank's development is aimed at improving and expanding its activities, and at improving and further developing its products and services.

As had been planned, in 2005 "AS PARITATE BANKA" opened 1 customer service centre, 4 branches, and 4 cash offices. Mortgage lending was developing successfully, as was the cooperation with VAS "Latvijas Pasts", under which the bank was accepting deposits from individuals at post offices. "PARITATE LIZINGS", the Bank's subsidiary, was successfully developing leasing operations; another subsidiary, "DigiPro", facilitates the sales of more than 9 different prepayment products and issues cash to users of *VISA International* at points of sale.

The customer policy of AS "PARITATE BANKA" will continue to be aimed at development of technologies that are capable to both meet the needs of the many and to ensure an individual approach to each client.

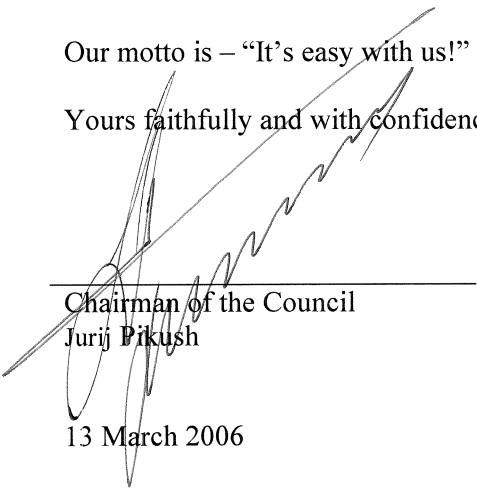
In 2006, the bank will continue to expand retail banking, opening new branches and cash offices.

In the name of AS "PARITATE BANKA", we would like to thank our shareholders, clients, and partners for cooperation. We are convinced that the business and partner relationships that have developed over the years of our cooperation will continue to grow.

We are very thankful to the employees of the Bank. The results of 2005 have shown that the bank is, above all, its personnel, whose professionalism enabled us to reach our goals.

Our motto is – "It's easy with us!"

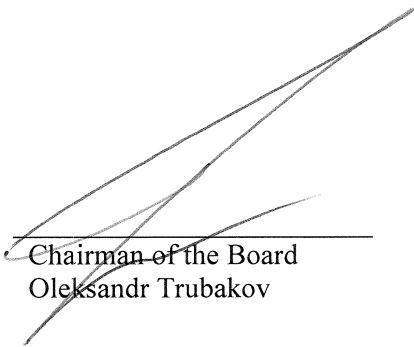
Yours faithfully and with confidence in further cooperation,



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Chairman of the Council  
Jurij Pikush

13 March 2006



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Chairman of the Board  
Oleksandr Trubakov

**AS PARITATE BANKA  
CONSOLIDATED AND BANK ANNUAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2005**

**SUPERVISORY COUNCIL AND MANAGEMENT BOARD**

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**THE SUPERVISORY COUNCIL AND BOARD OF THE BANK**

As of the date of signing of the financial statements the Supervisory Council and the Management Board consisted of the following members:

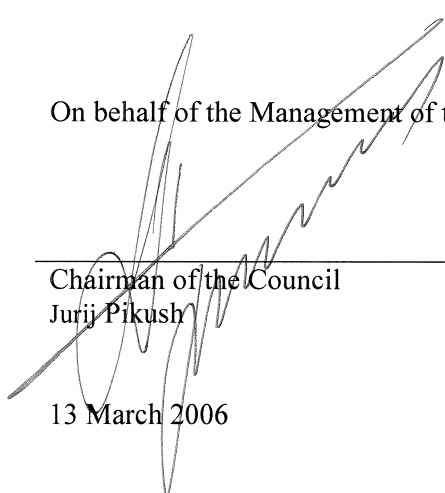
**The Supervisory Council**

<i>Name</i>	<i>Position</i>	<i>Date of appointment</i>
Jurij Pikush	Chairman of the Council	16.11.2004
Viktor Samarin	Deputy Chairman of the Council	16.11.2004
Oleksandrs Vitjajs	Member of the Council	16.11.2004
Ludmila Shmalchenko	Member of the Council	16.11.2004


**The Management Board**

<i>Name</i>	<i>Position</i>	<i>Date of appointment</i>
Oleksandr Trubakov	Chairman of the Board	16.11.2001
Oleksandr Mekekechko	Member of the Board	16.11.2003
Vladislavs Belskis	Member of the Board	16.11.2004
Rolands Petersons	Member of the Board	16.11.2004

On behalf of the Management of the Bank:

  
\_\_\_\_\_  
Chairman of the Council  
Jurij Pikush

13 March 2006

  
\_\_\_\_\_  
Chairman of the Board  
Oleksandr Trubakov

**STATEMENT OF MANAGEMENT RESPONSIBILITY**

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**STATEMENT OF MANAGEMENT RESPONSIBILITY**

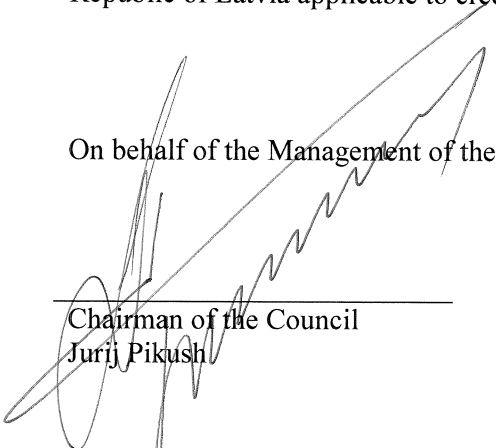
The Management of AS Paritate Banka (Bank) is responsible for the preparation of the consolidated financial statements of the Bank and its subsidiaries (the Group) as well as for the preparation of the financial statements of the Bank.

The consolidated and Bank financial statements on pages 6 to 40 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 and Bank 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.

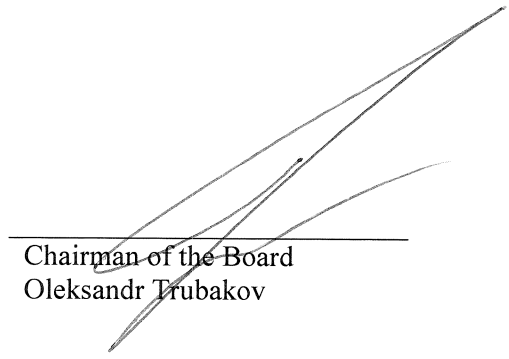
The Management of the Bank is responsible for the maintenance of proper accounting records, the safeguarding of the Group's assets and the prevention and detection of fraud and other irregularities in the Group. They are also responsible for operating the Bank in compliance with the Law on Credit Institutions,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

On behalf of the Management of the Bank:



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Chairman of the Council  
Jurij Pikush



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Chairman of the Board  
Oleksandr Trubakov

13 March 2006



**KPMG Baltics SIA**  
Balasta dambis 1a  
Riga LV 1048  
Latvia

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

## **Auditors' Report**

### **To the shareholders of the joint stock company Paritate Banka**

We have audited the accompanying unconsolidated balance sheet of AS Paritate Banka ("the parent company") as of 31 December 2005 and the related unconsolidated income statement, statement of changes in shareholders' equity and statement of cash flows for the year then ended. We have also audited the accompanying consolidated balance sheet of AS Paritate Banka 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 6 to 40, are the responsibility of the parent company's management. Our responsibility is to express an opinion on the unconsolidated financial statements of AS Paritate Banka 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 Report of the Council and the Management Board 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 Report of the Council and the Management Board was limited to the aforementioned scope, and did not include a review of any information other than drawn from the financial statements of AS Paritate Banka. 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, in all material respects, of the financial position of AS Paritate Banka 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 as promulgated by the International Accounting Standards Board.

In our opinion, the consolidated financial statements give a true and fair view, in all material respects, 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 as promulgated by the International Accounting Standards Board. The Report of the Council and the Management Board is consistent with the financial statements.

*Patrick Querubin*

Patrick Querubin  
KPMG Baltics SIA  
Licence No 55  
Riga, Latvia  
13 March 2006

*Inga Lipšāne*

Inga Lipšāne  
Sworn Auditor  
Certificate No. 112

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

**AS PARITATE BANKA**  
**CONSOLIDATED AND BANK ANNUAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2005**

**INCOME STATEMENT**

(all amounts are in thousands of lats)

	Notes	2005		2004	
		Group	Bank	Group	Bank
Interest income	4	2 503	2 422	1 086	1 088
Interest expense	5	(751)	(751)	(379)	(379)
<b>NET INTEREST INCOME</b>		<b>1 752</b>	<b>1 671</b>	<b>707</b>	<b>709</b>
Fees and commission income	6	2 231	2 210	1 271	1 271
Fees and commission expense	7	(669)	(669)	(392)	(392)
<b>FEES AND COMMISSION INCOME, NET</b>		<b>1 562</b>	<b>1 541</b>	<b>879</b>	<b>879</b>
Profit from transactions with trading securities and foreign currencies	8	481	477	661	661
Other operating income	9	120	21	18	4
<b>TOTAL OPERATING INCOME</b>		<b>3 915</b>	<b>3 710</b>	<b>2 265</b>	<b>2 253</b>
Administrative expenses	10	(2 547)	(2 447)	(1 468)	(1 458)
Depreciation and amortisation	20,21	(211)	(176)	(148)	(145)
Other operating expenses		(75)	(69)	(27)	(26)
Impairment losses	11	(98)	(67)	(95)	(95)
Release of impairment losses	11	95	95	-	-
Long-term asset revaluation	18	-	4	-	(2)
<b>NET INCOME BEFORE CORPORATE INCOME TAX</b>		<b>1 079</b>	<b>1 050</b>	<b>527</b>	<b>527</b>
Corporate income tax	12	(141)	(141)	(12)	(12)
Deferred tax	28	(47)	(39)	-	-
<b>NET INCOME</b>		<b>891</b>	<b>870</b>	<b>515</b>	<b>515</b>

The accompanying notes on pages 11 to 40 form an integral part of these financial statements.

