A/S REĢIONĀLĀ INVESTĪCIJU BANKA

ANNUAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2005

INVESTĪCIJU BANKA
A/S REĢIONĀLĀ INVESTĪCIJU BANKA

CONTENTS

AS Reģionālā Investīciju banka

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REPORT OF THE MANAGEMENT

The previous year was very successful in terms of the growth and development of A/S Reģionālā investīciju banka (hereinafter - Bank).

The Bank opened its mission in Odessa, Ukraine, and obtained Eurocard MasterCard licence for dispensing credit cards. The Bank continues to grow rapidly, improving the range of products and attracting new clients – private individuals and legal entities in a local and international market.

Performance of the Bank during the reporting period

The growth and successful performance of the Bank during the year 2005 are affirmed by positive financial indicators. The indicators of the profitability ROA and ROE are ones of the highest among Latvian banks. Furthermore, the loan and deposit portfolio of the Bank has substantially increased.

The dynamical growth of the Bank is also affirmed by the fact that the number of employees has increased 50% and the organisational structure of the Bank has been accomplished.

During the reporting period the Bank has performed the elaboration of internal documents, procedures, and blanks, which facilitates the ordering of business processes and improvement of product quality – particularly in the field of credit products, risk minimization and control, and preventing of money laundering.

In order to prevent legalisation of illegally derived funds the Bank accomplished qualitative changes, initiated the “Know your client” policy, undertook the training of the Bank’s employees and established cooperation with international financial organizations, banks, and other institutions, which are interested to collaborate in order to prevent legalisation of proceeds derived from criminal activity.

Because of the gradual increase of financial indicators, both the number of Clients and the range of products used in all Bank’s segments also increased.

Post balance sheet events

There are changes in shareholders - the major shareholder Dmitrijs Bekkers sold 49% of the Bank’s shares to the joint-stock bank of Ukraine „Pivdennyi”. After this transaction the joint-stock bank „Pivdennyi” has become the major shareholder of the Bank.

Future prospects

In 2006 the Bank will initiate the emission of MasterCard Maestro, Mass, Business, and Gold cards, offering its clients both debit and credit cards.
The Bank plans to improve the range of existing products, quality of service, advance the structure of the Bank, and increase the number of employees.
The future prospect of the Bank includes the enlargement of the loan and deposit portfolio.

The management of the Bank expresses its thanks to its employees for the work invested in the Bank’ development, to its Clients, cooperation partners, and shareholders for cooperation and loyalty.

Haralds Āboliņš Chairman of the Board, President	Dmitrijs Bekkers Chairman of the Council

Riga, 27 March 2006

THE SUPERVISORY COUNCIL AND THE BOARD OF DIRECTORS OF THE BANK

As at 31 December 2005: Date of appointment

The Council

Dmitrijs Bekkers	Chairman of the Council	22.04.2003
Marks Bekkers	Member of the Council	25.03.2004
Arkādijs Fjodorovs	Member of the Council	22.04.2003
Jurijs Rodins	Member of the Council	25.03.2004
Alla Vanecjanc	Member of the Council	25.03.2004

The Board

Haralds Āboliņš	Chairman of the Board and President	28.09.2001
Oleksandr Kuperman	Member of the Board	24.07.2003
Daiga Muravska	Member of the Board	25.03.2004

STATEMENT OF RESPONSIBILITY OF THE MANAGEMENT

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

The financial statements on pages 7 to 31 are prepared in accordance with the source documents and present fairly the financial position of the Bank as at 31 December 2005 and the results of its operations and cash flows for the year ended 31 December 2005.

The 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 judgements and estimates have been made by the Management in the preparation of the financial statements.

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

Haralds Āboliņš
Chairman of the Board / President

Dmitrijs Bekkers
Chairman of the Council

Riga, 27. March 2006

PRICEWATERHOUSECOOPERS

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AUDITORS' REPORT

To the shareholders of A/S Reģionālā Investīciju banka

We have audited the financial statements of A/S Reģionālā Investīciju banka for the year ended 31 December 2005 set out on pages 7 to 31. The audited financial statements include the balance sheet as of 31 December 2005, related income statement, statement of changes in equity and cash flow statement for the year then ended and note disclosure. These financial statements are the responsibility of A/S Reģionālā Investīciju banka management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing issued by 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. We read the management report set out on page 3 and did not identify material inconsistencies with the audited financial statements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements give a true and fair view of the financial position of A/S Reģionālā Investīciju 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.

PricewaterhouseCoopers SIA
Audit company licence No. 5

Juris Lapshe
Certified auditor
Certificate No. 116

Member of the Board

27 March 2006

INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2005

	Notes	2005 LVL	2004 LVL
Interest income	4	1,931,852	687,879
Interest expense	4	(397,627)	(172,382)
Net interest income	4	**1,534,225**	**515,497**
Fee and commission income	5	691,437	432,601
Fee and commission expense	5	(210,606)	(85,322)
Net fee and commission income	5	**480,831**	**347,279**
Profit on securities trading and foreign exchange, net	6	273,959	10,335
Other operating income		3,272	3,413
Impairment losses for loans and advances	11	(35,314)	(14,007)
General administrative expense	7	(1,026,454)	(563,835)
Amortisation and depreciation charge	13, 14	(51,311)	(43,098)
Other operating expense		(23,646)	–
Profit before income tax		**1,155,562**	**255,584**
Income tax expense	8	(175,257)	(33,800)
Net profit for the year		**980,305**	**221,784**

The financial statements on pages 7 to 31 have been approved by the Supervisory Council and the Board of Directors of the Bank and signed on their behalf by:

Haralds Āboliņš
Chairman of the Board / President

Dmitrijs Bekkers
Chairman of the Council

Riga, 27. March 2006

The accompanying notes are an integral part of these financial statements.

