

A/S Latvijas Krājbanka

Annual Report

for the year ended 31 December 2005

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Registration number: 40003098527

STATEMENT OF THE MANAGEMENT

Dear shareholders and customers of *Krājbanka*!

Irrespective of tough competition in the Latvian banking sector, JSC Latvijas Krājbanka in 2005 managed to successfully strengthen its position as one of the leading network banks in Latvia. Being the bank with the largest number of customer service centers in the state, *Krājbanka* continues to focus on a wide range of clientele, paying special attention to individuals with regular income, as well as providing services to small and medium-sized companies.

The financial year of 2005 has been completed with the largest profit in the history of *Krājbanka* in the amount of 2.7 million lats that testifies to successful reorganization and optimization of processes performed during the previous year. We are particularly pleased that good results are achieved in the fields, which *Krājbanka* identified as priorities. These are: credit card business, lending to individuals, lending to small and medium-sized companies, as well as development of the electronic payment system (EPS). Recognizable results are achieved also in the fields, which *Krājbanka* has started developing during the recent 1-2 years. Herewith, management of the second level of pensions with the mediation of IPS Astra Krājfondi is to be mentioned, which during a period of a little over a year has managed to attract more than 30,000 customers, as well as the cooperation with one of the largest life insurance Groups in Europe – *GRAWE, Australia*, on the distribution of accumulative insurance policies, that started in the beginning of 2005. The cooperation with *GRAWE* can be considered a significant event not only for *Krājbanka*, but also for the entire Latvian insurance market, as prior to this the banks did not offer such a product; however, following the *Krājbanka's* example many Latvian commercial banks turned to selling accumulative insurance policies.

In general, *Krājbanka's* budget of 2005 was exceeded by more than twice or by 1.3 million lats. Primarily, it was positively influenced by successful transactions with financial instruments where the budgeted revenue was exceeded by 1.6 million lats, likewise with commission fee income where the budget was exceeded by 0.6 million lats, and the decrease of interest rate expenses by 0.4 million lats. Whereas, the total amount of negative deflections of 1.3 million lats was formed by the above plan accumulations in the amount of 1 million lats, excess of administrative expenditures of 0.1 million lats and enterprise income tax of 0.1 million lats.

The reporting year was significant in the history of *Krājbanka* due to the change of shareholders. In September, 83.01% shares of the bank became property of “Snoras”, the fourth largest commercial bank in Lithuania, which according to both its structure and target population is similar to *Krājbanka*. In this case, we see good opportunities for cooperation and even synergy. This is proved also by the joint *Krājbanka's* and Snoras bank's slogan – “Your nearest bank”. In appreciation of the high *Krājbanka's* brand recognition, the corporate identity and symbol of the Bank remained unchanged after the purchase of the controlling interest.

When *Krājbanka's* shareholders changed, the International rating agency Fitch Ratings increased the bank's support rating to level “4”, indicating that Snoras could positively impact *Krājbanka's* activity and evolution by making use of its experience in providing bank's services. For the first time, Fitch Ratings Agency awarded ratings to *Krājbanka* in August, determining the long-term rating in foreign currency at “B+” level, the short-term one at “B” level, and the individual rating at “D” level.

Last year *Krājbanka* was implementing many significant projects. Supporting the IX Schools Song and Dance Festival, as a general sponsor, *Krājbanka* offered an innovative product in Latvia – ID card, which can simultaneously perform functions of a payment card and serve as a discount card at certain shopping places. This card was issued to each participant and organizer of the Festival.

Historically, card products have always been in the center of *Krājbanka's* attention. Therefore, we paid special attention to introducing new cards and technologies. Herewith, the fact is to be pointed out that *Krājbanka* has already last year managed to fully transfer to issue of smart cards, which was started in 2003 with the issue of VISA smart cards and was finished in 2005, issuing in addition Mastercard and Maestro smart cards. Thus, *Krājbanka* is one of the few Latvian banks, which at present can provide customers with card services of the technologically highest level.

In addition, last year *Krājbanka* created many card products, which are distinguished not only due to functional solutions, but also due to their innovative design. Continuing long-term and successful cooperation with the pop band “Prāta Vētra”, *Krājbanka* took a step forward and came up with a new card to the Latvian market – *Prāta Vētra* credit card. *Prāta Vētra* credit card is convenient in operation – there is no commission fee for purchases and services in Latvia and abroad, and when making use of the credit limit capability, the customer has to repay only 5% of the credit used during the previous month. The card's advantage is also its design – the card has an original photo of Prāta Vētra made by a famous photographer Anton Corbijn.

In September, *Krājbanka* started offering the first mat payment card on the Latvian market - *VISA Electron Adventures card*. It is meant for young people who have been always considered by *Krājbanka* as a very significant segment of customers. Within the framework of the Youth Campaign, being held from September

STATEMENT OF THE MANAGEMENT

1 to October 31, another *Adventures card* was issued as well, which differs from the mat payment card with its design and payment capabilities. *Krājbanka* has elaborated for each *Adventures card* its own tariff model, to allow customers choosing the most appropriate, convenient for payments and beneficial card. In 2006 new credit card products are planned as well (for instance, platinum cards) and functional supplements to all card groups based on smart cards' technologies. In the field of payment cards' service, *Krājbanka* devotes much attention also to e-commerce development, providing its customers with wider and corresponding to the highest safety standards capabilities for servicing cards in internet.

Apart from the already mentioned cooperation with GRAWE, *Krājbanka* has expanded cooperation also with local insurance companies. *Krājbanka* is the first Latvia's bank to become the external insurance agent of the Insurance Joint Stock Company (IJSC) "BALTA", in conformity with the new law on Insurance and Re-Insurance Mediation. Thus, *Krājbanka's* customers – private-individuals, who pledged to *Krājbanka* their real estate to obtain a loan – are capable of obtaining the IJSC BALTA property insurance policies in the Bank. The largest beneficiaries from this service are *Krājbanka's* mortgage credit receivers, as, according to loan agreement provisions, the mortgaged property is to be insured.

During the year of account, *Krājbanka* supported also many other projects significant for the society. Apart from the already mentioned IX Schools Song and Dance Festival, for the sixth time in succession, the bank appealed to active and inquisitive youths to participate in the International Simulative Stock Exchange Play. Making use of the status of European Banks' Associated bank-participant, *Krājbanka* is capable of providing this play to young people from Latvian schools and of coordinating its process.

Besides, to support education of young generation and to facilitate interest to theatrical art, *Krājbanka*, in cooperation with Dailes Theater, arranged the project "Let's Go to the Theater!". Within its framework, during theatrical seasons of 2005 *Krājbanka* each month purchased from Dailes Theater 120 tickets to performances, which are appropriate for children and youth audience, and these tickets were passed to schoolchildren from all Latvia's regions.

An important event in *Krājbanka's* life is also construction of a new bank's premise started at Skanstes Street in Riga. The new building will accommodate a new service center for the bank's customers, the VIP customers service centre, the bank's administration and supporting structural units. Construction works of the premise are planned to be completed at the end of this year.

In 2005, there were 73 *Krājbanka's* customer service centers operating throughout Latvia. For the customers' convenience, a new bank's customer service center was opened at the end of December 2005 in Riga, at Domina Shopping Center. Opening of the new center is a significant event in *Krājbanka's* life, as the new bank's identity conception was implemented in layout of this center's premises. In 2006 *Krājbanka* intends to provide a large role to development of customer service network – both in visual image of premises, and in perfecting customer service quality, and in increasing the amount of service points throughout Latvia, as well as making use of Snoras Bank's experience in providing service to customers at mini banks.

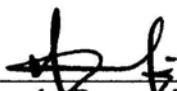
In 2006, *Krājbanka* plans to actively get down to the business of investment funds, as well as plans issuing more bonds, including mortgage backed bonds. At the end of 2005, *Krājbanka* was elected to the Board of European Savings Bank Group. This year we intend to actively participate in this organization's management, making decisions on such important issues as establishment of the unified euro system. Opinion of the European Savings Bank Group is significant for the European Payment Council, which determines further promotion of these issues to all EU member-states.

Bank's routine activities are inevitably subjected to different risks. As detailed in attachment to this report "Risks Management", Bank has elaborated and successfully implemented the risks' policy, which is directed to analysis of processes, aimed at reducing possible risks of losses.

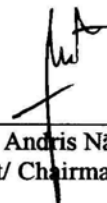
Considering *Krājbanka's* further evolution plans, Bank's Management suggest to retain current year profit, this way having significantly improved the capital base.

In conclusion, we would like to thank all our customers and cooperation partners, bank's employees for trust in the bank. We are convinced in successful cooperation also during this – *Krājbanka's* 83rd – operation year.

Yours faithfully,



Raimondas Baranauskas
Chairman of the Council



Andris Nātriņš
President/ Chairman of the Board

Riga,
28 February 2006

Description of Economic and Banking Sector

In 2005 one of the highest growth rates among the EU member states was forecasted for Latvia. The Ministry of Economics forecasted that the 2005 GDP growth in Latvia would exceed 10%. The rate of investment growth in Latvia is one of the highest in the EU. Latvia's high economic growth during recent years is secured by an increase in internal demand, alongside with the development of lending services provided by commercial banks and the growth of income level, expansion of export capabilities for products manufactured by various industries and the growth in volume of investments. The growth of investments in its turn is supported by a stable macroeconomic environment, by Latvia's accession to the EU and the use of EU funds, as well as by the reduction of loan interest rates.

During the 3 quarters of 2005, all sectors of economy underwent significant development. Particularly quickly grew the areas of construction, transport, communications and trade. Slower GDP growth rates during this period were observed in the processing industry which resulted from the decrease in the volume of exports in wood processing and textile manufacturing. The growth of agriculture during the 9 months of 2005 was relatively slow, as development in this area was affected by low productivity and external competition.