The financial statements on pages 6 to 40 have been authorised for issue by the Supervisory Council and Management Board on 13 March 2006, and signed on their behalf by:

\_\_\_\_\_  
Chairman of the Council  
Jurij Pikush

\_\_\_\_\_  
Chairman of the Board  
Oleksandr Trubakov

**AS PARITATE BANKA**  
**CONSOLIDATED AND BANK ANNUAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2005**

**BALANCE SHEET**

(all amounts are in thousands of lats)

	Notes	2005		2004	
		Group	Bank	Group	Bank
<b>ASSETS</b>					
Cash and balances due from the Bank of Latvia	13	6 569	6 569	1 776	1 776
Due from credit and financial institutions	14	30 096	30 096	46 852	46 852
<i>On demand</i>		5 352	5 352	15 570	15 570
<i>Other</i>		24 744	24 744	31 282	31 282
Loans	15	30 839	31 361	5 765	5 967
Financial assets at fair value through profit or loss	16	103	103	104	104
Shares and other non-fixed income securities	17	1	1	1	1
Long-term investments in subsidiaries	18	-	16	-	10
Derivative assets	19	87	87	58	58
Intangible assets	20	67	55	14	14
Fixed assets	21	1 270	936	478	345
Prepayments and accrued income	22	333	262	75	77
Other assets	23	614	102	276	101
<b>Total assets</b>		<b>69 979</b>	<b>69 588</b>	<b>55 399</b>	<b>55 305</b>

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Chairman of the Board  
Oleksandr Trubakov

**AS PARITATE BANKA**  
**CONSOLIDATED AND BANK ANNUAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2005**

**BALANCE SHEET**

(all amounts are in thousands of lats)

	Notes	2005		2004	
		Group	Bank	Group	Bank
<b>LIABILITIES</b>					
Due to credit institutions	24	3 388	3 388	5 089	5 089
<i>On demand</i>		1 710	1 710	3 747	3 747
<i>Term deposit</i>		1 678	1 678	1 342	1 342
Customer deposits	25	58 755	58 836	44 792	44 807
<i>Current</i>		50 033	50 114	36 201	36 216
<i>Term deposit</i>		8 722	8 722	8 591	8 591
Derivative liabilities	19	21	21	71	71
Deferred income and accrued expenses	26	588	524	185	184
Provisions	27	122	102	33	33
Other liabilities	29	1 358	991	373	265
<b>Total liabilities</b>		<b>64 232</b>	<b>63 862</b>	<b>50 543</b>	<b>50 449</b>
<b>SHAREHOLDERS' EQUITY</b>					
Share capital	30	3 550	3 550	3 550	3 550
Reserve capital		3 669	3 669	3 654	3 654
Accumulated deficit		(2 363)	(2 363)	(2 863)	(2 863)
Profit for the year		891	870	515	515
<b>Total shareholders' equity</b>		<b>5 747</b>	<b>5 726</b>	<b>4 856</b>	<b>4 856</b>
<b>Total liabilities and shareholders' equity</b>		<b>69 979</b>	<b>69 588</b>	<b>55 399</b>	<b>55 305</b>
<b>OFF BALANCE SHEET ITEMS</b>					
Contingent liabilities (guarantees)		254	254	74	74
Financial commitments (loans)		920	1 049	-	-

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**AS PARITATE BANKA**  
**CONSOLIDATED AND BANK ANNUAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2005**

**CASH FLOW**

(all amounts are in thousands of lats)

	Notes	2005		2004	
		Group	Bank	Group	Bank
<b>Cash flow from operating activities</b>					
Net profit before tax		1 079	1 050	527	527
Depreciation and amortisation		211	176	148	145
Impairment losses		3	(28)	95	95
Loss from revaluation of investment in subsidiary		-	(4)	-	2
Revaluation (gain)/loss of financial assets at fair value through profit or loss		1	1	1	1
Loss on disposals		42	42	-	-
Foreign exchange revaluation (gain)/loss		8	10	9	9
<b>Increase in cash and cash equivalents used in operating activities before changes in operating assets and liabilities</b>		<b>1 344</b>	<b>1 247</b>	<b>780</b>	<b>779</b>
Other assets (increase)		(341)	(1)	(189)	(14)
Prepayments and accrued income (increase)/decrease		(258)	(185)	28	26
(Increase)/decrease in derivative assets/ liabilities		(79)	(79)	16	16
Other liabilities increase		985	726	277	169
Provisions and accrued expenses increase		322	247	111	110
(Increase)/decrease in due from credit institutions		6 957	6 957	(13 374)	(13 374)
(Increase) in loans		(25 074)	(25 366)	(3 232)	(3 434)
Due to credit institutions increase		1 678	1 678	-	-
Increase in deposits from the public		13 963	14 029	24 694	24 709
<b>Net increase in cash and cash equivalents from operating activities</b>		<b>(503)</b>	<b>(747)</b>	<b>9 111</b>	<b>8 987</b>
<b>Paid income tax</b>		<b>(18)</b>	<b>(18)</b>	<b>-</b>	<b>-</b>
<b>Cash inflow / outflow from investing activities</b>					
(Purchase) of fixed and intangible assets		(1 098)	(850)	(338)	(202)
Investment in subsidiary		-	(2)	-	(12)
<b>Decrease in cash and cash equivalents from investing activities</b>		<b>(1 098)</b>	<b>(852)</b>	<b>(338)</b>	<b>(214)</b>
<b>Increase in cash and cash equivalents</b>		<b>(1 619)</b>	<b>(1 617)</b>	<b>8 773</b>	<b>8 773</b>
<b>Cash and cash equivalents at the beginning of the year</b>		<b>20 226</b>	<b>20 226</b>	<b>11 462</b>	<b>11 462</b>
(Loss) from revaluation of foreign currency positions		(8)	(10)	(9)	(9)
<b>Cash and cash equivalents, end of the year</b>	31	<b>18 599</b>	<b>18 599</b>	<b>20 226</b>	<b>20 226</b>

The accompanying notes on pages 11 to 40 form an integral part of these financial statements.

The financial statements on pages 6 to 40 have been authorised for issue by the Supervisory Council and Management Board on 13 March 2006, and signed on their behalf by:

Chairman of the Council  
 Jurij Pikuš

Chairman of the Board  
 Oleksandr Trubakov

**AS PARITATE BANKA**  
**CONSOLIDATED AND BANK ANNUAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2005**

**CHANGES IN SHAREHOLDERS' EQUITY**

(all amounts are in thousands of lats)

**Group**

	<b>Share capital</b>	<b>Reserve capital</b>	<b>Accumulated deficit</b>	<b>Total</b>
<b>As of 31 December 2003</b>	<b>3 550</b>	<b>3 644</b>	<b>(2 853)</b>	<b>4 341</b>
Profit	-	-	515	515
Reserve capital	-	10	(10)	-
<b>As of 31 December 2004</b>	<b>3 550</b>	<b>3 654</b>	<b>(2 348)</b>	<b>4 856</b>
Transfer to reserve capital	-	15	(15)	-
Profit	-	-	891	891
<b>As of 31 December 2005</b>	<b>3 550</b>	<b>3 669</b>	<b>(1 472)</b>	<b>5 747</b>

**Bank**

	<b>Share capital</b>	<b>Reserve capital</b>	<b>Accumulated deficit</b>	<b>Total</b>
<b>As of 31 December 2003</b>	<b>3 550</b>	<b>3 644</b>	<b>(2 853)</b>	<b>4 341</b>
Profit	-	-	515	515
Reserve capital	-	10	(10)	-
<b>As of 31 December 2004</b>	<b>3 550</b>	<b>3 654</b>	<b>(2 348)</b>	<b>4 856</b>
Transfer to reserve capital	-	15	(15)	-
Profit	-	-	870	870
<b>As of 31 December 2005</b>	<b>3 550</b>	<b>3 669</b>	<b>(1 493)</b>	<b>5 726</b>

The accompanying notes on pages 11 to 40 form an integral part of these financial statements.

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\_\_\_\_\_  
 Chairman of the Council  
 Jurij Pikush

\_\_\_\_\_  
 Chairman of the Board  
 Oleksandr Trubakov

**NOTES TO THE FINANCIAL STATEMENTS**

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**1 GENERAL INFORMATION**

AS Paritāte Banka (“the Bank”) was established on 13 August 1992, when it was incorporated in the Republic of Latvia as a joint stock company. Subject to the banking licence issued by the Bank of Latvia on 31 July 1992 (reissued on 17 September 1998), the Bank is allowed to engage in all types of banking activities foreseen by the Law on Credit Institutions.

As at the date of financial statements, the Bank’s network of branches consists of 4 branches and 11 settlement groups. The Bank provides a wide range of services to its customers via subsidiaries.