BALANCE SHEET AS AT 31 DECEMBER 2005

	Notes	31.12.2005 LVL	31.12.2004 LVL
Assets			
Cash and balances with the Bank of Latvia	9	2,736,578	697,983
Balances due from banks	10	6,561,755	3,336,975
Loans and advances to customers	11	18,631,849	6,098,320
Financial assets at fair value through profit or loss	12	3,854,402	4,688,863
Intangible assets	13	62,099	63,052
Property and equipment	14	114,187	90,043
Deferred tax asset	20	–	5,177
Other assets		7,425	35,088
Deferred expenses and accrued income	15	133,698	164,008
Total assets		**32,101,993**	**15,179,509**
Liabilities			
Balances due to Banks	16	1,423,200	616,000
Due to customers	17	25,313,922	10,419,641
Other liabilities	18	73,128	11,656
Deferred income and accrued expense	19	176,580	91,936
Current income tax liability	29	108,230	20,948
Deferred income tax liability	20	7,300	–
Total liabilities		**27,102,360**	**11,160,181**
Equity			
Share capital	21	3,300,000	3,300,000
Retained earnings		719,328	497,544
Profit for the year		980,305	221,784
Total shareholders' equity		**4,999,633**	**4,019,328**
Total equity and liabilities		**32,101,993**	**15,179,509**
Memorandum items			
Contingent liabilities	22	32,580	97,580
Financial commitments	22	5,046,993	1,578,662
Funds under trust management	22	20,813,062	26,642,769

The financial statements on pages 7 to 31 have been approved by the Council and the Board of the Bank and signed on their behalf by:

Haralds Āboliņš
Chairman of the Board / President

Dmitrijs Bekkers
Chairman of the Council

Riga, 27 March 2006

The accompanying notes are an integral part of these financial statements.

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

	Paid-in share capital	Retained earnings	Total
	LVL	LVL	LVL
Balance as at 31 December 2003	**3,300,000**	**497,544**	**3,797,544**
Net profit for the year	–	221,784	221,784
Balance at 31 December 2004	**3,300,000**	**719,328**	**4,019,328**
Net profit for the year	–	980,305	980,305
Balance at 31 December 2005	**3,300,000**	**1,699,633**	**4,999,633**

The accompanying notes are an integral part of these financial statements.

CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2005

	Notes	2005 LVL	2004 LVL
Cash inflow from operating activities			
Profit before tax		1,155,562	255,584
Amortisation and depreciation of intangible assets and property and equipment		51,311	43,098
Increase in provision for loan impairment		36,321	14,007
(Profit) / Loss from revaluation of foreign currency		(118,764)	95,624
(Profit) / Loss from revaluation of trading securities		(42,618)	67,096
Prepaid expense and accrued income decrease / (increase)		30,310	(33,136)
Deferred income and accrued expense increase		84,644	62,899
Decrease / (Increase) in other assets		27,663	(27,190)
Increase / (Decrease) in other liabilities		61,472	(47,377)
Increase in cash and cash equivalents before changes in assets and liabilities, as a result of ordinary operations		**1,285,901**	**430,605**
Decrease / (Increase) in trading securities		877,079	(717,045)
Increase in balances due from banks		(3,850)	(25,800)
Increase in loans to customers		(12,569,850)	(4,774,881)
Increase in deposits due to customers		14,894,281	6,957,207
Increase in cash and cash equivalents from operating activities before income taxes		**4,483,561**	**1,870,086**
Income tax paid		(75,498)	(22,964)
Net cash and cash equivalents from operating activities		**4,408,063**	**1,847,122**
Cash outflow from investing activities			
Purchase of property and equipment		(74,502)	(43,474)
Decrease in cash and cash equivalents from investing activities		**(74,502)**	**(43,474)**
Net cash inflow for the period		**4,333,561**	**1,803,648**
Cash and cash equivalents at the beginning of the period	23	**3,393,158**	**1,685,134**
Effect of exchange rates on cash and cash equivalents		118,764	(95,624)
Cash and cash equivalents at the end of the period	23	**7,845,483**	**3,393,158**

The accompanying notes are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 INCORPORATION AND PRINCIPAL ACTIVITIES

AS Reģionālā Investīciju banka (hereinafter "the Bank") provides financial services to corporate clients and individuals. In 2005 the Bank has established a mission in Odessa, Ukraine. The Bank has no subsidiaries and branches apart from the mentioned above.

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

There are no publicly traded securities issued by the Bank.

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

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A summary of the significant accounting policies, all of which have been applied consistently throughout the years ended 31 December 2005 and 31 December 2004, are set out below:

(a) Reporting currency

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

(b) Basis of preparation

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

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

Adoption of New or Revised Standards and Interpretations

Certain new IFRS became effective for the Bank from 1 January 2005. Listed below are those new or amended standards or interpretations which are or in the future could be relevant to the Bank's operations and the nature of their impact on the Bank's accounting policies. Changes in accounting policies, if any were applied retrospectively with adjustments made to retained earnings at 1 January 2004, unless otherwise described below.