Export volumes of Latvia's goods during the 11 months of 2005 exceeded those of the corresponding period in 2004 by 34%, which was partly caused by favourable changes in the currency exchange rates. The growth of import volumes in the same period was less and constituted 27%. During this period, export volumes were primarily constituted by wood and its products (25.2%), metals and their products (13.2%), agricultural and food products (11.9%). Whereas, the total amount of imported goods was primarily constituted by machine building products (19.5%), mineral products (15.6%), chemical industry products (13.6%), agricultural and food products (11.7%).

The main trade partners of Latvia in 2005 were the EU member states. The foreign trade turnover of Latvia was dominated by transactions with Germany, Lithuania, Estonia and Russia. Compared to the period before EU accession, foreign trade with other Baltic states grew by more than two times during two years. However, there was still a negative balance with these states. Similar to 2004, Latvia's total negative commodity trading balance in 2005 is partially covered by the positive balance of services. Export of transport services in the three quarters of 2005 comprised over half of the total export of services.

The fiscal deficit of the state consolidated combined budget in 2005 was forecasted at 91.6 million Ls or 1% of GDP. Since 2000, the fiscal deficit of the state consolidated combined budget in Latvia was lower than the 3% of GDP allowed by the Maastricht Treaty. There is a gradual improvement of the fiscal position of the state. Latvia's priorities of the 2005 budget were improvement of the healthcare system, incorporation into EU and NATO, utilization of EU funds and development of science.

Latvia has managed to retain one of the lowest state debt ratios against GDP. In 2005, it was forecasted as 10.5% of GDP. At the end of November 2005, the state debt constituted 908.1 million Ls.

During recent years, the amount of economically active residents of Latvia has been increasing alongside with the increase of the level of employment and the actual income of the employed. Despite that, the official unemployment rate in Latvia remains one of the highest in the EU. At the end of 2005, it was 7.4%, which is lower than at the end of 2004 (8.5%).

Consumer price inflation in 2005 in Latvia was 7% (2004 7.3%). As in 2004, the consumer price inflation in Latvia in 2005 was the highest among the EU member states. In 2005, the average inflation was 6.7%, which exceeded the average inflation level of 2004 by 0.5%. The fast growth of prices in 2005 was mainly influenced by higher oil prices in the world, which made many raw materials more expensive, as well as by strong internal demand and the increase in administratively - regulated prices.

For the purposes of reducing the growth of lending and internal demand, and inflation, the Bank of Latvia in 2005 gradually increased the amount of compulsory reserves for banks from 4% to 8%.

Since May 2nd 2005, Latvia has joined VKM II at the current rate of the lat against the euro (1 EUR = 0.7028 LVL). The Bank of Latvia provides that the fluctuation of the lat against the euro remains within +/- 1% of the pegging rate. It reduces the currency risk and the uncertainty characteristic for business planning. The euro introduction schedule approved by the Cabinet of Ministers envisages that Latvia will join the EMS on January 1, 2008. The final decision on whether Latvia is ready to join the EMS will be made by the EU Council. Currently, the inflation index is the most important reason, which could delay the introduction of the euro in Latvia at the anticipated time.

The cash base (cash turnover and deposits in the Bank of Latvia) covered by net external assets at the end of 2005 constituted 102.9%. Compared to the end of 2004, net external assets of the Bank of Latvia grew by 33.8% during the reporting year.

THE ECONOMIC AND BANKING ENVIRONMENT

During 2005, the number of bank service providers in Latvia has not changed. These services were provided by 22 banks and one foreign bank's branch office. Foreign shareholders owned about 58.6 % of the total banks' paid up share capital.

In the Latvian banking sector in 2005, there was a growth of all main operating indices such as assets, capital and reserves, pegging deposits, issued credits and profit volume. According to the report of the Financial and Capital Market Commission on unaudited operational indices of commercial banks, in 2005 there was an accelerated growth of assets and balance of issued loans compared to 2004. However, the increase of deposit balances in 2005 was slower than in 2004 (21.7% against 36.6%) and, therefore the lending growth rates outpaced those of deposits. Compared to the situation at the end of 2004, the amount of deposits from non-residents in the total amount of deposits in the banking sector reduced from 54% to 47.2%. However, the dependency on the foreign bank financing continued to grow.

Data from the Financial and Capital Market Commission certifies that at the end of 2005 approximately 24.5% of all loans issued to resident legal entities were connected with real estate transactions. At the end of 2005, a significant proportion in the credit portfolio of commercial banks was constituted by the loans issued to financial mediation enterprises (19.2%). The growth of lending volumes in many industries was related to utilization of EU structural funds and the reduction of credit risk. The volume of issued mortgage loans in 2005 increased more than twice, having reached at the end of the year over 42% of the total amount of all issued loans. In its turn, the volume of loans issued for obtaining commodities in 2005 increased by 39%. The volume of credit card loans grew by over 120%, and the proportion of long-term loans in the total amount of loans issued during 2005 increased by approximately 1 percent point, reaching 48.3%.

In 2005, amendments were made to many regulatory normative acts applicable to commercial banks. Among the most important, were amendments to the Law "On the Prevention of Laundering of Proceeds Derived from Criminal Activity" and the Law on Credit Institutions, which caused a significant outflow of non-residents' resources from the bank sector in general. In 2005, the maximum guaranteed amount of remuneration to one depositor for deposits in one bank was 6,000 lats, but starting from 2006 it was raised to 9,000 lats.

SUPERVISORY COUNCIL AND MANAGEMENT BOARD OF THE BANK

As at the date of signing of the Financial Statements the Supervisory Council of the Bank consisted of the following members:

Supervisory Council

<i>Name, surname</i>	<i>Position</i>	<i>Date of appointment</i>
Raimondas Baranauskas	Chairman of the Council	28/10/2005
Vilis Dambiņš	Deputy Chairman of the Council	28/10/2005
Aleksandr Antonov	Member of the Council	28/10/2005
Naglis Stanickas	Member of the Council	28/10/2005
Oleg Suhorukov	Member of the Council	28/10/2005
Veronika Dolenko	Member of the Council	28/10/2005

From 1 January 2005 receded:

<i>Name, surname</i>	<i>Position</i>	<i>Date</i>
Ilmārs Razumovskis	Chairman of the Council	28/10/2005
Vilis Dambiņš	Deputy Chairman of the Council	28/10/2005
Laimonis Strujevičs	Deputy Chairman of the Council	28/10/2005
Marita Vildava	Member of the Council	28/10/2005
Lolita Kronberga	Member of the Council	28/10/2005
Ansis Sormulīs	Member of the Council	28/10/2005
Vidaga Putniņa	Member of the Council	28/10/2005
Maira Gūtmane	Member of the Council	28/10/2005
Gundars Lācis	Member of the Council	28/10/2005

In accordance with recension in statutes of Latvijas Krājbanka, registered on 8 November 2005 in the Latvian Enterprise Registry, the Supervisory Council consists of 6 members.

SUPERVISORY COUNCIL AND MANAGEMENT BOARD OF THE BANK

As at the date of signing of the Financial Statements members of the Management Board were as follows:

The Board of Management

<i>Name, surname</i>	<i>Position</i>	<i>Date of appointment / reappointment</i>
Andris Nātriņš	Chairman of the Board/ President	27/06/2003
	Member of the Board	31/03/2003
Dzintars Pelcbērģs	First Deputy Chairman of the Board/ First Vice President	02/01/2006
Valts Vīģants	Member of the Board/ Senior Vice President	27/06/2003
Gints Bukovskis	Member of the Board/ Senior Vice President	27/06/2003
Andrey Surmach	Member of the Board/ Senior Vice President	28/10/2005
Ēvalds Trukšāns	Member of the Board	27/12/2005

From 1 January 2005 receded:

<i>Name, surname</i>	<i>Position</i>	<i>Date</i>
Uģis Latsons	First Deputy Chairman of the Board/ First Vice President	01/12/2005
Olga Lomaša	Member of the Board	23/12/2005

In accordance with recension in statutes of Latvijas Krājbanka, registered on 8 November 2005 in the Latvian Enterprise Registry, the Board of Management consists of 6 members.

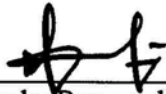
STATEMENT OF RESPONSIBILITY OF THE MANAGEMENT

The Management of A/S Latvijas Krājbanka (hereinafter - the Bank) is responsible for the preparation of the financial statements of the Bank.

The financial statements on pages 10 to 50 are prepared in accordance with the source documents and present fairly the financial position of the Bank as at 31 December 2005, the results of its operations, changes in shareholders' equity and cash flows for the year then ended.

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

The Management of A/S Latvijas Krājbanka 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, the regulations of the Bank of Latvia, the instructions of the Financial and Capital Market Commission and other legislation of the Republic of Latvia applicable to credit institutions.



Raimondas Baranauskas
Chairman of the Council



Andris Nātriņš
President/ Chairman of the Board

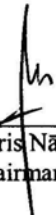
Riga,
28 February 2006

A/S LATVIJAS KRĀJBANKA
INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2005

	Notes	2005 LVL '000	2004 LVL '000
Interest income	4	12,225	10,714
Interest expense	4	(4,484)	(4,232)
Net interest income		7,741	6,482
Commission and fee income	5	6,939	6,040
Commission and fee expense	5	(1,486)	(1,005)
Net commission and fee income		5,453	5,035
Profit on sale of securities and foreign exchange trading	6	2,601	1,067
Other operating income	7	774	846
Operating income		16,569	13,430
Administrative expenses	8	(9,955)	(9,495)
Depreciation and amortisation expense	26	(1,639)	(1,734)
Other operating expenses	10	(277)	(222)
Impairment losses	11	(2,139)	(1,064)
Reversal of impairment losses	11	492	593
Income before corporate income tax		3,051	1,508
Corporate income tax	12	(349)	(206)
Net income		2,702	1,302
Basic earnings per share (in lats per share)	13	0.297	0.143
Diluted earnings per share (in lats per share)	13	0.242	0.127

The accompanying notes on pages 15 to 50 form an integral part of these financial statements.