SIA “DigiPro” was registered with the Commercial Registry on 18 March 2003 as SIA “Paritate-on-line”. As of 6 July 2004, the Bank holds 100% of SIA “DigiPro” shares. The primary activities of SIA “DigiPro” are sales of electronic products via POS terminals, and ensuring card settlements in POS terminals.

In June 2004, the Bank established SIA “Paritate Līzings” which is primarily engaged in financial and operating lease activities.

In March 2005, the Bank acquired 100% shares of SIA “PARITATE Consulting”.

The Bank and subsidiaries (together “the Group”) are presented together in these consolidated and Bank financial statements.

***Regulatory requirements***

The Bank is subject to the laws of the Republic of Latvia “On Credit Institutions”, “On Joint Stock Companies”, “Commercial Law” and the regulatory requirements of the Financial and Capital Market Commission. These requirements, among others, include capital adequacy, minimum equity requirements, liquidity, foreign currency position, loan concentration and compliance with other applicable requirements.

**2 ACCOUNTING POLICIES**

**(1) Statement of compliance**

The Bank’s accounting is carried out in accordance with the legislation of the Republic of Latvia, and regulations defined for Latvian commercial banks. The financial year is the calendar year.

Financial statements have been prepared on the historical cost basis of accounting or fair value, as appropriate, as disclosed below in accordance with International Financial Reporting Standards (IFRS).

Financial statements are prepared on a fair value basis for derivative financial instruments, financial assets and liabilities at fair value through profit or loss and available-for-sale assets, except those for which a reliable measure of fair value is not available. Other financial assets and liabilities and non-financial assets and liabilities are stated at amortised cost or historical cost.

The accounting policies used for the preparation of financial statements are consistent with those used in the financial statements for the year ended 31 December 2004.

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.

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

NOTES TO THE FINANCIAL STATEMENTS

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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 loan loss impairment allowances.

**(2) Consolidation**

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

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

**(3) Foreign currency translation**

The currency of the Republic of Latvia, LVL, is the functional and reporting currency of the Bank. Transactions denominated in foreign currency are recorded in LVL at the rate ruling on the date of the transaction. All assets and liabilities, including off balance sheet claims and liabilities, denominated in foreign currencies are translated into Latvian lats (LVL) using the period end rates of exchange published by the Bank of Latvia. Gains and losses arising from this translation are included in the profit or loss statement for the period. Exchange differences arising from the settlement in lats of transactions denominated in foreign currency are included in the results of operations at the time of settlement using the exchange rate ruling on that date.

The applicable rates for the principal currencies held by the Bank were as follows:

31 December 2005		31 December 2004	
1 USD	=	LVL 0.5930	1 USD = LVL 0.5160
1 EUR	=	LVL 0.7028	1 EUR = LVL 0.7030
1 GBP	=	LVL 1.0210	1 GBP = LVL 0.9960
1 SEK	=	LVL 0.0747	1 SEK = LVL 0.0782
1 DKK	=	LVL 0.0942	1 DKK = LVL 0.0944

**(4) Financial instruments**

**Classification**

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

**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 advances to banks and customers and certain debt investments.

**NOTES TO THE FINANCIAL STATEMENTS**

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*Available-for-sale assets* are financial assets that are not held for trading purposes, originated by the Bank, or held to maturity. Available-for-sale instruments include money market placements and certain debt and equity investments.

*Originated loans and receivables* are loans and receivables issued by the Bank to provide cash to a debtor other than those made with the intention of short-term profit taking. Originated loans and receivables comprise loans and advances to banks and customers other than purchased loans as well as bonds purchased at original issuance.

All regular way purchases and sales of investment securities are recognized at the settlement date, which is the date that an asset is delivered to or by an enterprise.

***Measurement***

Financial instruments are measured initially at fair value, including transaction costs.

Subsequent to initial recognition all financial assets at fair value through profit or loss and all available-for-sale assets are measured at fair value, except that any instrument that does not have a quoted market price in an active market and whose fair value cannot be reliably measured is stated at cost, including transaction costs, less impairment losses. Changes in fair value are recognized in the income statement.

All non-trading financial liabilities, originated loans and receivables and held-to-maturity assets are measured at amortized cost in accordance with the effective interest rate method. All instruments are subject to revaluation relating to impairment.

Changes to the value of financial assets at fair value through profit or loss are recognised in the income statement for the period. Changes to the value of available-for-sale assets are recognized directly in equity.

***Derecognition***

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

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

**(5) Income recognition**

All significant income and expense categories are recognised on an accrual basis.

Interest income and expense are recognised in the income statement as they accrue, taking into account the effective yield of the asset/liability. Interest income and expense include the amortisation of any discount or premium or other differences between the initial carrying amount of an interest bearing instrument and its amount at maturity calculated on an effective interest rate basis.

Recognition of interest income is discontinued when there is uncertainty regarding the repayment of interest or principal. Accrued interest income is calculated for standard loans and watch loans.

Fees and commissions (excluding commissions for long-term loans issued) are accounted for when collected or incurred. Income and expense that refer to the accounting period are reflected in the income statement regardless of the date of receipt or payment.

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

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**(6) Investments in subsidiaries**

Investments in subsidiaries are carried at cost in the Bank's financial statements. The Bank recognizes income from the investment only to the extent that the Bank receives distributions from accumulated profits of the subsidiary arising after the date of acquisition.

**(7) Impairment**

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

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. All impairment losses are recognized in the income statement.

**(8) 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. The recoverable amount of the Bank's financial assets at fair value through profit or loss 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.

**(9) Interest bearing liabilities**

Interest-bearing borrowings are recognised initially at fair value, less any transaction costs incurred. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings. When borrowings are repurchased or settled before maturity, any difference between the amount repaid and the carrying amount is recognised immediately in the income statement.

**(10) Fixed assets and depreciation**

Fixed assets are recorded at cost, less accumulated depreciation. Depreciation is provided on a straight-line basis. The annual rates of fixed asset depreciation are:

Furniture and fittings	20 %
Computers and equipment	33 %
Network equipment and servers	25 %
Computer software	50 %
Motor vehicles	20 %

Gains and losses on disposals of fixed assets are recognised in the income statement in the period of disposal. Repair and maintenance costs are charged to the income statement as incurred. Capital repairs of fixed assets are added to fixed assets at cost.

Useful lives, residual values and depreciation methods are reviewed annually.

NOTES TO THE FINANCIAL STATEMENTS

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**(11) Taxation**

Corporate income tax at the rate of 15% is calculated in accordance with Latvian tax regulations and is based on the taxable profit reported for the taxation period.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities using tax rates enacted or substantively enacted at the balance sheet date. The principal temporary differences arise from the differing rates and methods used for accounting and tax depreciation on tangible fixed assets and accruals.

Deferred tax assets are only recognized to the extent that it is probable that the future taxable profit will be available against which the temporary differences can be utilized.

**(12) Cash and cash equivalents**

Cash and cash equivalents comprise cash and deposits with the Bank of Latvia and other credit institutions with original maturity of less than 3 months less balances due to the Bank of Latvia and credit institutions with original maturity of less than 3 months. The balances under sale and repurchase agreements are not included in the cash and cash equivalents.

**(13) Leases**

*Finance lease*

A finance lease is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset. Title may or may not eventually be transferred.

When assets are leased out under a finance lease, the net investment in finance lease is recognized as a receivable. The net investment in finance lease represents the difference between the gross receivable and the unearned finance income.

*Operating lease*

An operating lease is a lease other than a finance lease.

Assets leased out under an operating lease, are presented within property, plant and equipment in the balance sheet, less accumulated depreciation. They are depreciated over their expected useful lives on a basis consistent with similar owned property, plant and equipment.

**3 RISK MANAGEMENT**

Within the framework of internal control system, the Bank has developed and follows the Risk Management Policy or fundamental principles which are defined below:

- 1) general guidelines observed by the Bank in its activities aimed at decreasing all types of risks which may lead to losses;
- 2) description of risk transactions and other risks to which the Bank is exposed;
- 3) general daily control of risk transactions and management of transaction related risks.

The Risk Management Policy describes and determines the aggregate of measures to ensure that the possibility to suffer losses is minimised in the event the invested resources are not repaid in due time or Bank suffers other losses. The Board and the Council of the Bank have approved the Risk Management Policy as well as other policies related to risk management referred to herein. The Bank's Board supervises

**NOTES TO THE FINANCIAL STATEMENTS**

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the Risk Management System, but the structural units of the respective sectors are responsible for the daily activities. The Risk Management System controlled by the Internal Audit Division on a regular basis is being continuously developed pursuant to the development of the Bank and activities in the financial markets.

***Interest Rate, Liquidity and Foreign Currency Risk***

The Bank is exposed to interest rate risk originating from the possible changes in interest rates for the Bank's domestic and foreign assets and liabilities. The control and management of interest rate risk is defined in the Interest Risks Management Policy. The control and management of interest rate risk is the responsibility of the Financial Market Department. The Financial Market Department co-ordinates the activities of structural units related to the management of interest rate risk and plans the activities of the Bank in this respect.

The control and management of liquidity risk is defined in the Liquidity Management Policy elaborated by the Bank, which describes the risks to the Bank's ability to redeem legally valid claims of its customers and creditors.

For the purposes of control and management of foreign currency risk, the Bank has developed the Currency Risk Management Policy. The Financial Market Department ensures monitoring in order to avoid losses incurred by changes to currency exchange rates. The Finance, Accounting and Analysis Department constantly supervises whether the established restrictions on foreign currency positions are observed.