(i) ***IAS 1 (revised 2003), Presentation of Financial Statements.*** Certain new disclosures and changes in presentation required by the revised standard were made in these financial statements.

(ii) ***IAS 8 (revised 2003) Accounting Policies, Changes in Accounting Estimates and Errors.*** The Bank applies voluntary changes in accounting policies retrospectively. Comparatives are amended in accordance with the new policies. All material errors are corrected retrospectively in the first set of financial statements after their discovery. The Bank has not discovered any material error in its prior period financial statements.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(iii) ***IAS 16 (revised 2003) Property, Plant and Equipment.*** The residual value is now defined as the amount that the Bank estimates it would receive currently for the asset if the asset were already of the age and in the condition expected at the end of its useful life. IAS 16 requires derecognition of the carrying amount of a component of property, plant and equipment which has been replaced and capitalises the cost of the replacement. The previous version of IAS 16 did not extend it's derecognition principle to components; rather, its recognition principle for subsequent expenditures effectively precluded the cost of a replacement from being capitalised. All changes to accounting policies as a result of the revised IAS 16 were accounted for retrospectively and did not result in any effect on the carrying amount of the Bank's assets.

(iv) ***IAS 21 (revised 2003) The Effects of Changes in Foreign Exchange Rates.*** The term 'functional currency' replaced 'measurement currency', but has essentially the same meaning. Effects of the revised IAS 21 are applied retrospectively. All changes to accounting policies as a result of the revised IAS 21 were accounted for retrospectively and did not result in any effect on the carrying amount of the Bank's financial statements.

(v) ***IAS 24 (revised 2003) Related Party Disclosures.*** The definition of related parties was extended and additional disclosures required by the revised standard were made in these financial statements.

(vi) ***IAS 39 (revised 2003) Financial Instruments: Recognition and Measurement.*** The definition of 'loans and receivables originated by the enterprise' was amended to become 'loans and receivables'. This category now comprises originated or purchased loans, and receivables or bills of exchange that are not quoted in an active market. The Bank may now designate any financial instrument on initial recognition as one to be measured at fair value, with changes in fair value recognised in profit or loss. Subsequent reclassifications into or out of the 'at fair value through profit or loss' category are prohibited.

Under the original IAS 39, several concepts governed derecognition. The revised IAS 39 retains the two main concepts of risks and rewards and control, but clarifies that the evaluation of the transfer of risks and rewards precedes the evaluation of the transfer of control. The Bank applies the guidance added to IAS 39 on how to determine fair values using valuation techniques and how to evaluate impairment in a group of loans or receivables which cannot yet be identified with any individual asset in the group. In accordance with the standard's transitional provisions the revised accounting policies are applied retrospectively except for the clarified derecognition rules which are applied prospectively from 1 January 2004. All changes to accounting policies as a result of the revised IAS 39 were accounted for retrospectively and did not result in any effect on the carrying amount of the Bank's assets.

New Standards, Amendments and Interpretations

Certain new IFRS became effective for the Bank after 31 December 2005. Listed below are new or amended standards or interpretations which in the future could be relevant to the Bank's operations and the nature of their impact on the Bank's accounting policies. Implementation of new accounting policies as a result of new accounting standards and interpretations, which came into effect as from 1 January 2006 or 1 January 2007, will not have a significant effect on the figures of the Bank as at 31 December 2005, disclosed in these financial statements.

(i) ***IAS 39 (Amendment),*** The Fair Value Option (effective from 1 January 2006). This amendment changes the definition of financial instruments classified at fair value through profit or loss and restricts the ability to designate financial instruments as part of this category. The Bank believes that this amendment should not have a significant impact on the classification of financial instruments, as the Bank should be able to comply with the amended criteria for the designation of financial instruments at fair value through profit and loss. The Bank will apply this amendment from annual periods beginning 1 January 2006.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*
NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(b) Basis of preparation *(continued)*

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

(iii) IAS 19 (Amendment)	Employee Benefits (effective from 1 January 2006). This amendment will not affect the Bank's financial statements.
(iv) IAS 21 (Amendment)	Net Investment in a Foreign Operation (effective from 1 January 2006). This amendment will not affect the Bank's financial statements.
(v) IAS 39 (Amendment)	Financial Guarantee Contracts (effective from 1 January 2006). This amendment will not affect the Bank's financial statements.
(vi) IFRS 6	Exploration for and Evaluation of Mineral Resources (effective from 1 January 2006). This IFRS is not relevant to the Bank's operations.
(vii) IFRS 1 (Amendment)	First-time Adoption of International Financial Reporting Standards (effective from 1 January 2006). This IFRS will not affect the Bank's financial statements.
(viii) IFRIC 4	Determining whether an Arrangement contains a Lease (effective from 1 January 2006). This interpretation will not affect the Bank's financial statements.
(ix) IFRIC 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds (effective from 1 January 2006). This interpretation is not relevant to the Bank's operations.
(x) IFRIC 6	Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment (effective for periods beginning on or after 1 December 2005 that is from 1 January 2006). This interpretation is not relevant to the Bank's operations.
(xi) IFRIC 7	Applying the Restatement Approach under IAS 29 (effective for periods beginning on or after 1 March 2006 that is from 1 January 2007). This interpretation will not affect the Bank's financial statements.
(xii) IFRIC 8	Scope of IFRS 2 (effective for periods beginning on or after 1 May 2006 that is from 1 January 2007). This interpretation will not affect the Bank's financial statements.