The financial statements on pages 10 to 50 have been authorised by the Management of the Bank for approval and signed on its behalf by:



 Andris Nātriņš
 President/ Chairman of the Board


Riga,
 28 February 2006

A/S LATVIJAS KRĀJBANKA
 BALANCE SHEET AND MEMORANDUM ITEMS
 AS AT 31 DECEMBER 2005

	Notes	31.12.2005 LVL '000	31.12.2004 LVL '000
Assets			
Cash and deposits with the central bank	14	28,513	25,462
Balances due from credit institutions and the central bank	15	13,929	18,941
<i>Demand deposits</i>		12,867	12,288
<i>Other balances due from credit institutions</i>		1,062	6,653
Loans and advances to non-banking customers	16-20	152,584	121,991
Investments in bonds and other fixed income securities	21	31,863	33,879
<i>Government bonds</i>		24,263	27,294
<i>Other bonds and other fixed income securities</i>		7,600	6,585
Shares and other non-fixed income securities	22	175	108
Investment in associate	23	121	121
Investment in subsidiary	24	5	5
Derivative assets	25	1	19
Intangible assets	26	828	853
Fixed assets	26	9,394	7,360
Other assets	27	4,292	2,545
Prepayments and accrued income	28	1,488	1,841
Total assets		243,193	213,125

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 Andris Nātriņš
 President/ Chairman of the Board

Riga,
 28 February 2006

A/S LATVIJAS KRĀJBANKA
BALANCE SHEET AND MEMORANDUM ITEMS
AS AT 31 DECEMBER 2005


	Notes	31.12.2005 LVL '000	31.12.2004 LVL '000
<u>Liabilities</u>			
Balances due to the central bank and credit institutions	29	16,286	31,972
<i>Demand</i>		7,149	11,913
<i>Term</i>		9,137	20,059
Deposits from the public	30	198,156	157,991
<i>Demand deposits</i>		99,592	81,036
<i>Term deposits</i>		98,564	76,955
Derivative liabilities	25	85	46
Deferred income and accrued expenses	31	2,481	1,944
Provisions	32	641	302
Deferred tax liability	33	959	643
Other liabilities	34	2,599	3,852
Subordinated debt	35	3,865	3,403
<u>Total liabilities</u>		<u>225,072</u>	<u>200,153</u>
<u>Shareholders' equity</u>			
Paid-in share capital	36-38	9,106	9,106
Share premium		1,323	1,323
Reserve capital and other reserves		626	626
Revaluation reserve		2,830	383
Retained earnings/(accumulated deficit)		1,534	232
Net income		2,702	1,302
<u>Total shareholders' equity</u>		<u>18,121</u>	<u>12,972</u>
<u>Total liabilities and shareholders' equity</u>		<u>243,193</u>	<u>213,125</u>

Memorandum items:

Commitments and contingencies	40	17,530	10,301
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 Andris Nātriņš
 President/ Chairman of the Board

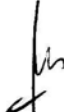
Riga,
28 February 2006

A/S LATVIJAS KRĀJBANKA
STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2005

	Paid-in share capital LVL '000	Share premium LVL '000	Reserve capital and other reserves LVL '000	Revaluation reserve LVL '000	Retained earnings LVL '000	Total shareholders' equity LVL '000
Balance on 31 December 2003	9,106	1,323	626	402	209	11,666
Change in revaluation reserve due to sold property	-	-	-	(17)	23	4
Net profit for the year	-	-	-	-	1,302	1,302
Balance on 31 December 2004	9,106	1,323	626	383	1,534	12,972
Increase in revaluation reserve	-	-	-	2,447	-	2,447
Net profit for the year	-	-	-	-	2,702	2,702
Balance on 31 December 2005	9,106	1,323	626	2,830	4,236	18,121

The accompanying notes on pages 15 to 50 form an integral part of these financial statements.

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 Andris Nātriņš
 President/ Chairman of the Board

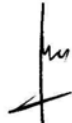
Riga,
 28 February 2006

A/S LATVIJAS KRĀJBANKA
CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2005

	Notes	2005 LVL '000	2004 LVL '000
Operating activities			
Result before corporate income tax		3,051	1,508
Depreciation and amortisation		1,639	1,734
Impairment losses		682	581
Increase / (decrease) in provisions for liabilities and charges		(41)	44
Gain on revaluation of foreign currency		(149)	(84)
Gain on revaluation of investments		(823)	(306)
Loss / (gain) from disposal of fixed assets, net		(9)	(80)
Increase in cash and cash equivalents before changes in assets and liabilities, as a result of ordinary operations		4,350	3,397
Increase/(decrease) in deferred income and accrued expenses		537	(8)
Decrease /(increase) in prepayments and accrued income		220	(265)
Net decrease /(increase) in derivative instruments		57	66
Decrease /(increase) in other assets		(1,709)	402
Increase /(decrease) in other liabilities		(1,253)	558
Increase in provision for liabilities		-	161
Decrease /(increase) investments		2,772	7,131
(Increase) in loans and advances to non-banking customers		(31,090)	(26,497)
Increase /(decrease) in balances due to the central bank and credit institutions		(436)	388
Increase /(decrease) in deposits from the public		40,165	16,234
Net increase in cash and cash equivalents from operating activities		13,613	1,567
Paid income tax		(175)	-
Cash inflow/ outflow from investing activities			
(Purchase) of fixed and intangible assets		(926)	(1,256)
Proceeds from disposal of fixed and intangible assets		166	520
Investment in associate and subsidiary, net		-	(126)
Increase in cash and cash equivalents from investing activities		(760)	(862)
Cash inflow from financing activities			
Proceeds from issue of subordinated debt		3,865	803
Repayment of subordinated debt		(3,403)	-
Increase in cash and cash equivalents from financing activities		462	803
Net increase/(decrease) in cash and cash equivalents		13,140	1,508
Cash and cash equivalents at the beginning of the year		12,867	11,275
Profit/(loss) from revaluation of foreign currency positions, net		149	84
Cash and cash equivalents at the end of the year	41	26,156	12,867

The accompanying notes on pages 16 to 50 form an integral part of these financial statements.

The financial statements on pages 10 to 50 have been authorised by the Management of the Bank for approval and signed on its behalf by:



 Andris Nātrīš
 President/ Chairman of the Board

Riga,
 28 February 2006

A/S LATVIJAS KRĀJBANKA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2005

1. INCORPORATION AND PRINCIPAL ACTIVITIES

A/S Latvijas Krājbanka (hereinafter – the Bank) was founded in 1924 as Latvijas Pasta Krājbanka (*Latvian Post Savings Bank*). In June 1940 it was reorganised and included into the structure of the USSR Savings Bank. Until 1991 the main task of the Bank was to attract financial resources and service them within the framework of the Soviet banking system.

On 3 September 1991 the Supreme Council of the Republic of Latvia decided to re-establish a/s Latvijas Krājbanka. A/S Latvijas Krājbanka took over all rights of the former USSR National Savings Bank and on 15 October 1992 received a license to perform banking operations. The Bank was registered in the Enterprise Register of the Republic of Latvia on 16 October 1992 as a state owned commercial bank. On 29 March 1994 the Bank was re-registered as a state joint-stock company Latvijas Krājbanka. In accordance with the Order of the Cabinet dated 18 January 1996, the state joint stock company Latvijas Krājbanka was included into the list of entities to be privatised. During the first phase of the privatisation process in 1997, the Bank was merged with Rīgas Apvienotā Baltijas banka (*Riga United Baltic Bank*). During the subsequent public offering the shares of the Bank were purchased by residents of Latvia using privatisation certificates.

As at 31 December 2005, the Bank had customers' service centres in all regions of Latvia:

<u>Region</u>	<u>Customer service centres</u>	
Rīga	34	(34)
Vidzeme, except Rīga	12	(13)
Latgale	11	(11)
Kurzeme	10	(10)
Zemgale	6	(6)
Total	73	(74)

The comparatives for 2004 are disclosed in brackets.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A summary of the principal accounting policies consistently applied (unless otherwise stated) throughout the years ended 31 December 2005 and 2004, is set out below:

a) Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs), its interpretations adopted by the International Accounting Standards Board (IASB) and the Latvian Financial and Capital Market Commission's "Regulations on the preparation of financial statements of banks".

b) Basis of presentation

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

The financial statements are prepared on the historical cost basis except that the following assets and liabilities are stated at their fair value: derivative financial instruments, financial instruments held for trading, financial instruments classified as available-for-sale, and land and buildings.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

c) Income and expense recognition

All significant interest income (including loan origination fees) and expense items are recognised on an accrual basis method by using effective interest method.

No interest income is recognised on non-performing loans and advances (see paragraph g) on which interest is unlikely to be collected. The recognition of interest income ceases when the payment of interest or principal is in doubt and impairment for accrued interest income is automatically provided for.

Commissions are credited/charged to the income statement on the date of transaction.

Commission income from the performed custodian and brokerage services for its clients is credited to the Bank's income statement in the period when the services are provided.

d) Foreign currency translation

Transactions denominated in foreign currencies are recorded in lats at the actual rates of exchange published 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 year-end. Any gain or loss resulting from a currency rate fluctuations 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 foreign exchange rates (LVL to 1 foreign currency unit) published by the Bank of Latvia and used in the preparation of the Bank's balance sheet were as follows:

<u>Reporting date</u>	<u>USD</u>	<u>EUR</u>	<u>RUB</u>
As of 31 December 2005	0.593000	0.702804	0.020600
As of 31 December 2004	0.516000	0.703000	0.018600

e) Corporate income tax

Corporate income tax at the rate of 15% (2004:15%) is calculated in accordance with Latvian tax regulations and is based on the taxable profit reported for the taxation period.