***Credit Risk***

Management and control of credit risk is defined in the Credit Policy of the Bank. Credit risk is the risk of debtors not meeting their liabilities in due time or in full amount. The Board of the Bank and the Credit Committee manage credit risk, whereas the Loans Department constantly monitors the related procedures and limits.

***Other Operational Risks***

There are also other risks identified in the operation of the Bank, which may result in unexpected losses. The reasons of such risks may be, for example, human mistake or fraud, disturbances in the operation of information systems, insufficient internal control and procedures. The Bank's Board and the respective structural units of the Bank perform supervision and control of the aforementioned risks. The Bank maintains the resources necessary for ensuring operational continuity.

NOTES TO THE FINANCIAL STATEMENTS

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**4 INTEREST INCOME**

	2005		2004	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Due from credit and financial institutions	1 397	1 397	827	827
Loans	1 040	980	249	252
Investments in securities	6	6	6	6
Other	60	39	4	3
	<b>2 503</b>	<b>2 422</b>	<b>1 086</b>	<b>1 088</b>

**5 INTEREST EXPENSE**

	2005		2004	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Customer deposits	558	558	294	294
Due to credit institutions	82	82	19	19
Other	111	111	66	66
	<b>751</b>	<b>751</b>	<b>379</b>	<b>379</b>

**6 FEE AND COMMISSION INCOME**

	2005		2004	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Account servicing fees	1 641	1 643	915	915
Asset management fees	112	112	126	126
Other	478	455	230	230
	<b>2 231</b>	<b>2 210</b>	<b>1 271</b>	<b>1 271</b>

NOTES TO THE FINANCIAL STATEMENTS

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7 FEE AND COMMISSION EXPENSE

	2005		2004	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Commission fee for transfers	592	592	319	319
Commission fee for credit card servicing	64	64	60	60
Other	13	13	13	13
	<u>669</u>	<u>669</u>	<u>392</u>	<u>392</u>

8 PROFIT FROM TRANSACTIONS WITH TRADING SECURITIES AND FOREIGN CURRENCIES

	2005		2004	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Gain from operations with foreign currencies	483	481	317	317
Gain from operations with securities	-	-	354	354
(Loss) from foreign currency revaluation	(8)	(10)	(9)	(9)
Gain/(loss) from securities accounted through profit and loss at fair value	6	6	(1)	(1)
	<u>481</u>	<u>477</u>	<u>661</u>	<u>661</u>

9 OTHER OPERATING INCOME

	2005		2004	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Other income of subsidiaries, net				
SIA Digipro	79	-	15	-
SIA Paritate Consulting	22	-	-	-
Other income	19	21	3	4
	<u>120</u>	<u>21</u>	<u>18</u>	<u>4</u>

NOTES TO THE FINANCIAL STATEMENTS

10 ADMINISTRATIVE EXPENSES

	2005		2004	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Salary of members of the Council and the Board	127	124	118	117
Employees salary	1 078	1 028	610	606
Social taxes	274	265	165	164
Advertising and marketing	266	266	130	130
Office maintenance and repair	223	223	135	135
Communication expense	216	207	169	169
Transportation and business trips	55	55	36	36
Professional services	53	51	13	12
Legal fees	28	28	17	17
Employees training	7	7	3	3
Other	220	193	72	69
	<b>2 547</b>	<b>2 447</b>	<b>1 468</b>	<b>1 458</b>

The average number of employees during 2005 was 184 (113 in 2004).

11 IMPAIRMENT LOSSES

Group

	Loans LVL'000	Other assets LVL'000	Total LVL'000
<b>Allocation of impairments losses, as of 31 December 2004</b>	<b>95</b>	<b>-</b>	<b>95</b>
Impairment losses	95	3	98
Reversal of specific impairment losses	(95)	-	(95)
Recovery of assets previously written-off	(2)	-	(2)
<b>Allocation of impairment losses, as of 31 December 2005</b>	<b>93</b>	<b>3</b>	<b>96</b>

Bank

	Loans LVL'000	Other assets LVL'000	Total LVL'000
<b>Allocation of impairment losses, as of 31 December 2004</b>	<b>95</b>	<b>-</b>	<b>95</b>
Impairment losses	67	-	67
Reversal of specific impairment losses	(95)	-	(95)
Recovery of assets previously written-off	(2)	-	(2)
<b>Allocation of impairment losses, as of 31 December 2005</b>	<b>65</b>	<b>-</b>	<b>65</b>

NOTES TO THE FINANCIAL STATEMENTS

12 CORPORATE INCOME TAX

	2005		2004	
	Group	Bank	Group	Bank
Corporate income tax for the year	141	141	12	12
Deferred corporate income tax	47	39	-	-
<b>Total tax expense</b>	<b>188</b>	<b>180</b>	<b>12</b>	<b>12</b>

The table below shows the reconciliation between total tax expense and theoretical amount that would arise using basic tax rate, which was 15% in 2005 (15% in 2004):

	2005		2004	
	Group	Bank	Group	Bank
Profit before taxation	1079	1 050	527	527
Expected tax calculation at tax rate 15%	162	158	79	79
Adjustment for expenses not deductible for tax purposes	2	1	1	1
Adjustment for gain from revaluation of public securities	(1)	(1)	(55)	(55)
Prior year deferred tax not provided	23	17	-	-
Adjustment for foreign withholding tax	5	5	1	1
Effect of tax losses not recognized prior years	(3)	-	(14)	(14)
<b>Total tax expense</b>	<b>188</b>	<b>180</b>	<b>12</b>	<b>12</b>

13 CASH AND BALANCES DUE FROM THE BANK OF LATVIA

	2005		2004	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Cash	916	916	255	255
Balance due from the Bank of Latvia	5 653	5 653	1 521	1 521
	<b>6 569</b>	<b>6 569</b>	<b>1 776</b>	<b>1 776</b>

Balances with the Bank of Latvia are funds in clearing and short-term deposits.

In accordance with regulations set by the Financial and Capital Market Commission, the Bank's cash and current account balance with the Central Bank of Latvia should not be less than the required reserves calculated on basis of the average monthly customer deposits. The Bank has complied with the aforementioned requirements in 2005.

NOTES TO THE FINANCIAL STATEMENTS

14 DUE FROM CREDIT AND FINANCIAL INSTITUTIONS

	2005		2004	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Correspondent accounts				
with domestic banks	1 508	1 508	5 733	5 733
with OECD credit and financial institutions	2 378	2 378	6 897	6 897
with other countries credit institutions	1 466	1 466	2 940	2 940
	<b>5 352</b>	<b>5 352</b>	<b>15 570</b>	<b>15 570</b>
Term placements				
with domestic banks	1 272	1 272	280	280
with OECD banks	22 399	22 399	30 068	30 068
with other countries credit institutions	1 073	1 073	934	934
	<b>24 744</b>	<b>24 744</b>	<b>31 282</b>	<b>31 282</b>
	<b>30 096</b>	<b>30 096</b>	<b>46 852</b>	<b>46 852</b>

Correspondent accounts include amounts due from Deutsche Bank (Bankers Trust) amounting to USD 170 thousand or LVL 101 thousand which are not included in the calculation of cash and cash equivalents due to such amounts being frozen at 31 December 2005. Bank management does not consider the frozen accounts at risk since the frozen customer accounts in deposits exceed the blocked amount in the correspondent account with Deutsche Bank (Bankers Trust) of USD 189 thousand or LVL 112 thousand at 31 December 2005.

**Concentration of due from credit institutions balances**

As at 31 December 2005 and 2004, the Bank had 3 balances due from credit institutions, which individually comprised more than 10% of deposits and balances placed with banks and other financial institutions. The gross value of these balances due from credit institutions as of 31 December 2005 and 2004 was LVL 19 035 thousand and LVL 29 980 thousand, respectively.

15 LOANS

Loans are allocated as follows:

(a) by the term of the loan:

	2005		2004	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Within one year	1 106	1 535	310	310
After one year	29 826	29 891	5 550	5 752
	<b>30 932</b>	<b>31 426</b>	<b>5 860</b>	<b>6 062</b>
Allowance for impairment losses	(93)	(65)	(95)	(95)
	<b>30 839</b>	<b>31 361</b>	<b>5 765</b>	<b>5 967</b>

(b) type of loan:

	2005		2004	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Private companies	10 895	13 404	2 435	2 637
Individuals	20 037	18 022	3 425	3 425
	<b>30 932</b>	<b>31 426</b>	<b>5 860</b>	<b>6 062</b>
Allowance for impairment losses	(93)	(65)	(95)	(95)
	<b>30 839</b>	<b>31 361</b>	<b>5 765</b>	<b>5 967</b>

NOTES TO THE FINANCIAL STATEMENTS

(c) composition of the loan portfolio by industry types:

	2005		2004	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Commercial loans	6 667	11 191	1 980	2 182
Consumer loans	4 156	125	85	85
Employees	537	537	58	58
Mortgage loans	15 674	15 674	2 239	2 239
Other	3 898	3 899	1 498	1 498
	<b>30 932</b>	<b>31 426</b>	<b>5 860</b>	<b>6 062</b>
Allowance for impairment losses	(93)	(65)	(95)	(95)
	<b>30 839</b>	<b>31 361</b>	<b>5 765</b>	<b>5 967</b>

(d) the geographical segmentation of the loans:

	2005		2004	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Residents of Latvia	28 771	29 265	4 946	5 148
Residents of OECD countries	175	175	57	57
Residents of the other countries	1 986	1 986	857	857
	<b>30 932</b>	<b>31 426</b>	<b>5 860</b>	<b>6 062</b>
Allowance for impairment losses	(93)	(65)	(95)	(95)
	<b>30 839</b>	<b>31 361</b>	<b>5 765</b>	<b>5 967</b>

The average loan interest rates in 2005 and 2004 amounted to 7% and 9% respectively.