(c) Income and expense recognition

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

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

NOTES TO THE FINANCIAL STATEMENTS *(continued)*
NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(c) Income and expense recognition *(continued)*

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

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

(d) Foreign currency translation

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

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

Reporting date	USD	EUR	RUB	UAH
As at 31 December 2005	0.593000	0.702804	0.020600	0.117000
As at 31 December 2004	0.516000	0.703000	0.019000	0.097000

(e) Income taxes

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

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

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

(f) Cash and cash equivalents

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

(g) Loans and Receivables and Provisions for Loan Impairment

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

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

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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

The Bank has granted 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 debts.

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

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

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

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

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

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

(i) Sale and repurchase agreements of securities

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

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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

The difference between sale and repurchase price is treated as interest and accrued over the life of repo agreements using the effective interest method.

(j) Derivative financial instruments

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

(k) Fair Values of Financial Assets and Liabilities

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

(l) Intangible assets

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

(m) Property and Equipment

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

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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

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

(o) Borrowings

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

(p) Provisions

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

(q) Employee benefits

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

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

(r) Off-balance sheet instruments

In the ordinary course of business, the Bank utilizes off-balance sheet financial instruments including commitments to extend loans and advances, financial guarantees and commercial letters of credit. Such financial instruments are recorded in the financial statements when they are funded or related fees are incurred or received.

(s) Trust operations

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

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

(t) Comparatives

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

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(u) Offsetting of Financial Assets and Liabilities

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

(v) Critical accounting estimates

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

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

NOTE 3 FINANCIAL RISK MANAGEMENT

a) Credit risk

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

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

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

b) Market risk

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

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

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

NOTE 3 FINANCIAL RISK MANAGEMENT *(continued)*

c) Currency risk

The Bank has exposure to the effects of fluctuations in prevailing foreign currency exchange rates as a result of its financial position and cash flows. The Bank seeks to match assets and liabilities denominated in foreign currencies in order to avoid foreign currency exposures. The Board of Directors has set limits on the level of exposure by currency, which is monitored on a daily basis. The Latvian banking legislation requires that open positions in each foreign currency may not exceed 10% of the Bank's equity and that the total foreign currency open position may not exceed 20% of the equity. During the year 2005 the Bank was in compliance with those limits (see also note 24).

d) Interest rate risk

Interest rate risk is the sensitivity of the financial position of the Bank to a change in market interest rates. In the normal course of business, the Bank encounter interest rate risk as a result of differences within maturities or interest re-fixing dates of respective interest-sensitive assets and liabilities. The Bank seek to control this risk through the activities of the Bank's Asset and Liability Committee, which sets limits on the level of mismatch of interest rate reprising that may be undertaken. (see note 26).

e) Liquidity risk

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

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

It is unusual for banks to be completely matched, as transacted business is often of uncertain term and of different types (see also note 25). An unmatched position potentially enhances profitability, but also increases the risk of losses.

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

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

f) Capital adequacy

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

The international Basel I risk-based capital adequacy ratio as at 31 December 2005 was 50.7% (31 December 2004: 51.6%), which is above the minimum ratio recommended by the 1988 Basel Committee guidelines of 8%.

In accordance with the Latvian Financial and Capital Market Commission's (FCMC) requirements, the Bank's risk based capital adequacy ratio as at 31 December 2005 was 18.5% (31 December 2004: 48.3%), which is above the minimum required by the FCMC guidelines 2004. FCMC requires Latvian banks to maintain a capital adequacy ratio of 8% of risk weighted assets and memorandum items which is calculated in accordance with the rules set by FCMC.

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 4 INTEREST INCOME AND EXPENSE

	2005 LVL	2004 LVL
Interest income		
Trading securities	224,813	273,216
Loans	1,486,307	260,840
Credit institutions	220,407	153,585
Other	325	238
Total interest income	**1,931,852**	**687,879**
Interest expense		
Credit institutions	(37,886)	(22,887)
Deposits	(318,900)	(135,386)
Guarantee fund	(37,710)	(14,109)
Other	(3,131)	-
Total interest expense	**(397,627)**	**(172,382)**
Net interest income	**1,534,225**	**515,497**

The Bank's cash flow during the year to 31 December 2005 arising from interest received was Ls 1,964 thousand (2004: Ls 654 thousand) and arising from interest paid was Ls 305 thousand (2004: Ls 157 thousand).

NOTE 5 FEE AND COMMISSION INCOME AND EXPENSE

	2005 LVL	2004 LVL
Fee and commission income		
Money transfers	400,968	185,432
Trust activities	101,713	110,174
Accounts servicing	35,139	19,608
Letters of credit	15,532	4,598
Cession agreements	2,076	33,727
Other	136,009	79,062
Total fee and commission income	**691,437**	**432,601**
Fee and commission expense		
Money transfers	(197,478)	(82,946)
Other	(13,128)	(2,376)
Total fee and commission expense	**(210,606)**	**(85,322)**
Net fee and commission income	**480,831**	**347,279**

NOTE 6 PROFIT ON SECURITIES TRADING AND FOREIGN EXCHANGE, NET

	2005 LVL	2004 LVL
Securities trading		
Gains from trading with securities	77,270	25,154
Profit / (Loss) from securities revaluation	42,618	(67,096)
Profit / (loss) on securities trading, net	**119,888**	**(41,942)**
Foreign exchange		
Gain from trading with foreign currencies	35,307	147,901
Profit / (Loss) from foreign currency revaluation	118,764	(95,624)
Profit on foreign exchange, net	**154,071**	**52,277**
Profit on securities trading and foreign exchange, net	**273,959**	**10,335**