Deferred taxes are provided for all temporary differences between the tax base of an asset or liability and its carrying amount in the balance sheet. The tax base of an asset or liability is the amount attributed to that asset or liability for tax 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 future tax rates enacted at the balance sheet date (15% starting from 1 January 2004). Deferred tax liabilities arising from revaluation of fixed assets are disclosed in fixed assets revaluation reserve.

Deferred tax assets are recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

f) Earnings per share

Earnings per share are calculated by dividing the attributable profit for the year by the weighted average number of shares in issue during the year.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

For the purpose of calculating diluted earnings per share, the net profit attributable to ordinary shareholders and the weighted average number of shares outstanding are adjusted for the effects of all dilutive potential ordinary shares (subordinated debt).

g) Originated loans and provisions for loan impairment

The loans originated by the Bank are categorized as loans and advances, and are carried at amortized cost. All loans and advances are recognised when cash is advanced to borrowers. Loans and advances to non-banking customers represent the outstanding principal balances less allowances for impaired loans and advances.

Non-performing loans and advances to customers including banking institutions are defined as loans and other credit balances in which contractually due interest or principal is 30 days or more overdue or where the Bank Management otherwise believe that the contractual interest or principal due will not be collected.

The level of impairment allowance is based on estimates considering relevant factors including but not limited to the Bank's past loan loss experience, known and inherent risks in the portfolio of loans and advances, adverse situations that may affect 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 collectability and collateral values.

Impairment losses are recognized in compliance with the International Financial Reporting Standards and represent the estimated amounts of probable losses that have been incurred at the balance sheet date. The specific impairment allowance is determined after individually reviewing all loans for potentially uncollectible amounts. When a loan or advance has been classified as non-performing or of high risk an impairment for possible credit losses is established for that specific loan or advance for the amount of outstanding balance, which is deemed uncollectible taking into consideration the client's credibility and collateral. The fair value of collateral is determined in accordance with the principle of prudence and based on the quality and liquidity of the collateral.

Collective impairment for the portfolio value decrease relates to the potential loan losses and off-balance sheet liabilities, which experience indicates are present in the Bank's portfolio of loans and advances to customers. When according to Management loans and advances cannot be recovered, they are written off and charged against the impairment allowance for possible credit losses. They are not written off until all the necessary legal procedures have been completed, and the Bank gains sufficient assurance about the unrecoverability of the loan, and the final amount of the loss is determined.

h) Leases

For the purposes of these financial statements, finance lease receivables are classified as *Loans and advances to non-banking customers*.

Finance leases, which confer rights and obligations similar to those attached to owned assets, are recognised as assets and liabilities at amounts equal at the inception of the lease to the fair value of the leased property or, if lower, at the present value of the minimum lease payments. The finance income is allocated to periods during the lease term to produce a constant periodic return on the net investments outstanding in respect of the finance leases.

i) Financial instruments

Classification

Held-to-maturity investments are financial assets with fixed or determinable payments and fixed maturity that the Bank has the intent and the ability to hold to maturity.

Trading investments are those acquired for the purpose of short-term profit taking or dealer margin.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments at fair value through profit or loss: these financial assets or liabilities have been designated by the Bank at inception as at fair value through profit or loss.

Available-for-sale assets are financial assets that are not held for trading purposes or held to maturity.

The Bank has reclassified its available-for-sale portfolio to financial assets at fair value through profit or loss.

Measurement

Held-to-maturity investments are initially recognised at cost (including transaction costs) and subsequently remeasured at amortised cost less impairment losses. Amortised cost is calculated using the effective interest rate method. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortised based on the effective interest rate of the instrument.

Revaluation of financial assets at fair value through profit or loss, trading investments and available-for-sale assets is based on quoted market price. If quoted prices are not readily available the Bank uses alternative methods to determine fair value, for example, using pricing models or discounted cash flow techniques.

Where discounted cash flow techniques are used, estimated future cash flows are based on the Management's best estimates and the discount rate is a market related rate at the balance sheet date for an instrument with similar terms and conditions. Where pricing models are used, the information is based on market related measures at the balance sheet date.

Revaluation of financial assets at fair value through profit or loss and trading investments is directly recognised in the income statement.

The reclassification of the available-for-sale portfolio to financial assets at fair value through profit or loss has not resulted in any adjustment to the equity, since the result has been consistently recognized in the income statement.

Purchase of securities is accounted for using settlement date.

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.

Held-to-maturity instruments and originated loans and receivables are derecognised on the day they are transferred by the Bank.

j) Investments in privatisation certificates

Investments in privatisation certificates are stated at their market value determined in accordance with instructions of the Bank of Latvia.

Unrealised profits or losses arising as a result of stating privatisation certificates at market value are respectively credited or charged to the statement of income as profit or loss from the revaluation of securities.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

k) Derivatives

In the normal course of business, the Bank is a party to contracts for forward foreign exchange rate and currency swap instruments. Receivables and payables arising from recognizing derivatives at their fair value are recognized in the balance sheet as the assets or liabilities of these agreements. Foreign exchange instruments are valued according to the forward rate that is determined based on differences arising between the exchange rates and interest rates of the respective currencies as at the date of the financial statements, as set by the Bank of Latvia. The revaluation result is disclosed as profit or loss from currency exchange trading.

l) Intangible assets

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

m) Fixed assets

Fixed assets are recorded at historical cost or their revalued amount less accumulated depreciation. If the recoverable amount of a fixed asset is lower than its carrying amount due to circumstances not considered to be temporary, the fixed asset is written down to its recoverable amount.

Depreciation is provided using the straight-line method over the estimated useful life of the asset. Assets under construction and preparation are not depreciated. The following depreciation rates have been applied:

<u>Type of fixed assets</u>	<u>Annual Rate 2005</u>	<u>Annual Rate 2004</u>
Buildings	2%	2%
Software	12.5%-20%	12.5%-20%
EDP equipment	25%	25%
Equipment and fixtures	10%-33.33%	10%-33.33%
Transport vehicles	10%	10%

Fixed assets maintenance and running repair costs are charged to the statement of income as incurred.

Leasehold improvements and capital repair costs are capitalised and depreciated over the shorter of the useful economic life and the remaining lease contract period on a straight-line basis.

Land and buildings are revalued periodically.

Depreciation methods, useful lives and residual values are reassessed annually.

n) Sale and repurchase agreements

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

Where the Bank is the transferee, the assets are not recognised in the Bank's balance sheet, but the purchase price paid to the transferor is included as a receivable from the transferor. Interest income or expense arising from outstanding sale and repurchase agreements is recognised in the income statement over the term of the agreement.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

o) Other off-balance sheet instruments

In the ordinary course of business the Bank is involved with commitments to extend loans and advances, set limits for credit cards accounts, issue overdrafts and financial guarantees, as well as commercial letters of credit. Such financial instruments are recorded in the financial statements when the respective contracts are concluded. The methodology for impairment for off-balance sheet instruments is consistent with that adopted for loans and advances to customers as described in paragraph g) above.

p) Assets and liabilities under management

Assets and liabilities managed by the Bank on behalf of its customers, trusts and other institutions are not regarded as assets or liabilities of the Bank and, therefore, are not included in its balance sheet. The Bank assumes no risk for asset and liability under management

q) Cash and cash equivalents

Cash and cash equivalents comprise cash and deposits with the Bank of Latvia and other credit institutions with a remaining maturity of less than 3 months.

r) Provision for employee holiday pay

The provision for vacations is estimated for the Bank's personnel based on the total number of holidays earned but not taken, multiplied by the average daily remuneration expense for the preceding six months including social security contributions.

s) The fair value of financial assets and liabilities

The fair value of financial assets and liabilities represent the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transactions. If according to Management of the Bank the fair value of financial assets and liabilities is different than the balance sheet value, then the fair value of financial assets and liabilities is disclosed in the notes to the financial statements.

t) Investments in associates

Associates are enterprises in which the Bank has significant influence, but not control, over the financial and operation policies. The financial statements include the Bank's share of the total recognized gains and losses of associates on an equity accounted basis, from the date that significant influence effectively commences until the date that significant influence effectively ceases. When the Bank's share of losses exceed the carrying amount recognition of further losses is discontinued except to the extent that the Bank has incurred obligations in respect of the associate.

u) Provisions

A provision is recognised in the balance sheet when the Bank has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

v) Reclassifications

Where necessary, certain comparative figures from the prior year have been reclassified to conform with changes in presentation in the current year.

3. RISK MANAGEMENT

The Bank has developed a system for the identification, supervision and management of its main financial risks, which has been approved by the Bank's Board and Council. Supervision and management of this system is performed by the Asset and Liabilities Committee. The following policies are established and approved within the risk management system:

- Control policy over risk transactions
- Liquidity management policy
- Credit policy
- Interest rate risk management policy
- Trade portfolio policy
- Foreign exchange risk management policy
- State risk management policy

Credit risk

The Bank is exposed to credit risk while performing trading, lending and investment activities, as well as in transactions where the Bank acts as intermediary in the name of clients or issues guarantees to third parties. Credit risk related to trading and investment activities is managed in line with the Bank's trading risk management procedures.

The risk which can arise in the event that the Bank's partners in derivative and other financial instrument transactions might default on their obligations is monitored on an on going basis. To manage credit risk of derivative instruments, the Bank deals with counterparties of good credit standing. The Bank's credit policy identifies the requirements for the credit risk mitigation.

The main basis of credit risk occurrence is lending. The extent of credit risk is reflected in the asset amounts in the balance sheet. However, credit risk can also occur in relation to other products offered by the Bank including derivatives and investments in debt securities. The extent of credit risk in relation to these products is reflected in their carrying value in the balance sheet. In addition the Bank is exposed to credit risk from off-balance sheet items arising from additional loan commitments and issued guarantees.