**Significant credit exposures**

As at 31 December 2005 and 2004 the Bank had 1 borrower (groups of related borrowers), whose loan balances exceeded 10% of loans issued to customers. The gross value of these loans as of 31 December 2005 and 2004 were LVL 6 805 thousand and LVL 805 thousand, respectively.

**16 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS**

	Issue date	Maturity	% rate	2005	2004
				LVL'000	LVL'000
Republic of Latvia debt securities	08.05.2002	08.05.2007	5.625	103	104
				<b>103</b>	<b>104</b>

NOTES TO THE FINANCIAL STATEMENTS

17 SHARES AND OTHER NON-FIXED INCOME SECURITIES

	2005		2004	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
SWIFT shares	<u>1</u>	<u>1</u>	<u>1</u>	<u>1</u>
	<u><b>1</b></u>	<u><b>1</b></u>	<u><b>1</b></u>	<u><b>1</b></u>

18 LONG -TERM INVESTMENTS IN SUBSIDIARIES

As at 31 December 2005 and 2004 the Bank had investment in:

	2005		2004	
	LVL'000	Shareholding rights %	LVL'000	Shareholding rights %
SIA Paritate Lizings	10	100	10	100
Impairment of SIA Paritate Lizings	-		(2)	
SIA Digipro	4	100	4	100
Impairment of SIA Digipro	-		(2)	
SIA Paritate Consulting	<u>2</u>	100	<u>-</u>	
	<u><b>16</b></u>		<u><b>10</b></u>	

19 DERIVATIVE ASSETS AND LIABILITIES

LVL'000	Notional amount		Fair value			
	31.12.2005	31.12.2004	Assets		Liabilities	
			31.12.2005	31.12.2004	31.12.2005	31.12.2004
Forward currency exchange agreements	<u>9 334</u>	<u>4 664</u>	<u>87</u>	<u>58</u>	<u>21</u>	<u>71</u>
<b>Total</b>	<u><b>9 334</b></u>	<u><b>4 664</b></u>	<u><b>87</b></u>	<u><b>58</b></u>	<u><b>21</b></u>	<u><b>71</b></u>

NOTES TO THE FINANCIAL STATEMENTS

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**20 INTANGIBLE ASSETS**

**Group**

	<b>2005</b>
	<b>LVL'000</b>
Historical cost	
<b>As of 31 December 2004</b>	<b>126</b>
Additions	61
<b>As of 31 December 2005</b>	<b>187</b>
Accumulated amortisation	
<b>As of 31 December 2004</b>	<b>112</b>
Amortization	8
<b>As of 31 December 2005</b>	<b>120</b>
Net book value	
<b>As of 31 December 2004</b>	<b>14</b>
<b>As of 31 December 2005</b>	<b>67</b>

**Bank**

	<b>2005</b>
	<b>LVL'000</b>
Historical cost	
<b>As of 31 December 2004</b>	<b>126</b>
Additions	47
<b>As of 31 December 2005</b>	<b>173</b>
Accumulated amortisation	
<b>As of 31 December 2004</b>	<b>112</b>
Amortization	6
<b>As of 31 December 2005</b>	<b>118</b>
Net book value	
<b>As of 31 December 2004</b>	<b>14</b>
<b>As of 31 December 2005</b>	<b>55</b>

Intangible assets comprise software licences.

NOTES TO THE FINANCIAL STATEMENTS

**21 FIXED ASSETS**

**Group**

LVL'000	Leasehold improvements	Vehicles	Office Equipment	Construction in progress	Advances for FA	Total
Historical cost						
<b>As of 31 December 2004</b>	<b>60</b>	<b>32</b>	<b>1 360</b>	<b>77</b>	<b>47</b>	<b>1 576</b>
Additions	110	81	663	105	78	1 037
Disposals	-	-	(38)	(9)	(33)	(80)
<b>As of 31 December 2005</b>	<b>170</b>	<b>113</b>	<b>1 985</b>	<b>173</b>	<b>92</b>	<b>2 533</b>
Accumulated depreciation						
<b>As of 31 December 2004</b>	<b>29</b>	<b>18</b>	<b>1 051</b>	-	-	<b>1 098</b>
Charge for the year	27	14	162	-	-	203
Disposals	-	-	(38)	-	-	(38)
<b>As of 31 December 2005</b>	<b>56</b>	<b>32</b>	<b>1 175</b>	-	-	<b>1 263</b>
Net book value						
<b>As of 31 December 2004</b>	<b>31</b>	<b>14</b>	<b>309</b>	<b>77</b>	<b>47</b>	<b>478</b>
<b>As of 31 December 2005</b>	<b>114</b>	<b>81</b>	<b>810</b>	<b>173</b>	<b>92</b>	<b>1 270</b>

**Bank**

LVL'000	Leasehold improvements	Vehicles	Office Equipment	Construction in progress	Advances for FA	Total
Historical cost						
<b>As of 31 December 2004</b>	<b>60</b>	<b>32</b>	<b>1 299</b>	<b>2</b>	<b>47</b>	<b>1 440</b>
Additions	105	42	446	142	68	803
Disposals	-	-	(38)	(9)	(33)	(80)
<b>As of 31 December 2005</b>	<b>165</b>	<b>74</b>	<b>1 707</b>	<b>135</b>	<b>82</b>	<b>2 163</b>
Accumulated depreciation						
<b>As of 31 December 2004</b>	<b>29</b>	<b>18</b>	<b>1 048</b>	-	-	<b>1 095</b>
Charge for the year	26	12	132	-	-	170
Disposals	-	-	(38)	-	-	(38)
<b>As of 31 December 2005</b>	<b>55</b>	<b>30</b>	<b>1 142</b>	-	-	<b>1 227</b>
Net book value						
<b>As of 31 December 2004</b>	<b>31</b>	<b>14</b>	<b>251</b>	<b>2</b>	<b>47</b>	<b>345</b>
<b>As of 31 December 2005</b>	<b>110</b>	<b>44</b>	<b>565</b>	<b>135</b>	<b>82</b>	<b>936</b>

NOTES TO THE FINANCIAL STATEMENTS

22 PREPAYMENTS AND ACCRUED INCOME

	2005		2004	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Prepayments	115	45	8	8
Accrued interest income	157	156	54	56
Deferred expenses	61	61	13	13
	<b>333</b>	<b>262</b>	<b>75</b>	<b>77</b>

23 OTHER ASSETS

	2005		2004	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Office supplies	42	42	37	37
Unrealised gains from SPOT transactions	13	13	4	4
Inventory	89	-	57	-
Accounts receivable	374	-	85	-
Other	99	47	93	60
Allowance for impairment losses	(3)	-	-	-
	<b>614</b>	<b>102</b>	<b>276</b>	<b>101</b>

24 DUE TO CREDIT INSTITUTIONS

	2005		2004	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Domestic banks	909	909	3 424	3 424
OECD credit institutions	8	8	-	-
Non-OECD credit institutions	2 471	2 471	1 665	1 665
	<b>3 388</b>	<b>3 388</b>	<b>5 089</b>	<b>5 089</b>

**Concentration of due to credit institutions**

As of 31 December 2005 and 2004 the Bank had 3 and 2 balance due to credit institutions, respectively, which individually comprised more than 10% of received deposits and current account balances to banks and other financial institutions. The gross value of these balances due to credit institutions as of 31 December 2005 and 2004 were LVL 3 201 thousand and LVL 4 558 thousand, respectively.

NOTES TO THE FINANCIAL STATEMENTS

25 CUSTOMER DEPOSITS

	2005		2004	
	Group LVL'000	Bank LVL'000	Group LVL'00	Bank LVL'000
<b>Current deposits</b>				
Residents:				
State enterprises	168	168	107	107
Private companies	1 998	2 079	516	531
Individuals	2 281	2 281	595	595
Non-residents:				
OECD residents	32 753	32 753	25 681	25 681
Residents of other countries	12 833	12 833	9 302	9 302
<b>Total current deposits</b>	<b>50 033</b>	<b>50 114</b>	<b>36 201</b>	<b>36 216</b>
<b>Term deposits</b>				
Residents:				
State enterprises	300	300	50	50
Individuals	6 353	6 353	2 883	2 883
Private companies	180	180	736	736
Non-residents:				
OECD residents	689	689	3 945	3 945
Residents of other countries	1 200	1 200	977	977
<b>Total term deposits</b>	<b>8 722</b>	<b>8 722</b>	<b>8 591</b>	<b>8 591</b>
<b>Total customer deposits</b>	<b>58 755</b>	<b>58 836</b>	<b>44 792</b>	<b>44 807</b>

	2005		2004	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
<b>The maturity structure of customer deposits as per agreement term at 31 December 2005 was as follows:</b>				
Current accounts due on demand	50 033	50 114	36 201	36 216
Term deposits:				
until 3 months	1 388	1 388	4 718	4 718
within 3 to 6 months	379	379	354	354
from 6 months to one year	3 983	3 983	2 094	2 094
More than one year	2 972	2 972	1 425	1 425
<b>Total current and term deposit accounts</b>	<b>58 755</b>	<b>58 836</b>	<b>44 792</b>	<b>44 807</b>

During each reported period 2005 and 2004 the average interest rate on term deposits was 4.66 % and 4.5%, respectively.