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 7 GENERAL ADMINISTRATIVE EXPENSE

	2005 LVL	2004 LVL
Remuneration paid to the members of the Supervisory Council and the Board	155,420	93,482
Remuneration paid to personnel	359,356	182,425
Social security payments	114,406	65,329
Set-up and maintenance costs of information systems	16,283	14,652
Office rent and maintenance	151,944	73,492
Advertising and marketing	4,427	184
Consulting and professional fees	31,268	16,524
Sponsorship	23,453	8,149
Communication expense	82,027	61,007
Penalties	64	13
Other administrative expense	75,539	48,578
Ukraine mission maintenance expense	12,267	–
	1,026,454	**563,835**

The average number of staff employed by the Bank in 2005 was 41 (2004: 29).

NOTE 8 INCOME TAX EXPENSE

Corporate income tax for the reporting year	162,780	43,912
Increase / (decrease) of provision for deferred tax	12,477	(10,112)
Total corporate income tax	**175,257**	**33,800**

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

Profit before tax	**1,155,562**	**255,584**
Theoretically calculated tax at a tax rate of 15% (2004: 15%)	173,334	38,338
Expenses not deductible for tax purposes	11,568	2,389
Tax discount for donations	(9,645)	(6,927)
Corporate income tax expense	**175,257**	**33,800**

Deferred tax is calculated by using currently enacted tax rate – 15%.

NOTE 9 CASH AND BALANCES WITH THE BANK OF LATVIA

	31.12.2005 LVL	31.12.2004 LVL
Cash	420,013	365,288
Balances on demand with the Bank of Latvia	2,316,565	332,695
	2,736,578	**697,983**

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 10 BALANCES DUE FROM BANKS

	31.12.2005 LVL	31.12.2004 LVL
Due from Republic of Latvia credit institutions	1,263,565	162,125
Due from non-OECD credit institution	104,717	608,074
Due from OECD credit institutions	5,193,473	2,566,776
	6,561,755	**3,336,975**

At 31 December 2005, the Bank had correspondent relationships with 5 (31.12.2004: 3) credit institutions registered in the OECD area, 7 (31.12.2004: 5) credit institutions registered in Latvia and 2 (31.12.2004: 1) financial institutions incorporated in non-OECD countries. The largest placement with a single credit institution at the end of the period was LVL 1,983 thousand representing total outstanding balance held with a bank incorporated in OECD country. The effective interest rates during the reporting year were between 0% and 8%.

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

On demand	5,632,105	2,743,575
Balances with maturity of three months or less	900,000	567,600
Other balances due from banks	29,650	25,800
Total due from banks	**6,561,755**	**3,336,975**

NOTE 11 LOANS AND ADVANCES TO CUSTOMERS

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

Loans to legal entities:		
Mortgages	2,505,203	642,179
Corporate loans	13,389,959	3,958,966
Overdrafts	153,445	600,080
	16,048,607	***5,201,225***
Loans to private individuals:		
Mortgages	2,479,403	375,721
Consumer loans	153,160	534,374
	2,632,563	***910,095***
	18,681,170	**6,111,320**
Less: provisions for loan impairment losses	(49,321)	(13,000)
	18,631,849	**6,098,320**

The average effective interest rate as at 31 December 2005 is 8.4% (31.12.2004: 8% to 14%).
73% (31.12.2004: 81%) of loans are issued to non-residents.

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

Number of customers	12	1
Total credit exposure to customers	8,880,950	516,000
Percentage of gross portfolio of loans and advances	47.5%	8.4%

The Latvian banking legislation requires that any credit exposure to a non-related entity or group of non-related entities may not exceed 25% of a credit institution's equity and the total credit exposure to all related parties may not exceed 15% of equity. As at 31 December 2005 the Bank was in compliance with the legal requirement set for credit exposure.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

NOTE 11 LOANS AND ADVANCES TO CUSTOMERS *(continued)*

(b) Analysis of loans by industry

	31.12.2005 LVL	31.12.2004 LVL
Real estate	3,021,303	304,850
Retail trade and wholesale distribution	2,604,696	2,486,523
Manufacturing	4,271,887	645,000
Shipping and logistics	2,587,432	940,619
Private individuals	2,632,563	910,095
Other	3,563,289	824,233
	18,681,170	**6,111,320**
Less: provisions for loan impairment losses	(49,321)	(13,000)
	18,631,849	**6,098,320**

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

	31.12.2005 LVL	31.12.2004 LVL
Loans with fixed interest rate	16,437,728	5,576,627
Loans with floating interest rate	2,243,442	534,693
	18,681,170	**6,111,320**
Less: provisions for loan impairment losses	(49,321)	(13,000)
	18,631,849	**6,098,320**

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

	Loans LVL	Accrued income LVL	Total LVL
Balance as at 31 December 2003	-	-	-
Increase during the year 2004	13,000	1,007	14,007
Balance as at 31 December 2004	**13,000**	**1,007**	**14,007**
Increase during the year 2005	36,321	-	36,321
Decrease during the year 2005	-	(1,007)	(1,007)
Balance as at 31 December 2005	**49,321**	-	**49,321**

NOTE 12 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT AND LOSS

	31.12.2005 LVL	31.12.2004 LVL
Latvian government securities	1,976,421	3,752,911
Non-OECD region corporate debt securities	1,316,908	725,052
Latvian corporate debt securities	561,073	210,900
	3,854,402	**4,688,863**