Interest rate risk

Interest rate risk is measured by the extent to which changes in market interest rates impact on margins and net interest income. To the extent the term structure of interest bearing assets differs from that of liabilities, net interest income will increase or decrease as a result of movements in interest rates.

Liquidity risk

The Bank maintains liquidity management with the objective of ensuring that funds will be available at all times to honour all cash flow obligations as they become due. The Bank's liquidity policy is reviewed and approved by the Management Board. See note 44 "Assets, liabilities and memorandum items by maturity profile".

Foreign exchange rate risk

The Bank has assets and liabilities denominated in several foreign currencies. Foreign currencies risk arises when the actual or forecasted assets in a foreign currency are either greater or less than the liabilities in that currency. The Bank's foreign currency policy is reviewed and approved by the Management Board. See note 43 "Currency analysis".

Derivatives

The financial instruments used by the Bank include forward and swap agreements whose value vary together with foreign currency exchange rate fluctuations and changes in interest rates. The risk in the transactions

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mentioned before is the possibility that the parties involved in the transactions might refuse to fulfil their obligations, as well as the market risk that the agreement value will decrease as a result of unfavourable changes in interest rates.

Market risk

All trading and available for sale financial instruments are subject to market risk. This is the risk that changes in market conditions will change the value of financial instruments. Financial instruments are recognised at their fair value and all changes in market value have a direct influence on the profit of the Bank.

The Bank uses its trading and available for sale financial instruments to follow market conditions. Market risk has been managed according to risk limits defined by the Management of the Bank.

4. INTEREST INCOME AND EXPENSE

	2005 LVL '000	2004 LVL '000
Interest income:		
- interest on loans and advances to non-banking customers	10,377	8,649
- interest on long-term bonds and other fixed income securities	1,391	1,695
- interest on balances due from credit institutions	416	358
- interest on short-term bonds and other fixed income securities	41	12
Total interest income	12,225	10,714
Interest expense:		
- interest on deposits from the public	(3,742)	(3,388)
- interest on balances due to credit institutions	(167)	(339)
- contributions to deposit guarantee fund	(356)	(303)
- interest on subordinated debt	(219)	(202)
Total interest expense	(4,484)	(4,232)
Net interest income	7,741	6,482

5. COMMISSION AND FEE INCOME AND EXPENSE

	2005 LVL '000	2004 LVL '000
Commission and fee income:		
- commission on money transfers	1,990	1,811
- commission on transactions with settlement cards	2,037	1,508
- account maintenance fee	575	679
- commission on transactions with privatisation certificates	502	692
- commission on granting of loans	1,079	796
- cash disbursement commission	414	350
- brokerage fee	99	74
- other commission and fee income	243	130
Total commission and fee income	6,939	6,040
Commission and fee expense:		
- commission on settlement cards	(873)	(505)
- correspondent bank service charges	(188)	(3)
- other commission and fee expense	(425)	(497)
Total commission and fee expense	(1,486)	(1,005)
Net commission and fee income	5,453	5,035

6. PROFIT ON SALE OF SECURITIES AND FOREIGN EXCHANGE TRADING

Profit / (loss) on sale of securities and foreign exchange trading represents the profit or loss from trading activities, mark to market revaluation of securities and revaluation of foreign currency positions, excluding interest income or expense and commissions and fees incurred in respect of those transactions.

	2005 LVL '000	2004 LVL '000
Profit from dealing with currency exchange	1,045	574
Profit on sale of securities at fair value	588	103
Profit from revaluation of securities, net	819	306
Profit/(loss) from revaluation of foreign currency positions, net	149	84
Total profit on sale of securities and foreign exchange trading	2,601	1,067

7. OTHER OPERATING INCOME

	2005 LVL '000	2004 LVL '000
Penalties received	606	488
Gain from sale of fixed assets	63	147
Rental income	59	57
Other operating income	46	106
Income from cession	-	48
Total other operating income	774	846

A major part of penalties received are penalties for non-compliance with contract terms and conditions.

8. ADMINISTRATIVE EXPENSES

	2005 LVL '000	2004 LVL '000
Remuneration and related social security contributions (Note 9)	5,799	5,399
Communication	456	548
Advertising and marketing	556	571
Rent of premises and land	605	606
EDP maintenance	466	456
Security	335	385
Repairs and maintenance of premises and buildings	246	257
Car maintenance	199	182
Office expense	145	230
Consulting and professional fees	110	73
Training and other personnel expenses	136	117
Property and real estate tax	39	44
Other administrative expenses	863	627
Total administrative expenses	9,955	9,495

9. REMUNERATION AND RELATED SOCIAL SECURITY CONTRIBUTIONS

Remuneration and related social security contributions include remuneration to the Supervisory Council, the Management Board and other personnel of the Bank as well as related social security contributions and costs of other benefits.

	2005	2004
	LVL '000	LVL '000
Remuneration to the Supervisory Council	39	47
Remuneration to the Management Board	285	202
Remuneration to other personnel	4,411	4,155
Social security contributions	1,064	995
Total remuneration and related social security contributions	5,799	5,399

The total number of personnel employed by the Bank is specified as follows:

	2005	2004
Members of the Management Board	6	5
Other Management personnel	30	27
Staff personnel	838	828
Total number of personnel employed	874	860

During the year ended 31 December 2005 the Bank had an average number of personnel amounting to 864 (2004: 907).

10. OTHER OPERATING EXPENSES

	2005	2004
	LVL '000	LVL '000
Loss from fixed assets disposal	74	44
State duty on court claims	17	43
Other operating expense	186	135
Total other operating expense	277	222

11. IMPAIRMENT LOSSES

An analysis of impairment losses is presented as follows:

	Impairment losses for loan principal LVL'000	Impairment losses for accrued income LVL'000	Other impairment losses LVL'000	2005 Total LVL'000
Specific provision at the beginning of the year	2,014	319	129	2,462
Collective impairment provision at the beginning of the year	332	-	-	332
Total provision at the beginning of the year	2,346	319	129	2,794
Specific impairment losses	1,445	476	68	1,989
Collective impairment losses	150	-	-	150
Total impairment losses	1,563	476	68	2,107
Reversal of specific impairment losses	(213)	(62)	(2)	(277)
Reversal of collective impairment losses	(1)	-	-	(1)
Recovery of assets previously written-off	(214)	-	-	(214)
Total reversal of impairment losses	(428)	(62)	(2)	(492)
Net charge to the statement of income	1,135	414	66	1,615
Foreign exchange movements	24	2	1	27
Net write-offs and recoveries of assets	(694)	(283)	(15)	(992)
Specific provision at the end of the year	2,362	452	181	2,995
Collective impairment provision at the end of the year	481	-	-	481
Total provision at the end of the year	2,843	452	181	3,476

The table below shows the division of the Bank's impairment losses among balances due from credit institutions, loans and advances to non-banking customers, bonds and other fixed income securities, other assets and accrued interest income at the end of the year:

LVL'000	31.12.2005				Net outstanding balance 31.12.2004
	Gross outstanding balance	Specific provisions	Collective impairment provisions	Net outstanding balance	
Balances due from credit institutions	13,929	-	-	13,929	18,941
Loans and advances to non-banking customers	155,427	(2,362)	(481)	152,584	121,991
Bonds and other fixed income securities	31,863	-	-	31,863	33,879
Other assets	4,472	(180)	-	4,292	2,545
Accrued interest income	1,599	(452)	-	1,147	1,225
Other accrued income	25	(1)	-	24	329
Credit commitments	16,096	-	-	16,096	8,946
Total	223,411	(2,995)	(481)	219,935	187,856

The aggregated portfolio impairment losses on loans and advances to non-banking customers represents approximately 0.3% (2004: 0.3%) of the Bank's residual portfolio of loans and advances after deduction of loans fully secured by Latvian government securities and credit exposures specifically provided for by the Bank.

12. CORPORATE INCOME TAX

Corporate income tax expense for the year ended 31 December 2005 was as follows:

	2005 LVL '000	2004 LVL '000
Deferred tax expense	(116)	121
Corporate income tax	465	85
Corporate income tax for the reporting year	349	206

The reconciliation of corporate income tax at the statutory rate of 15% (2004: 15%) and the actual corporate income tax expense was as follows:

Corporate income tax:

	2005 LVL'000	2004 LVL'000
Profit before taxes	3,051	1,508
Theoretical tax: 15% (2004: 15%)	458	226
Non-deductible expenses, net	42	13
Effect on change in CIT rate	-	(21)
Revaluation gain and gain from the sale of public securities	(123)	(46)
Tax allowance on charity	(28)	-
Prior year adjustment	-	34
Corporate income tax for the reporting year	349	206

13. EARNINGS PER SHARE

Earnings per share are calculated based upon the profit after taxation and the average number of shares in issue during the year.

	2005 LVL'000	2004 LVL'000
Profit after taxation (LVL'000)	2,702	1,302
Average number of shares in issue (thousand)	9,106	9,106
Earnings per share	0.297	0.143

Diluted earnings per share are calculated based on agreements, which in future might impact the number of shares in issue, as well as leave an impact on the current year income statement. Thus the diluted earnings per share are calculated by dividing profit after taxation or loss adjusted for the interest paid on subordinated debt, by the average number of shares in issue during the year adjusted for the effects of the amount of shares, which might be issued by converting subordinated debt.