During each reported period 2005 and 2004 the average interest rate on overnight deposits included in current deposit group was 2.5 % and 2.3%, respectively.

NOTES TO THE FINANCIAL STATEMENTS

26 DEFERRED INCOME AND ACCRUED EXPENSES

	2005		2004	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Deferred income	192	133	-	-
Accrued interest expense	128	128	63	63
Corporate income tax liabilities	135	135	12	12
Other expenses	133	128	110	109
	<b>588</b>	<b>524</b>	<b>185</b>	<b>184</b>

27 PROVISIONS

	2005		2004	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Provision for vacation	70	58	33	33
Deferred tax	47	39	-	-
Other	5	5	-	-
	<b>122</b>	<b>102</b>	<b>33</b>	<b>33</b>

28 DEFERRED TAX

Deferred income tax assets and liabilities are attributable to the following items:

	2005		2004	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Provision for vacations	9	9	5	5
Collective impairment	5	-	-	-
Prior years' tax losses	18	-	-	-
Temporary deductible difference related to fixed assets	(79)	(48)	(5)	(5)
<b>Deferred tax as of 31 December 2005</b>	<b>(47)</b>	<b>(39)</b>	<b>-</b>	<b>-</b>

29 OTHER LIABILITIES

	2005		2004	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Unrealised loss from SPOT transactions	51	51	6	6
Unallocated payments	843	843	143	143
Trade payables	350	4	109	-
Other liabilities	114	93	115	116
	<b>1 358</b>	<b>991</b>	<b>373</b>	<b>265</b>

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**30 SHARE CAPITAL**

Share capital consists of common shares entitling equal rights to dividends, liquidation quota and voting rights at the shareholders meeting. Nominal value per share is LVL 1. All shares are fully paid. The largest shareholder of the Bank is Commercial Bank "PrivatBank", the resident of Ukraine.

As of 31 December 2005 the Bank's shareholders were as follows:

Shareholder	Country	Shares LVL	Shareholding rights %	Voting rights
Closed Joint-Stock Commercial Bank "Privatbank"	Ukraine	3 374 882	95.0671	with voting rights
M. Esterovs	USA	174 908	4.9271	with voting rights
J. Aleksandrova (Skvorcova)	Latvia	50	0.0014	with voting rights
A. Laško	Latvia	51	0.0014	with voting rights
V. Bīriņš	Latvia	65	0.0018	with voting rights
O. Trubakov	Ukraine	11	0.0003	with voting rights
O. Mekekechko	Ukraine	11	0.0003	with voting rights
V. Beļskis	Latvija	11	0.0003	with voting rights
R. Pētersons	Latvija	11	0.0003	with voting rights
		<b>3 550 000</b>	<b>100.00</b>	

**31 CASH AND CASH EQUIVALENTS**

	2005		2004	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
Cash and balances with the Bank of Latvia	6 569	6 569	1 776	1 776
Due from credit institutions with maturity less than three months	13 630	13 630	23 430	23 430
Due from financial institutions	110	110	109	109
Due to other credit institutions with maturity less than three months	(1 710)	(1 710)	(5 089)	(5 089)
	<b>18 599</b>	<b>18 599</b>	<b>20 226</b>	<b>20 226</b>

Amounts due from Deutsche Bank (Bankers Trust) of LVL 101 thousand are not included in the calculation of cash and cash equivalents as these amounts are frozen as at 31 December 2005.

**32 ASSETS AND LIABILITIES UNDER MANAGEMENT**

	2005		2004	
	Group LVL'000	Bank LVL'000	Group LVL'000	Bank LVL'000
<b>Managed assets</b>				
Loans granted to OECD residents	297	297	3 352	3 352
Loans granted to residents of other countries	-	-	4 508	4 508
	<b>297</b>	<b>297</b>	<b>7 860</b>	<b>7 860</b>
<b>Structure of customers' funds under management</b>				
Deposits of Latvian residents	-	-	52	52
Deposits of OECD residents	-	-	5 196	5 196
Deposit of residents of other countries	297	297	2 612	2 612
	<b>297</b>	<b>297</b>	<b>7 860</b>	<b>7 860</b>

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As at 31 December 2005, the Bank held and managed customers' funds of LVL 297 thousand and invested in fiduciary loans of LVL 297 thousand at customers' direction. These are not the Bank assets and are not recognized in the balance sheet. The Bank is not exposed to risks relating to such placements, which the ultimate customer bears.

**33 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.

	<b>2005</b>	<b>Annual</b>	<b>2004</b>	<b>Annual</b>
<b>Assets</b>	<b>LVL'000</b>	<b>interest</b>	<b>LVL'000</b>	<b>interest</b>
		<b>rate</b>		<b>rate</b>
Loans to management and board members	107	4.41%	59	6%
PrivatBank balance on correspondent account	337	-	221	-
PrivatBank term deposits	6	2.69%	5	1%
Visa, Privatmoney	7		-	-
Moskomprivat bank deposits	639	-	-	
	<u>1 096</u>		<u>285</u>	
			<b>2004</b>	<b>Annual</b>
			<b>LVL'000</b>	<b>interest</b>
				<b>rate</b>
<b>Liability</b>				
Due to PrivatBank	2	-	-	-
PrivatBank deposits	1 678	5%	-	
	<u>1 680</u>		<u>-</u>	

<b>Profit or loss from transactions with related parties</b>	<b>2005</b>	<b>2004</b>
	<b>LVL'000</b>	<b>LVL'000</b>
Interest income from PrivatBank	6	8
Interest expense to PrivatBank	(6)	(2)
Commission fee from PrivatBank	2	-
	<u>2</u>	<u>6</u>

*In addition the Bank had the following transactions with subsidiaries as at 31 December 2005:*

	<b>2005</b>	<b>Annual</b>	<b>2004</b>	<b>Annual</b>
<b>Assets</b>	<b>LVL'000</b>	<b>interest</b>	<b>LVL'000</b>	<b>interest</b>
		<b>rate</b>		<b>rate</b>
Loan to SIA "Paritate Lizings"	6 428	2.66%	-	-
Loan to SIA "DigiPro"	390	3.36%	-	-
Loan to SIA "Paritate Consulting"	33	4%	-	-
	<u>6 851</u>		<u>-</u>	
	<b>2005</b>	<b>Annual</b>	<b>2004</b>	<b>Annual</b>
		<b>interest</b>		<b>interest</b>

NOTES TO THE FINANCIAL STATEMENTS

<b>Pasīvs</b>	<b>LVL'000</b>	<b>LVL'000</b>	
Due to SIA "Paritate Līzings"	49	-	-
Due to SIA "DigiPro"	28	-	-
Due to SIA "Paritate Consulting"	4	-	-
	<u>81</u>	<u>-</u>	

<b>Profit or loss from transactions with related parties</b>	<b>2005 LVL'000</b>	<b>2004 LVL'000</b>
Interest income from SIA "Paritate Līzings"	14	-
Interest income from SIA "DigiPro"	1	-
Interest income from SIA "Paritate Consulting"	3	-
	<u>18</u>	<u>-</u>

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

**34 CURRENCY EXPOSURE**

In accordance with the Financial and Capital Market Commission regulations, total open position in foreign currencies (Euro exempted) at 31 December 2005 should not exceed 20% of equity determined by the Financial and Capital Market Commission, and the open position in any individual currency should not exceed 10%.

The LVL equivalent of monetary assets and liabilities as of 31 December 2005 according by the currencies in which they are denominated is as follows:

**Group**

<b>LVL'000</b>	<b>Assets</b>	<b>Liabilities</b>	<b>Forward foreign exchange position</b>	<b>Net currency exposure</b>	<b>% of Regulatory Capital</b>
USD	67 086	76 418	9 334	2	0.03
EUR	51 291	46 378	(4 880)	33	0.57
GBP	360	365		(5)	0.09
RUB	2 956	2 792		164	2.85
Other	745	535		210	3.65
<b>Total foreign currency</b>	<b>122 438</b>	<b>126 488</b>	<b>4 454</b>	<b>404</b>	<b>7.01</b>
<b>Total of the long position</b>				<b>409</b>	<b>7.10</b>
<b>Total of the short position</b>				<b>(5)</b>	<b>0.09</b>
<b>Total open position</b>				<b>404</b>	<b>7.01</b>
<b>LVL</b>	<b>(52 459)</b>	<b>(56 509)</b>			
<b>Total</b>	<b>69 979</b>	<b>69 979</b>			

**Bank**

<b>LVL'000</b>	<b>Assets</b>	<b>Liabilities</b>	<b>Forward foreign exchange position</b>	<b>Net currency exposure</b>	<b>% of Regulatory Capital</b>
USD	67 086	76 418	9 334	2	0.03
EUR	47 171	42 278	(4 880)	13	0.23
GBP	360	365		(5)	0.09
RUB	2 956	2 792		164	2.86
Other	745	535		210	3.67
<b>Total foreign currency</b>	<b>118 318</b>	<b>122 388</b>	<b>4 454</b>	<b>384</b>	<b>6.70</b>