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

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

NOTE 13 INTANGIBLE FIXED ASSETS

	2005			2004		
	Software	Advance payments	Total	Software	Advance payments	Total
	LVL	LVL	LVL	LVL	LVL	LVL
Cost						
As at beginning of the year	129,494	1,231	130,725	128,793	-	128,793
Additions	26,608	–	26,608	701	1,231	1,932
Reclassification	1,231	(1,231)	–	-		
As at end of the year	**157,333**	**-**	**157,333**	**129,494**	**1,231**	**130,725**
Amortization						
Accumulated amortization as at beginning of the year	67,673	-	67,673	41,821	-	41,821
Charge for the year	27,561	-	27,561	25,852	-	25,852
Accumulated amortization as at end of the year	**95,234**	**-**	**95,234**	**67,673**	**-**	**67,673**
Net book value as at beginning of the year	**61,821**	**1,231**	**63,052**	**86,972**	**-**	**86,972**
Net book value as at end of the year	**62,099**	**-**	**62,099**	**61,821**	**1,231**	**63,052**

NOTE 14 PROPERTY AND EQUIPMENT

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

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

The following changes in the Bank's property, plant and equipment took place during the year ended 31 December 2004:

	Computers	Office equipment	Total
	LVL	LVL	LVL
Cost			
31.12.2003	53,648	36,297	89,945
Additions	14,616	26,926	41,542
31.12.2004	**68,264**	**63,223**	**131,487**
Depreciation			
31.12.2003	17,007	7,191	24,198
Charge for 2004	11,751	5,495	17,246
31.12.2004	**28,758**	**12,686**	**41,444**
Net book value 31.12.2003	**36,641**	**29,106**	**65,747**
Net book value 31.12.2004	**39,506**	**50,537**	**90,043**

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

NOTE 15 DEFERRED EXPENSES AND ACCRUED INCOME

	31.12.2005 LVL	31.12.2004 LVL
Accrued interest receivable from trading securities	64,907	127,768
Accrued interest receivable other	66,128	36,557
Deferred expenses	2,663	690
	133,698	**165,015**
Provisions for impairment losses	–	(1,007)
	133,698	**164,008**

NOTE 16 BALANCES DUE TO BANKS

	31.12.2005 LVL	31.12.2004 LVL
Term deposit	–	516,000
Credit lines	1,423,200	100,000
	1,423,200	**616,000**

NOTE 17 DUE TO CUSTOMERS

	31.12.2005 LVL	31.12.2004 LVL
Maturity profile:		
Demand deposits	13,028,260	6,570,230
Term deposits	11,855,997	3,719,987
Cash in transit	429,665	129,424
Total due to customers:	**25,313,922**	**10,419,641**
Sector profile:		
Central government	1,206	–
Financial institutions	1,221,057	328,759
Private companies	18,838,429	7,117,448
Private individuals	5,132,136	2,854,718
Non-profit institutions	121,094	118,716
Total due to customers:	**25,313,922**	**10,419,641**
Geographical profile:		
Residents	6,234,327	2,433,585
Non-residents	19,079,595	7,986,056
Total due to customers:	**25,313,922**	**10,419,641**

During the year ended 31 December 2005 an average interest rate on term deposits due to customers was 4.8% (2004: 5.5%) and an average interest rate on demand deposits was 0% – 3% (2004: 0%). All deposits have fixed interest rates.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

NOTE 18 OTHER LIABILITIES

	31.12.2005 LVL	31.12.2004 LVL
Settlements on behalf of a closed bank	11,656	11,656
Liabilities in clearance	61,472	-
	73,128	**11,656**

NOTE 19 DEFERRED INCOME AND ACCRUED EXPENSE

Accrued interest payable	81,566	31,460
Accrued employee holiday pay	56,922	28,797
Accrual for guarantee fund and FCMC financing	11,481	4,938
Accrued money transfer commissions	7,440	6,217
Other accrued expenses	19,171	20,524
	176,580	**91,936**

NOTE 20 DEFERRED INCOME TAX

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

	2005 LVL	2004 LVL
Deferred tax (asset) / liability at the beginning of the year	(5,177)	4,935
Increase/(decrease) of deferred tax liability during the year	12,477	(10,112)
Deferred tax liability / (asset) at the end of the year	**7,300**	**(5,177)**

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

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

	31.12.2005 LVL	31.12.2004 LVL
Deferred income tax liability:		
Temporary difference from fixed assets depreciation	11,503	9,208
Deferred income tax assets:		
Temporary difference from revaluation of investments in securities	4,335	(10,065)
Temporary difference from holiday pay	(8,538)	(4,320)
Total net deferred tax liability / (asset)	**7,300**	**(5,177)**

NOTE 21 SHARE CAPITAL

Issued and fully paid share capital as at 31 December 2005 was LVL 3,300,000. Share capital consists of 3,300,000 ordinary shares with the nominal value of LVL 1 per share of which 916,113 are shares with voting rights with the total nominal value of LVL 916,113 and 330 are shares assigned to the Board without voting rights with the total nominal value of LVL 330. As at 31 December 2005 the Bank’s shareholders were as follows:

	Number	Share (%)
Dmitrijs Bekkers	2,383,557	72.23
Marks Bekkers	440,000	13.33
Tamāra Rodina	198,470	6.01
Levons Vanecjancs	148,000	4.49
Jurijs Rodins	95,647	2.90
Alla Vanecjancs	33,996	1.03
Members of the Board	330	0.01
	3,300,000	100.00

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

NOTE 21 SHARE CAPITAL *(continued)*

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

After the end of the financial year, the Bank's largest shareholder Dmitrijs Bekkers sold 49% of Bank's shares to Ukraine bank "Pivdennyi".