	2005	2004
Profit after taxation (LVL'000)	2,702	1,302
Interest for subordinated debt (LVL'000)	219	202
	2,921	1,504
Average number of shares in issue (thousand)	9,106	9,106
Potential shares in result of conversion of subordinated debt (thousand)	2,988	2,756
	12,094	11,862
Diluted earnings per share (LVL)	0.242	0.127

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14. CASH AND DEPOSITS ON DEMAND WITH THE CENTRAL BANK

	31.12.2005 LVL '000	31.12.2004 LVL '000
Cash	12,615	11,171
Deposits with the Bank of Latvia	15,898	14,291
Total cash and deposits on demand with the central bank	28,513	25,462

According to the requirement of the Bank of Latvia credit institutions should comply with the requirement on obligatory reserves. The reserves cannot be used to maintain the basic operations of the Bank. As at 31 December 2005 the obligatory reserves were LVL 14,578 thousand (2004: LVL 5,974 thousand). In the reporting year, the Bank has complied with the requirements on obligatory reserves.

15. BALANCES DUE FROM CREDIT INSTITUTIONS AND CENTRAL BANKS

	31.12.2005 LVL '000	31.12.2004 LVL '000
Due from credit institutions registered in OECD countries	1,472	7,616
Due from credit institutions registered in Latvia	11,974	10,971
Due from credit institutions registered in other non-OECD countries	483	354
Total balances due from credit institutions	13,929	18,941

As of 31 December 2005, the Bank had established correspondent relationships with 15 (2004: 15) credit institutions registered in the OECD area, 14 (2004: 10) credit institutions incorporated in non-OECD countries and 8 (2004: 5) Latvian credit institutions.

The following table provides an analysis of balances due from credit institutions by maturity profile:

Maturity profile	Due from credit institutions registered in			Total 31.12.2005 LVL'000	Total 31.12.2004 LVL'000
	OECD LVL'000	Latvia LVL'000	Other countries LVL'000		
Correspondent accounts	994	73	483	1,550	3,269
Overnight deposits	-	10,859	-	10,859	9,019
Other demand deposits	416	42	-	458	-
Total demand deposits	1,410	10,974	483	12,867	12,288
Term deposits with credit institutions:					
- due within 1 month	-	1,000	-	1,000	6,600
- due within 1 – 3 months	62	-	-	62	53
Total term deposits	62	1,000	-	1,062	6,653
Net due from credit institutions	1,472	11,974	483	13,929	18,941

As at 31 December 2005 average interest rate for issued term deposits for credit institutions 3.48% (2004: 2.59%).

During the reporting year, the Bank mainly used correspondent accounts with the following credit institutions registered in the OECD area: Deutsche Bank Trust Company America (New York), Deutsche Bank AG (Frankfurt), AMEX (New York), Nordea Bank Finland (Helsinki), UBS AG (Zurich), National Westminster Bank Plc (London).

16. LOANS AND ADVANCES TO NON-BANKING CUSTOMERS

Loans and advances to non-banking customers comprise the following:

	31.12.2005 LVL '000	31.12.2004 LVL '000
Regular loans	137,942	104,189
Loans under reverse repurchase agreements	618	3,851
Utilised credit lines	13,398	13,457
Total gross loans to non-banking customers	151,958	121,497
Finance lease	346	946
Factoring	1,004	746
Overdrafts	299	131
Debit balances on settlement cards	1,820	1,017
Total gross loans and advances to non-banking customers	155,427	124,337
Less provision for possible credit losses (Note 11)	(2,843)	(2,346)
Total net loans and advances to non-banking customers	152,584	121,991

Loans under *reverse repurchase* agreements are granted in exchange for Latvian government securities. As at 31 December 2005, the Bank had issued such loans in the amount of LVL 618 thousand (2004: 3,851 thousand). The nominal value of the Latvian government securities received by the Bank under the reverse repurchase agreements in 2005 was LVL 600 thousand (2004: Latvian government securities of LVL 3,420 thousand) and LHZB bonds 0 (2004: LHZB bonds of LVL 485 thousand).

17. LOANS AND ADVANCES TO NON-BANKING CUSTOMERS BY INTEREST ACCRUAL AND MATURITY PROFILE

The following table provides the division between interest accruing and non-interest accruing loans and advances to non-banking customers at the end of the year:

Interest accrual profile	31.12.2005 LVL '000	31.12.2004 LVL '000
Accrual basis	153,184	122,314
Non-accrual basis	2,243	2,023
Total gross loans and advances to non-banking customers	155,427	124,337
Less provision (Note 11)	(2,843)	(2,346)
Total net loans and advances to non-banking customers	152,584	121,991

As at 31 December 2005, the average interest rate charged on outstanding short-term loans was 7.24 % (2004: 6.64%), on long-term loans – 7.02% (2004: 8.17%) and on reverse repurchase agreements with Latvian government securities – 3.15% (2004: 2.98%).

The table below provides the division of outstanding loans and advances to non-banking customers by maturity profile (maturity breakdown for this table has been prepared taking into account original maturity according to loan contracts):

Maturity profile	31.12.2005 LVL '000	31.12.2004 LVL '000
Overdue	1,519	1,124
Falling due within:		
- 1 month	2,937	2,958
- 1 - 3 months	3,133	8,954
- 3 - 6 months	3,401	3,918
- 6 - 12 months	15,883	9,927
- 1 - 5 years	57,797	33,998
- more than 5 years	70,757	63,458
Total gross loans and advances to non-banking customers	155,427	124,337
Less provision (Note 11)	(2,843)	(2,346)

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Total net loans and advances to non-banking customers	152,584	121,991
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18. LOANS AND ADVANCES TO NON-BANKING CUSTOMERS BY CUSTOMER, GEOGRAPHIC AND INDUSTRY PROFILE

Customer profile	31.12.2005 LVL '000	31.12.2004 LVL '000
Privately held companies	78,867	76,510
Municipality owned enterprises	52	85
State owned enterprises	30	51
Total gross loans and advances to corporate customers	78,949	76,646
Municipal authorities	929	1,071
Public and religious institutions	4	4
Personnel employed by the Bank	3,314	2,234
Other private individuals	72,231	44,382
Total gross loans and advances to non-banking customers	155,427	124,337
Less provision (Note 11)	(2,843)	(2,346)
Total net loans and advances to non-banking customers	152,584	121,991

The following table presents a geographic profile of the portfolio of loans and advances to non-banking customers analysed by the place of the customers' residence:

Geographic profile by the place of customers' residence	31.12.2005 LVL '000	31.12.2004 LVL '000
Residents of Latvia	153,334	123,814
Residents of other non-OECD area countries	1,822	31
Residents of OECD countries	271	492
Total gross loans and advances to non-banking customers	155,427	124,337
Less provision (Note 11)	(2,843)	(2,346)
Total net loans and advances to non-banking customers	152,584	121,991

The table below provides an analysis of the portfolio of loans and advances to non-banking customers by geographic region of Latvia:

Geographic profile	31.12.2005 LVL '000	31.12.2004 LVL '000
Riga	93,855	80,924
Zemgale	19,162	15,770
Vidzeme, except Riga	15,375	10,553
Kurzeme	15,205	9,458
Latgale	11,830	7,632
Total gross loans and advances to non-banking customers	155,427	124,337
Less provision (Note 11)	(2,843)	(2,346)
Total net loans and advances to non-banking customers	152,584	121,991

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An industry analysis of the gross portfolio of loans and advances to corporate customers before provisions for possible credit losses is provided below:

Industry profile	31.12.2005 LVL '000	31.12.2004 LVL '000
Retail trade and wholesale distribution	10,720	13,821
Manufacturing	14,896	13,094
Agriculture and forestry	8,118	9,734
Construction	3,167	3,681
Financial intermediaries	6,006	5,065
Hotels and restaurants	4,751	8,358
Electricity, gas and water utilities	3,465	1,165
Transport, warehousing and communications	3,126	3,842
Fishing	33	50
Other service industries	24,667	17,836
Total gross loans and advances to corporate customers	78,949	76,646

Loans issued to corporate customers specifically for the purpose of constructing buildings or other premises in the above industry profile have been classified as loans and advances to construction industry.

19. FINANCE LEASES BY TYPE OF LEASED ASSETS

	31.12.2005 LVL '000	31.12.2004 LVL '000
Transport vehicles	180	499
Manufacturing equipment	66	249
Agricultural equipment	84	164
Other	16	34
Total gross finance leases	346	946

The maturity profile of finance leases has been included in note 17.

20. UNEARNED INTEREST INCOME FROM FINANCE LEASES

	2005 LVL '000	2004 LVL '000
Short-term unearned interest income	16	61
Long-term unearned interest income	4	36
Total unearned interest income from finance leases	20	97

21. INVESTMENTS IN BONDS AND OTHER FIXED INCOME SECURITIES

Financial assets at fair value through profit or loss	31.12.2005 LVL '000	31.12.2004 LVL '000
Government bonds and other fixed income securities:		
Latvian government bonds in local currency	6,278	8,720
Latvian government Eurobonds	2,137	2,250
Mortgage bonds of Latvijas Hipotēku un Zemes banka Parex banka	1,510	1,636
Parex banka	470	-
Bonds issued by credit and other financial institutions	3,800	3,677
Bonds issued by local governments	277	-
Bonds issued by privately held companies	954	713
	15,426	16,996
Held-to-maturity		
Government bonds and other fixed income securities:		
Latvian government bonds in local currency	15,848	16,324
Bonds issued by privately held companies	589	559
	16,437	16,883
Total investments in bonds and other fixed income securities	31,863	33,879

Maturity profile	31.12.2005 LVL '000			31.12.2004 LVL '000		
	Government securities	Other securities	Total	Government securities	Other securities	Total
Falling due within:						
- 1 month	8,975	-	8,975	-	-	-
- 1 - 3 months	-	-	-	3,621	-	3,621
- 3 - 6 months	-	-	-	1,075	-	1,075
- 6 - 12 months	1,012	4,540	5,552	456	-	456
- 1 - 5 years	12,609	2,595	15,204	20,487	6,010	26,497
- more than 5 years	1,667	465	2,132	1,655	575	2,230
Total net bonds and other fixed income securities	24,263	7,600	31,863	27,294	6,585	33,879

As at 31 December 2005, the average yield on outstanding investments in Latvian government securities in LVL was 3.79% (2004: 3.86%) and on investments in fixed income securities issued by other credit and financial institutions was 4.77 % (2003: 4.39%). The foreign currency denominated investments in fixed income securities as at 31 December 2005 had an average yield of 5.48% (2004: 4.00%) on Euro denominated securities and 7.42% (2004: 6.05%) on USD denominated securities.