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<b>Total of the long position</b>		<b>389</b>	<b>6.79</b>
<b>Total of the short position</b>		<b>(5)</b>	<b>0.09</b>
<b>Total open position</b>		<b>384</b>	<b>6.70</b>
<b>LVL</b>	<b>(48 730)</b>	<b>(52 800)</b>	
<b>Total</b>	<b>69 588</b>	<b>69 588</b>	

35 ASSETS BY GEOGRAPHIC REGION

LVL'000	Group				Bank			
	Latvia	Other OECD	Non-OECD countries	Total	Latvia	Other OECD	Non-OECD countries	Total
<b>Assets</b>								
Cash and balances due from the Bank of Latvia	6 569	-	-	6 569	6 569	-	-	6 569
Financial assets at fair value through profit or loss	103	-	-	103	103	-	-	103
Due from credit and financial institutions	2 780	24 776	2 540	30 096	2 780	24 776	2 540	30 096
Loans	28 678	175	1 986	30 839	29 200	175	1 986	31 361
Long-term investments in subsidiaries	-	-	-	-	16	-	-	16
Derivatives	54	33	-	87	54	33	-	87
Shares	-	1	-	1	-	1	-	1
Intangible assets	67	-	-	67	55	-	-	55
Fixed assets	1 270	-	-	1 270	936	-	-	936
Prepayments and accrued income	333	-	-	333	262	-	-	262
Other assets	614	-	-	614	102	-	-	102
	<b>40 468</b>	<b>24 985</b>	<b>4 526</b>	<b>69 979</b>	<b>40 077</b>	<b>24 985</b>	<b>4 526</b>	<b>69 588</b>
<b>Liabilities</b>								
Due to credit institutions	909	8	2 471	3 388	909	8	2 471	3 388
Customer deposits	11 280	33 442	14 033	58 755	11 361	33 442	14 033	58 836
Derivatives	-	21	-	21	-	21	-	21
Deferred income and accrued expenses	588	-	-	588	524	-	-	524
Provisions	122	-	-	122	102	-	-	102
Other liabilities	1 358	-	-	1 358	991	-	-	991
Shareholders' equity	5 747	-	-	5 747	5 726	-	-	5 726
	<b>20 004</b>	<b>33 471</b>	<b>16 504</b>	<b>69 979</b>	<b>19 613</b>	<b>33 471</b>	<b>16 504</b>	<b>69 588</b>
Off-balance sheet items				1 174				1 303

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36 LIQUIDITY RISK

The table below provides an analysis of assets and liabilities into relevant maturity group based on the remaining period from the balance sheet date to the contractual maturity. The remaining period to maturity of assets and liabilities as of 31 December 2005 was as follows:

Group

	On demand LVL'000	Up to 1 month LVL'000	1 to 3 months LVL'000	3 to 6 months LVL'000	6 months to 1 year LVL'000	From 1 to 5 years LVL'000	More than 5 years LVL'000	Total LVL'000
<b>Assets</b>								
Cash and balances due from the Bank of Latvia	6 569	-	-	-	-	-	-	6 569
Financial assets at fair value through profit or loss	-	103	-	-	-	-	-	103
Due from credit and financial institutions	5 352	2 636	5 752	9 489	6 760	6	101	30 096
Loans	-	167	428	910	4 169	22 666	2 499	30 839
Derivatives	-	76	11	-	-	-	-	87
Shares	-	-	-	-	-	-	1	1
Intangible assets	-	-	-	-	-	-	67	67
Fixed assets	-	-	-	-	-	-	1 270	1 270
Prepayments and accrued income	-	206	5	7	8	107	-	333
Other assets	142	413	26	27	-	4	2	614
<b>Total assets</b>	<b>12 063</b>	<b>3 601</b>	<b>6 222</b>	<b>10 433</b>	<b>10 937</b>	<b>22 783</b>	<b>3 940</b>	<b>69 979</b>
<b>Liabilities</b>								
Due to credit institutions	1 710	-	-	-	1 678	-	-	3 388
Deposits	50 032	531	2 447	1 501	1 684	2 560	-	58 755
Derivatives	-	20	1	-	-	-	-	21
Deferred income and accrued expenses	198	24	105	32	50	179	-	588
Provisions	-	18	-	-	62	42	-	122
Other liabilities	947	411	-	-	-	-	-	1 358
Shareholders' equity	-	-	-	-	-	-	5 747	5 747
<b>Total liabilities</b>	<b>52 887</b>	<b>1 004</b>	<b>2 553</b>	<b>1 533</b>	<b>3 474</b>	<b>2 781</b>	<b>5 747</b>	<b>69 979</b>
<b>Liquidity risk</b>	<b>(40 824)</b>	<b>2 597</b>	<b>3 669</b>	<b>8 900</b>	<b>7 463</b>	<b>20 002</b>	<b>(1 807)</b>	<b>-</b>

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	On demand LVL'000	Up to 1 month LVL'000	1 to 3 months LVL'000	3 to 6 months LVL'000	6 months to 1 year LVL'000	From 1 to 5 years LVL'000	More than 5 years LVL'000	Total LVL'000
<b>Assets</b>								
Cash and balances due from the Bank of Latvia	6 569	-	-	-	-	-	-	6 569
Financial assets at fair value through profit or loss	-	103	-	-	-	-	-	103
Due from credit and financial institutions	5 352	2 636	5 752	9 489	6 760	6	101	30 096
Loans	-	167	461	903	4 095	23 236	2 499	31 361
Derivatives	-	76	11	-	-	-	-	87
Long-term investments subsidiaries	-	-	-	-	-	-	16	16
Shares	-	-	-	-	-	-	1	1
Intangible assets	-	-	-	-	-	-	55	55
Fixed assets	-	-	-	-	-	-	936	936
Prepayments and accrued income	1	134	5	7	8	107	-	262
Other assets	-	43	26	27	-	4	2	102
<b>Total assets</b>	<b>11 922</b>	<b>3 159</b>	<b>6 255</b>	<b>10 426</b>	<b>10 863</b>	<b>23 353</b>	<b>3 610</b>	<b>69 588</b>
<b>Liabilities</b>								
Due to credit institutions	1 710	-	-	-	1 678	-	-	3 388
Deposits	50 113	531	2 447	1 501	1 684	2 560	-	58 836
Derivatives	-	20	1	-	-	-	-	21
Deferred income and accrued expenses	207	10	100	27	40	140	-	524
Provisions	-	-	-	-	102	-	-	102
Other liabilities	945	46	-	-	-	-	-	991
Shareholders' equity	-	-	-	-	-	-	5 726	5 726
<b>Total liabilities</b>	<b>52 975</b>	<b>607</b>	<b>2 548</b>	<b>1 528</b>	<b>3 504</b>	<b>2 700</b>	<b>5 726</b>	<b>69 588</b>
<b>Liquidity risk</b>	<b>(41 053)</b>	<b>2 552</b>	<b>3 707</b>	<b>8 898</b>	<b>7 359</b>	<b>20 653</b>	<b>(2 116)</b>	<b>-</b>

NOTES TO THE FINANCIAL STATEMENTS

37 INTEREST RATE REPRICING ANALYSIS

Interest rate risk relates to changes in the value of the financial instrument as a result of changes in the market rates. The period in which the interest rate of the financial instrument is fixed determines the degree of exposure to the interest rate risk. In accordance with the practice among Latvian banks, the period in which the interest rate is adjusted to market rates, corresponds to the expiry date of the respective financial instrument, which is disclosed in the below table.

As at 31 December 2005, interest rate reprising categories were:

<b>Group</b>	<b>Up to 1 month LVL'000</b>	<b>1 to 6 months LVL'000</b>	<b>6 to 12 months LVL'000</b>	<b>From 1 to 5 years LVL'000</b>	<b>Over 5 years LVL'000</b>	<b>Non- interest bearing LVL'000</b>	<b>Total LVL'000</b>
<b>Assets</b>							
Cash and balance due from the Bank of Latvia	-	-	-	-	-	6 569	6 569
Financial assets at fair value through profit or loss	-	-	-	103	-	-	103
Due from credit and financial institutions	2 992	16 308	6 760	6	-	4 030	30 096
Loans	690	24 827	3 152	1 916	222	32	30 839
Derivatives	76	11	-	-	-	-	87
Shares	-	-	-	-	-	1	1
Intangible assets	-	-	-	-	-	67	67
Fixed assets	-	-	-	-	-	1 270	1 270
Prepayments and accrued income	-	-	-	-	-	333	333
Other assets	-	-	-	-	-	614	614
<b>Total assets</b>	<b>3 758</b>	<b>41 146</b>	<b>9 912</b>	<b>2 025</b>	<b>222</b>	<b>12 916</b>	<b>69 979</b>
<b>Liabilities, capital and reserves</b>							
Due to credit institutions	-	-	1 678	-	-	1 710	3 388
Deposits	12 639	3 948	1 684	2 560	-	37 924	58 755
Other liabilities	-	-	-	-	-	1 358	1 358
Derivatives	20	1	-	-	-	-	21
Deferred income and accrued expenses	-	-	-	-	-	588	588
Provisions	-	-	-	-	-	122	122
Capital and reserves	-	-	-	-	-	5 747	5 747
<b>Total liabilities, capital and reserves</b>	<b>12 659</b>	<b>3 949</b>	<b>3 362</b>	<b>2 560</b>	<b>-</b>	<b>47 449</b>	<b>69 979</b>
<b>Interest rate risk</b>	<b>(8 901)</b>	<b>37 197</b>	<b>6 550</b>	<b>(535)</b>	<b>222</b>	<b>(34 533)</b>	