NOTE 22 MEMORANDUM ITEMS

Contingent liabilities

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

The tax authorities have the right to inspect the tax computations for the last three taxation years. The company has not been subject to a full tax audit in 2003 to 2005 so potentially the tax computations may be reassessed by the tax authorities. The Company's management is not aware of any circumstances which may give rise to a potential material liability in this respect.

Financial commitments

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

	31.12.2005 LVL	31.12.2004 LVL
Letters of credit	2,073,750	–
Loans	2,973,243	1,578,662
	5,046,993	**1,578,662**

Commitment under operating lease agreement

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

Funds under trust management

	31.12.2005 LVL	31.12.2004 LVL
Assets under trust		
Loans	2,565,361	3,539,698
Placements of client resources	18,247,701	23,103,071
	20,813,062	**26,642,769**
Liabilities under trust		
Private individuals	1,229,079	549,991
Private companies	19,583,983	26,092,778
	20,813,062	**26,642,769**

NOTE 23 CASH AND CASH EQUIVALENTS

Cash and balances on demand with the Bank of Latvia	2,736,578	697,983
Due from other credit institutions	6,532,105	3,311,175
Due to other credit institutions	(1,423,200)	(616,000)
	7,845,483	**3,393,158**

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

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

NOTE 24 CURRENCY ANALYSIS

The following table provides the analysis of the Bank's assets, liabilities and shareholders' equity as well as memorandum items outstanding as at 31 December 2005 by currency profile:

	LVL LVL	USD LVL	EUR LVL	Other currencies LVL	Total LVL
Assets					
Cash and deposits with the Bank of Latvia	2,544,507	80,586	110,597	888	**2,736,578**
Balances due from banks	904,161	3,527,077	1,929,900	200,617	**6,561,755**
Loans and advances to customers	2,515,085	14,594,799	1,521,965	–	**18,631,849**
Financial assets at fair value through profit or loss	1,976,421	1,316,908	561,073	–	**3,854,402**
Intangible assets	62,099	–	–	–	**62,099**
Property and equipment	114,187	–	–	–	**114,187**
Other assets	59,550	64,274	17,294	5	**141,123**
Total assets	**8,176,010**	**19,583,644**	**4,140,829**	**201,510**	**32,101,993**
Liabilities and equity					
Balances due to banks	–	1,423,200	–	–	**1,423,200**
Due to customers	2,791,618	17,760,840	4,664,407	97,057	**25,313,922**
Other liabilities	112,064	102,300	35,344		**249,708**
Current income tax liability	104,998	–	–	–	**104,998**
Deferred income tax liability	7,300	–	–	–	**7,300**
Equity	5,002,865	–	–	–	**5,002,865**
Total liabilities and equity	**8,018,845**	**19,286,340**	**4,699,751**	**97,057**	**32,101,993**
Net long/ (short) position on balance sheet	*157,165*	*297,304*	*(558,922)*	*104,453*	*–*
Off-balance sheet claims arising from foreign exchange					
Spot foreign exchange receivable	–	–	175,701	–	**175,701**
Forward foreign exchange receivable	57,964	–	351,402	–	**409,366**
Total foreign exchange receivable	**57,964**	–	**527,103**	–	**585,067**
Off-balance sheet liabilities arising from foreign exchange					
Spot foreign exchange payable	–	–	176,062	–	**176,062**
Forward foreign exchange payable	348,714	–	59,300	–	**408,014**
Total foreign exchange payable	**348,714**	–	**235,362**	–	**584,076**
Net long/ (short) position on foreign exchange	*(290,750)*	*–*	*291,741*	*–*	*991*
Net long/ (short) position	*(133,585)*	*297,304*	*(267,181)*	*104,453*	*991*
As at 31 December 2004					
Total assets	**5,141,000**	**8,196,000**	**1,604,000**	**238,000**	**15,179,000**
Total liabilities and shareholders' equity	**5,093,000**	**8,540,000**	**1,525,000**	**21,000**	**15,179,000**
Net long/ (short) position on balance sheet	*48,000*	*(344,000)*	*79,000*	*217,000*	*–*

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

NOTE 25 LIQUIDITY RISK AND ANALYSIS OF ASSETS AND LIABILITIES BY MATURITY PROFILE

The table below allocates the Bank's assets and liabilities to maturity groupings as at 31 December 2005 based on the time remaining from the balance sheet date to the contractual maturity dates.