22. SHARES AND OTHER NON-FIXED INCOME SECURITIES AT FAIR VALUE

	31.12.2005 LVL '000	31.12.2004 LVL '000
Shares		
Equity shares of unlisted Latvian corporate entities	1	1
Total equity shares	1	1
Latvian privatisation certificates	174	107
Total shares and other non-fixed income securities	175	108

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23. INVESTMENT IN ASSOCIATE

In 2004, the Bank purchased 120,000 newly issued shares (LVL 121 thousand) of a/s Ieguldījumu sabiedrība "Astra fondi" representing 50% of the share capital. The investment in associate is carried at cost and has not been accounted for using equity method as the effect on the Bank's financial statements is immaterial. "Astra fondi" manages 2nd level pension funds "Klasika" and "Ekstra".

24. INVESTMENT IN SUBSIDIARY

In 2004, the Bank established a 100% owned Limited Liability Company Krājinvestīcijas with a share capital of LVL 5,000. Limited Liability Company "Krājinvestīcijas" was registered with the Latvian Enterprise Registry on 30 June 2004. The financial results of this company are not consolidated into the Bank's financial statements as the effect on the Bank's financial statements is immaterial. The investment is carried at cost. The principal activities of "Krājinvestīcijas" is real estate property management.

25. DERIVATIVE ASSETS AND LIABILITIES

	Notional amount LVL'000		Fair value LVL'000			
			Assets		Liabilities	
	31.12.2005	31.12.2004	31.12.2005	31.12.2004	31.12.2005	31.12.2004
Currency derivatives	122	81	1	-	1	6
Currency swaps	12,696	5,914	-	17	82	40
Equity and similar derivatives	12,818	5,995	1	17	83	46
Forwards (sale)	1,406	1,406	-	2	2	-
	1,406	1,406	-	2	2	-
Total derivatives	14,224	7,401	1	19	85	46

26. FIXED AND INTANGIBLE ASSETS

The following are included in the net book value of fixed and intangible assets:

	31.12.2005 LVL '000	31.12.2004 LVL '000
Land and buildings	5,233	2,541
Leasehold improvements	576	621
Transport vehicles	194	241
Intangible assets	822	842
Office equipment:		
<i>EDP equipment and software</i>	946	1,174
<i>ATMs and similar card processing equipment</i>	1,339	1,164
<i>Other office equipment</i>	976	1,586
Total office equipment	3,261	3,924
Total fixed and intangible assets excluding prepayments	10,086	8,169
Prepayments for fixed assets	130	33
Prepayments for intangible assets	6	11
Prepayments for fixed assets and for intangible assets	136	44
Total fixed assets at net book value including prepayments	10,222	8,213

As of 31 December 2005 the Bank has performed revaluation of all its property under "Land and Buildings". As a result, increase in value of LVL 2,879 thousand is recognised in revaluation reserve. Revaluation has been performed by certified, independent valuers. For recognition purposes the average value between two unrelated valuers' statements was used.

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The following changes in the Bank's fixed and intangibles assets took place during the year ended 31 December 2005:

	Land and buildings LVL'000	Leasehold improvements LVL'000	vehicles LVL'000	Office equipment LVL'000	Intangible assets LVL'000	Total fixed and intangible assets excluding prepayments
Historical cost/ Revalued As at 31 December 2004	2,943	1,229	469	11,513	3,139	19,293
Additions	1	84	12	545	284	926
Revaluation	2,411	-	-	-	-	2,411
Disposals	(122)	(59)	(47)	(751)	(8)	(987)
As at 31 December 2005	5,233	1,254	434	11,307	3,415	21,643
Depreciation As at 31 December 2005	402	608	228	7,589	2,297	11,124
Charge	91	126	45	1,074	303	1,639
Revaluation	(468)	-	-	-	-	(468)
Reversal due to disposals	(25)	(56)	(33)	(617)	(7)	(738)
As at 31 December 2005	-	678	240	8,046	2,593	11,557
Net book value As at 31 December 2004	2,541	621	241	3,924	842	8,169
As at 31 December 2005	5,233	576	194	3,261	822	10,086

27. OTHER ASSETS

	31.12.2005 LVL '000	31.12.2004 LVL '000
Unrealised gains from SPOT transactions	16	36
Collateral deposit for settlement card transactions	2,951	1,379
VAT prepayment	108	78
Unsettled bank card transactions	319	367
Other	1,078	813
Gross total other assets	4,472	2,673
Less provision (see Note 11)	(180)	(128)
Total other assets	4,292	2,545

28. PREPAYMENTS AND ACCRUED INCOME

	31.12.2005 LVL '000	31.12.2004 LVL '000
Accrued interest income	1,599	1,544
Prepayments	317	287
Other accrued income	25	330
Total gross prepayments and accrued income	1,941	2,161
Less provision (see Note 11)	(453)	(320)
Total net prepayments and accrued income	1,488	1,841

Accrued interest income mainly relates to accrued interest on government bonds and other fixed income securities, which as of 31 December 2005, amounted to LVL 653 thousand (2004: 693 thousand). Other accrued income includes income on custodian operations.

29. BALANCES DUE TO THE CENTRAL BANK AND CREDIT INSTITUTIONS

	31.12.2005 LVL '000	31.12.2004 LVL '000
Due to credit institutions registered in Latvia– repurchase agreements	-	6,151
Due to credit institutions registered in Latvia	16,277	25,379
Due to credit institutions registered in OECD countries	-	3
Due to credit institutions registered in other non-OECD countries	9	439
Total balances due to the Bank of Latvia and credit institutions	16,286	31,972

As at 31 December 2005, the Bank had pledged Latvian government securities with a nominal value of LVL 12,000 thousand (2004: 23,770 thousand) and a carrying value of LVL 12,181 thousand (2004: 21,343 thousand) and Latvian government eurobonds with a nominal value of LVL 457 thousand and a carrying value of LVL 485 thousand (2004: 2,109 thousand). The Bank uses repurchase agreements with Latvian government securities as a source of short-term funding.

The following table provides an analysis of the Bank's balances due to the Bank of Latvia and credit institutions by maturity:

Maturity profile	Due to credit institutions registered in			Total 31.12.2004 LVL'000
	Latvia LVL'000	Other non-OECD countries LVL'000	Total 31.12.2005 LVL'000	
Correspondent accounts	126	9	135	201
Overnight deposits	7,014	-	7014	11,708
Other deposits	-	-	-	4
Total balances repayable on demand	7,140	9	7,149	11,913
Term deposits from the Bank of Latvia and credit institutions:				
- due within 1 month	9,137	-	9,137	19,623
- due within 3 - 6 months	-	-	-	436
Total term deposits from the Bank of Latvia and credit institutions	9,137	-	9,137	20,059
Total balances due to the Bank of Latvia and credit institutions	16,277	9	16,286	31,972

As at 31 December 2005 average interest rate on term liabilities with credit institutions was 2.82% (2004: 2.93%). As at 31 December 2005 the Bank had balances due to 6 (2004: 3) Latvian registered commercial banks and due to 2 (2004: 6) non-OECD region commercial institutions.

30. DEPOSITS FROM THE PUBLIC

Maturity profile	31.12.2005 LVL '000	31.12.2004 LVL '000
Demand deposits	99,592	81,036
Term deposits:		
- due within 1 month	25,577	16,924
- due within 1 - 3 months	13,490	10,883
- due within 3 - 6 months	17,672	15,334
- due within 6 - 12 months	29,417	23,006
- due within more than 1 year	12,408	10,808
Total term deposits	98,564	76,955
Total deposits from the public	198,156	157,991

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As at 31 December 2005, the average interest rate granted on outstanding term deposits accepted from the public was 3.83% (2004: 4.09%).

Sector profile	31.12.2005 LVL '000	31.12.2004 LVL '000
Private individuals	163,285	120,128
Privately held companies	28,065	27,158
State owned enterprises	5,244	9,228
Municipal authorities	720	671
Public and religious institutions	839	803
Central governments	3	3
Total deposits from the public	198,156	157,991

Geographical profile	31.12.2005 LVL '000	31.12.2004 LVL '000
Residents	188,481	141,414
Non-residents	9,675	16,577
Total deposits from the public	198,156	157,991

The total amount of deposits placed with the Bank by non-residents as at 31 December 2005 comprised deposits accepted from residents of the OECD and non-OECD area, that amounted to LVL 5,444 thousand (2004: 5,996 thousand) and LVL 4,231 thousand (2004: 10,581 thousand), respectively. The residence of companies is based on the countries where they were officially incorporated.

31. DEFERRED INCOME AND ACCRUED EXPENSES

	31.12.2005 LVL '000	31.12.2004 LVL '000
Deferred income	8	10
Accrued interest expense	1,792	1,433
Accrued remuneration costs and social security contributions	274	191
Other accrued expense	407	310
Total deferred income and accrued expense	2,481	1,944

32. PROVISIONS FOR LIABILITIES AND CHARGES

	31.12.2005 LVL '000	31.12.2004 LVL '000
Corporate income tax	465	85
Employee holiday pay	162	164
State duty on privatisation certificate transfers	14	53
Total provision for liabilities and charges	641	302

33. DEFERRED TAX LIABILITY

Deferred tax movement in the reporting period:

	31.12.2005 LVL '000	31.12.2004 LVL '000
Deferred tax liability at the beginning of the reporting period	643	526
Deferred tax expense	(116)	121
Revaluation reserve	432	(4)
Deferred tax liability at the end of the reporting period	959	643

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The deferred tax assets and liabilities relate to the following items:

	31.12.2005 LVL'000	31.12.2004 LVL'000
<i>Deferred tax liability:</i>		
-temporary difference on fixed asset carrying value for financial purposes and tax written down value	1,083	730
<i>Deferred tax asset:</i>		
-general provisions	(72)	(50)
-other provisions	(52)	(37)
Provisions for deferred tax liability	959	643

34. OTHER LIABILITIES

	31.12.2005 LVL '000	31.12.2004 LVL '000
Money in transit	2,230	2,544
Unrealized losses from SPOT transactions	7	8
Other liabilities	362	1,300
Total other liabilities	2,599	3,852

As at 31 December 2005 money in transit included customers' payments to be transferred with a valuation date in January 2006.