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	Up to 1 month	1 to 6 months	6 to 12 months	From 1 to 5 years	Over 5 years	Non- interest bearing	Total
	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000
<b>Assets</b>							
Cash and balance due from the Bank of Latvia	-	-	-	-	-	6 569	6 569
Fixed income securities at fair value through profit or loss	-	-	-	103	-	-	103
Due from credit and financial institutions	2 992	16 308	6 760	6	-	4 030	30 096
Long-term investments subsidiaries	-	-	-	-	-	16	16
Loans	690	24 853	3 078	2 486	222	32	31 361
Derivatives	76	11	-	-	-	-	87
Shares	-	-	-	-	-	1	1
Intangible assets	-	-	-	-	-	55	55
Fixed assets	-	-	-	-	-	936	936
Prepayments and accrued income	-	-	-	-	-	262	262
Other assets	-	-	-	-	-	102	102
<b>Total assets</b>	<b>3 758</b>	<b>41 172</b>	<b>9 838</b>	<b>2 595</b>	<b>222</b>	<b>12 003</b>	<b>69 588</b>
<b>Liabilities, capital and reserves</b>							
Due to credit institutions	-	-	1 678	-	-	1 710	3 388
Deposits	12 639	3 948	1 684	2 560	-	38 005	58 836
Other liabilities	-	-	-	-	-	991	991
Derivatives	20	1	-	-	-	-	21
Deferred income and accrued expenses	-	-	-	-	-	524	524
Provisions	-	-	-	-	-	102	102
Capital and reserves	-	-	-	-	-	5 726	5 726
<b>Total liabilities, capital and reserves</b>	<b>12 659</b>	<b>3 949</b>	<b>3 362</b>	<b>2 560</b>	<b>-</b>	<b>47 058</b>	<b>69 588</b>
<b>Interest rate risk</b>	<b>(8 901)</b>	<b>37 223</b>	<b>6 476</b>	<b>35</b>	<b>222</b>	<b>(35 055)</b>	

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38 CAPITAL ADEQUACY

Based upon the Financial and Capital Market Commission regulations and guidelines set by the Basel Capital Accord the Bank's equity to be utilized in the capital adequacy ratio as of 31 December 2005 has been calculated as follows:

	2005	
	Group LVL'000	Bank LVL'000
<b>Tier 1</b>		
Paid-in share capital	3 550	3 550
Undistributed profit of the previous years	(2 363)	(2 363)
Reserves	3 669	3 669
Intangible assets	(67)	(55)
<b>Total tier 1</b>	<b>4 789</b>	<b>4 801</b>
<b>Tier 2</b>		
Profit for the year	891	870
<b>Total tier 2</b>	<b>891</b>	<b>870</b>
<b>Equity to be utilized in the adequacy ratio per the Financial and Capital Market Commission</b>	<b>5 680</b>	<b>5 671</b>
Adjustments to agree equity calculated according to Financial and Capital Market Commission regulations with Basel agreement:		
<b>Tier 1</b>		
Intangible assets	67	55
<b>Equity to be utilized in the capital adequacy ratio per the Basle Committee guidelines</b>	<b>5 747</b>	<b>5 726</b>

The Bank's capital adequacy ratio based upon the Financial and Capital Market Commission regulations as of 31 December 2005 and 2004 was 16.61 % (group –16.53%) and 27.6% (group - 27.5%), respectively. The Financial and Capital Market Commission requires maintaining a capital adequacy ratio above 8% of risk weighted assets.

The Bank's capital adequacy ratio based upon the Basel Capital Agreement as of 31 December 2005 and 2004 was 16.66% (group –16.59%) and 27.5% (group – 27.3%), respectively. The Basel Capital Agreement requires all banks to maintain a capital adequacy ratio above 8% of risk weighted assets.

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According to the Financial and Capital Market Commission methodology:

	<b>2005</b>	
	<b>Group</b>	<b>Bank</b>
	<b>LVL'000</b>	<b>LVL'000</b>
<b>0% risk weighted assets – group 1</b>		
Cash and balance due from the Bank of Latvia	6 569	6 569
Government of Latvia treasury bills	103	103
<b>Total group 1</b>	<b>6 672</b>	<b>6 672</b>
Weighted value	-	-
<b>20% risk weighted assets – group 2</b>		
Placements with OECD credit institutions	27 447	27 447
<b>Total group 2</b>	<b>27 447</b>	<b>27 447</b>
Weighted value	5 489	5 489
<b>50% risk weighted assets – group 3</b>		
Due from OECD-financial institutions	110	110
Prepayments and accrued income	333	262
Receivables secured by mortgage	15 083	15 083
<b>Total group 3</b>	<b>15 526</b>	<b>15 455</b>
Weighted value	7 763	7 728
<b>100% risk weighted assets - group 4</b>		
Due from non-OECD credit institutions	2 539	2 539
Due from non-credit institutions	15 756	16 278
Shares and other non-fixed income securities available for sale	1	1
Fixed assets	1 270	936
Other assets	614	118
<b>Total group 4</b>	<b>20 180</b>	<b>19 872</b>
Weighted value	20 180	19 872
<b>Total assets</b>	<b>69 825</b>	<b>69 446</b>
<b>100% risk weighted off balance sheet items</b>		
Financial commitments	920	1 049
Weighted value	920	1 049
<b>Total assets and off-balance sheet items</b>	<b>70 745</b>	<b>70 495</b>
Total weighted value of assets and off-balance sheet items	34 352	34 138
Assets' credit risk capital requirement	3 435	3 414
Foreign currency risk's capital requirement	-	-
<b>Shareholders' equity</b>	<b>5 680</b>	<b>5 671</b>
Capital adequacy ratio	16.53	16.61
Minimum capital adequacy ratio	8%	8%

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The Group and the Bank's capital adequacy ratio based on Basle Capital Agreement adequacy standards:

	<b>2005</b>	
	<b>Group</b>	<b>Bank</b>
	<b>LVL'000</b>	<b>LVL'000</b>
<b>0% risk weighted assets – group 1</b>		
Cash and balance due from the Bank of Latvia	6 569	6 569
Government of Latvia treasury bills	103	103
<b>Total group 1</b>	<b>6 672</b>	<b>6 672</b>
Weighted value	-	-
<b>20% risk weighted assets – group 2</b>		
Placements with OECD credit institutions	27 447	27 447
<b>Total group 2</b>	<b>27 447</b>	<b>27 447</b>
Weighted value	5 489	5 489
<b>50% risk weighted assets – group 3</b>		
Receivables secured by mortgage	15 083	15 083
<b>Total group 3</b>	<b>15 083</b>	<b>15 083</b>
Weighted value	7 542	7 542
<b>100% risk weighted assets - group 4</b>		
Due from non-OECD credit institutions	2 539	2 539
Due from non-credit institutions	15 866	16 388
Shares and other non-fixed income securities available for sale	1	1
Fixed assets and intangible assets	1 337	991
Other assets	614	118
Prepayments and accrued income	333	262
<b>Total group 4</b>	<b>20 690</b>	<b>20 299</b>
Weighted value	20 690	20 299
<b>Total assets</b>	<b>69 892</b>	<b>69 501</b>
<b>100% risk weighted off balance sheet items</b>		
Financial commitments	920	1 049
Weighted value	920	1 049
<b>Total assets and off-balance sheet items</b>	<b>70 812</b>	<b>70 550</b>
Total weighted value of assets and off-balance sheet items	34 641	34 379
Assets' credit risk capital requirement	3 464	3 438
Foreign currency risk's capital requirement	-	-
<b>Shareholders' equity</b>	<b>5 747</b>	<b>5 726</b>
Capital adequacy ratio	16.59%	16.66%
Minimum capital adequacy ratio	8%	8%

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39 AVERAGE EFFECTIVE INTEREST RATES

The table below displays the Bank's interest bearing assets and liabilities as at 31 December 2005 and 2004 and their corresponding average effective interest rates as at that date. These effective interest rates are an approximation of the yields to maturity of these assets and liabilities.

	Balance LVL '000	2005 Average Effective Interest Rate	Balance LVL '000	2004 Average Effective Interest Rate
<b>Interest Bearing Assets</b>				
Fixed income securities	103	5.25	104	5.35
<b>Due from credit institutions</b>				
- LVL	-	-	480	2.8
- USD	26 066	3.24	32 049	3.5
- other currencies	-	-	-	-
<b>Derivative assets</b>				
- LVL	87	4.25	58	4.94
<b>Loans</b>				
- LVL	8 876	6.89	1 495	6.16
- USD	5 984	8.68	3 828	8.04
- EUR	16 469	6.26	-	-
- other currencies	-	-	644	3.75
<b>Total interest bearing assets</b>	<b>57 585</b>		<b>38 658</b>	
<b>Interest bearing liabilities</b>				
<b>Derivative liabilities</b>				
- LVL	21	1.75	71	1.88
<b>Due to credit institutions</b>				
- USD	1 678	1.3	3 920	1.3
- other currencies	-	-	-	-
<b>Customer deposits</b>				
- LVL	3 861	4.82	1 959	4.85
- USD	15 632	2.82	6 320	4.11
- EUR	1 329	3.48	-	-
- other currencies	9	-	304	3.76
<b>Total interest bearing liabilities</b>	<b>22 530</b>		<b>12 574</b>	