	Overdue LVL	Within 1 month LVL	1 – 3 months LVL	3 – 6 months LVL	6 –12 months LVL	1–5 years LVL	Over 5 years and undated LVL	Total LVL
Assets								
Cash and balances with the Bank of Latvia	–	2,736,578	–	–	–	–	–	**2,736,578**
Balances due from banks	–	5,632,105	900,000	–	29,650	–	–	**6,561,755**
Loans and advances to customers	117,639	616,784	2,915,234	2,366,220	2,983,784	8,966,155	666,033	**18,631,849**
Financial assets at fair value through profit or loss	–	–	–	–	–	2,872,347	982,055	**3,854,402**
Intangible assets	–	–	–	–	–	–	62,099	**62,099**
Property and equipment	–	–	–	–	–	–	114,187	**114,187**
Other assets		81,188	33,613	23,747	2,575	–	–	**141,123**
Total assets	**117,639**	**9,066,655**	**3,848,847**	**2,389,967**	**3,016,009**	**11,838,502**	**1,824,374**	**32,101,993**
Liabilities and equity								
Balances due to Banks	–	1,423,200	–	–	–	–	–	**1,423,200**
Due to customers	–	16,979,141	3,905,815	1,134,341	1,452,802	1,760,174	81,649	**25,313,922**
Other liabilities	–	168,142	7,442	74,124	–	–	–	**249,708**
Current income tax liability	–	–	104,998	–	–	–	–	**104,998**
Deferred income tax liability	–	–	–	–	7,300	–	–	**7,300**
Equity	–	–	–	–	–	–	5,002,865	**5,002,865**
Total liabilities and equity	–	**18,570,483**	**4,018,255**	**1,208,465**	**1,460,102**	**1,760,174**	**5,084,514**	**32,101,993**
Net liquidity	**117,639**	**(9,503,828)**	**(169,408)**	**1,181,502**	**1,555,907**	**10,078,328**	**(3,260,140)**	–
As at 31 December 2004								
Total assets	–	**9,695,000**	**874,000**	**209,000**	**830,000**	**3,240,000**	**331,000**	**15,179,000**
Total liabilities and equity	–	**8,114,000**	**393,000**	**735,000**	**1,377,000**	**212,000**	**4,348,000**	**15,179,000**
Net liquidity	–	**1,581,000**	**481,000**	**(526,000)**	**(547,000)**	**3,028,000**	**(4,017,000)**	–

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

NOTE 26 RE-PRICING MATURITY OF ASSETS AND LIABILITIES

The table below allocates the Bank's assets and liabilities to maturity groupings as at 31 December 2005 based on the time remaining from the balance sheet date to the earlier of maturity and contractual re-pricing dates.

	Within 1 month	1–3 months LVL	3–6 months LVL	6–12 months LVL	1–5 years LVL	Over 5 years LVL	Non - interest bearing LVL	Total LVL
Assets								
Cash and balances with the Bank of Latvia	–	–	–	–	–	–	2,736,578	**2,736,578**
Balances due from banks	2,076,400	–	–	29,650	–	–	4,455,705	**6,561,755**
Loans and advances to customers	1,866,849	3,255,000	3,025,000	3,384,000	6,966,000	84,000	51,000	**18,631,849**
Financial assets at fair value through profit or loss	–	–	–	–	2,872,347	982,055	–	**3,854,402**
Intangible assets	–	–	–	–	–	–	62,099	**62,099**
Property and equipment	–	–	–	–	–	–	114,187	**114,187**
Other assets	–	–	–	–	–	–	141,123	**141,123**
Total assets	**3,943,249**	**3,255,000**	**3,025,000**	**3,413,650**	**9,838,347**	**1,066,055**	**7,560,692**	**32,101,993**
Liabilities								
Balances due to banks	1,423,200	–	–	–	–	–	–	**1,423,200**
Due to customers	3,521,216	3,905,815	1,134,341	1,452,802	1,760,174	81,649	13,457,925	**25,313,922**
Other liabilities	–	–	–	–	–	–	249,708	**249,708**
Current income tax liability	–	–	–	–	–	–	104,998	**104,998**
Deferred income tax liability	–	–	–	–	–	–	7,300	**7,300**
Total liabilities	**4,944,416**	**3,905,815**	**1,134,341**	**1,452,802**	**1,760,174**	**81,649**	**13,819,931**	**27,099,128**
Equity	–	–	–	–	–	–	5,002,865	**5,002,865**
Total liabilities and equity	**4,944,416**	**3,905,815**	**1,134,341**	**1,452,802**	**1,760,174**	**81,649**	**18,822,796**	**32,101,993**
On balance sheet interest sensitivity analysis	**(1,001,167)**	**(650,815)**	**1,890,659**	**1,960,848**	**8,078,173**	**984,406**	**(11,262,104)**	–
As at 31 December 2004								
Total assets	**8,751,000**	**944,000**	**874,000**	**209,000**	**830,000**	**3,240,000**	**331,000**	**15,179,000**
Total liabilities and equity	**7,335,000**	**779,000**	**393,000**	**735,000**	**1,377,000**	**212,000**	**4,348,000**	**15,179,000**
On balance sheet interest sensitivity analysis	**1,416,000**	**165,000**	**481,000**	**(526,000)**	**(547,000)**	**3,028,000**	**(4,017,000)**	–

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

NOTE 27 RELATED PARTY TRANSACTIONS

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

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

Transactions with related parties are carried out at market rates.

The following balances were held with related parties arising in respect of key management personnel as at 31 December 2005:

	Terms %	31.12.2005 LVL	31.12.2004 LVL
Total loan exposure	**8.09**	**12,178**	**12,062**

NOTE 28 FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

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

NOTE 29 TAXES

	Balance 31.12.2004	Calculated in 2005 LVL	Paid in 2005 LVL	Balance 31.12.2005 LVL
Corporate income tax	20,948	162,780	75,498	108,230
Social insurance contributions	–	150,221	150,221	–
Personal income tax	–	109,414	109,414	–
	20,948	**422,415**	**335,133**	**108,230**