35. SUBORDINATED DEBT

As at 31 December 2005, the Bank's outstanding subordinated debt due to the "CONVERS GROUP MANAGEMENT COMPANY" amounted to EUR 5,500 or LVL 3,865 thousand. The debt terms include an interest rate of 7% and a term of seven years, maturing on 8 November 2012. Subordinated debt agreements outstanding at 31 December 2004 of LVL 3,403 thousand with MACASYNG HOLDING B.V. (LVL 2,600 thousand) and B&B MARINE INSURANCE LIMITED (LVL 803 thousand) were discharged and the subordinated debt was repaid in December 2005.

According to the agreement on subordinated debt with "CONVERS GROUP MANAGEMENT COMPANY" dated on 8 November 2005, the borrower has the right to receive the invested funds at the end of the loan agreement or if the Bank is liquidated. The borrower has rights to apply for conversion of the subordinated capital into shares according to the Agreement and legislation. The share purchase price of 1.15 LVL is set in the Agreement for the conversion of the subordinated capital into shares.

36. SHAREHOLDERS' EQUITY AND RESERVES

As at 31 December 2005, the Bank's registered and paid share capital was LVL 9,106 thousand (2004: 9,106 thousand).

Share capital consists of 9,106,412 shares entitling to equal rights to dividends, liquidation quota and voting rights at the shareholders meeting.

Nominal value per share is LVL 1.

All 9,106,412 bearer's shares with voting rights and nominal value of LVL 1 are listed in the Free List of the Riga Stock Exchange.

37. PRINCIPAL SHAREHOLDINGS

The Bank's principal shareholders as at 31 December 2005 and 2004 were as follows:

	31.12.2005		31.12.2004	
	Paid-in share capital (LVL 000's)	% of total paid-in capital	Paid-in share capital (LVL 000's)	% of total paid-in Capital
JSC bank "Snoras"	7,559	83.01	-	-
"DOXA FUND LTD."	-	-	878	9.64
Arnolds Laksa	-	-	1,135	12.46
A/s Ventbunkers	-	-	853	9.37
A/s Kālija parks	-	-	761	8.36
A/s Ventamonjaks	-	-	755	8.29
"Hafra Limited"	-	-	629	6.90
Valts Vīgants	-	-	477	5.24
"Macasyng Holding B.V."	-	-	899	9.87
"Alkahn Power Company Sdn Bhd"	-	-	750	8.24
"Carbery Services Limited"	-	-	650	7.14
Other	1,547	16.99	1,319	14.49
Total	9,106	100	9,106	100

38. DIRECTORS' INTERESTS IN SHARES OF THE BANK

The beneficial interests of the members of the Management Board in the shares of the Bank (in thousands of shares) as at the end of the reporting year:

	31.12.2005	31.12.2004
	Ordinary shares Number ('000)	Ordinary Shares Number ('000)
Andris Nātriņš	4.3	4.8
Uģis Latsons	*	4.2
Valts Vīgants	-	477.0
Gints Bukovskis	3.5	4.2
Olga Lomaša	*	4.9
Andrejs Surmačs	-	*
Dzintars Pelcbergs	-	*
Ēvalds Trukšāns	-	*
Total Management Board	7.8	495.1

* Number of shares is not disclosed if person at the end of period was not member of the Board

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39. ASSETS AND LIABILITIES UNDER MANAGEMENT

As at 31 December 2005, the following funds were under the trust management of the Bank:

	31.12.2005 LVL '000	31.12.2004 LVL '000
Loans to non-banking customers	6,968	8,493
Total funds under trust management	6,968	8,493

Loans to non-banking customers classified as funds under trust management are issued by the Bank based on the fund owner's specific requests. Based on the trust management agreements with customers, the fund owners bear all the risks associated with these loans, and the Bank acts only as an intermediary for loan issuance.

All assets under the trust management of the Bank are stated at cost. All funds under trust management are owned by entities registered in non-OECD area countries.

40. COMMITMENTS AND CONTINGENCIES

Memorandum items include the following contingent liabilities and commitments, as well as client security account balances outstanding at the end of the year:

	31.12.2005 LVL '000	31.12.2004 LVL '000
Contingent liabilities		
Outstanding guarantees	531	1,179
Irrevocable letters of credit	762	147
Total contingent liabilities	1,293	1,326
Financial commitments		
Credit commitments	16,096	8,946
Operating lease commitments	141	29
Total contingent liabilities and financial commitments	17,530	10,301

Credit commitments include unused credit limits granted on settlement cards, which as at 31 December 2005 amounted to LVL 2,727 (2004: 1,765) thousand.

The following table provides an analysis of the Bank's memorandum items outstanding as at 31 December 2005 by geographic profile

Place of residence	OECD area LVL'000	Latvia LVL'000	Other countries LVL'000	Total 31.12.2005 LVL'000
Contingent liabilities				
Outstanding guarantees	48	483	-	531
Irrevocable letters of credit	-	762	-	762
Total contingent liabilities	48	1,245	-	1,293
Financial commitments				
Credit commitments	247	15,647	202	16,096
Operating lease commitments	-	141	-	141
Total contingent liabilities and financial commitments	295	17,033	202	17,530

40. COMMITMENTS AND CONTINGENCIES (continued)

The following table provides an analysis of the Bank's memorandum items outstanding as at 31 December 2005 by customer type:

	Private companies LVL'000	Private individuals LVL'000	Total 31.12.2005 LVL'000
Contingent liabilities			
Outstanding guarantees	498	33	531
Irrevocable letters of credit	762	-	762
Total contingent liabilities	1,260	33	1,293
Financial commitments			
Credit commitments	9,629	6,467	16,096
Operating lease commitments	141	-	141
Total contingent liabilities and financial commitments	11,030	6,500	17,530

41. CASH AND CASH EQUIVALENTS

The table below provides a breakdown of cash and cash equivalents as at 31 December 2005

	31.12.2005 LVL '000	31.12.2004 LVL '000
Cash and deposits with the Bank of Latvia	28,513	25,462
Balances due from credit institutions	13,929	18,941
Balances due to credit institutions	(16,286)	(31,536)
Total cash and cash equivalents	26,156	12,867

42. CAPITAL ADEQUACY

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

The Bank's international risk based capital adequacy ratio as at 31 December 2005 was 12.3% (2004: 12.4%), which is above the minimum ratio recommended by the 1988 Basle Committee guidelines of 8%. At the same time, in accordance with the Finance and Capital Market Commission requirements, the Bank's risk based capital adequacy ratio was 11.6% (2004: 11.6%). In accordance with the changes to the Law on Credit Institutions in 2004, capital adequacy ratio for banks in 2004 was 8%.

According to the requirements of Financial and Capital Markets Commission, credit institutions must calculate the market risk capital requirement for trading book items. The Management of the Bank believe that its trading activities are not significant and therefore the calculation of such a capital requirement would not have a material effect on the capital adequacy ratio. As at 31 December 2005, the market risk capital requirement is calculated only for foreign currency risk.

The Finance and Capital Market Commission requirements developed in line with European Union directives are principally consistent with the Basle Committee guidelines for the calculation of the capital adequacy ratio.

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42. CAPITAL ADEQUACY (continued)

The Bank's equity to be utilised in the calculation of the capital adequacy ratio as at 31 December 2005 has been calculated as follows:

Description	Amounts in LVL 000's	Total per tier LVL 000's
<i>Tier 1</i>		
- paid-in share capital	9,106	
- share premium	1,323	
- reserve capital	626	
- general banking risk reserve (appropriated from retained earnings)	-	
- audited retained earnings (not subject to dividend distribution)	1,534	
- audited profit for the year (not subject to dividend distribution)	2,702	
<i>Less</i>		
- intangible assets (as defined by the Finance and Capital Market Commission)	(828)	
Total Tier 1		14,463
<i>Tier 2</i>		
- subordinated debt	3,865	
- revaluation reserve	1,981	
Total Tier 2		5,846
Decrease of equity		
- Significant investment in other credit and financial institutions	(121)	
Equity to be utilised for the capital adequacy calculation in accordance with the guidelines of the Finance and Capital Market Commission		20,188
<i>Additional Tier 1</i>		
- intangible assets	828	
Total Tier 1 under the Basle Agreement		15,291
<i>Additional Tier 2</i>		
- collective impairment provisions for possible credit losses (restricted to 1.25% of risk weighted assets)	481	
Total Tier 2 under the Basle Agreement		6,327
Equity to be utilised for the capital adequacy calculation under the Basle Agreement (restricted*)		21,618

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42. CAPITAL ADEQUACY (continued)

The following table shows asset weightings used in the calculation of the Bank's capital adequacy ratio according to the Financial and Capital Market Commission requirements:

<i>Under the Financial and Capital Market Commission guidelines</i>	Credit equivalent	Balance in LVL 000's	Risk Weighting	Risk Weighted Assets
Assets				
Cash and deposits on demand with the Bank of Latvia		28,513	0%	-
Balances due from A area governments		24,763	0%	-
Loans and advances secured by A area government securities or A area government guarantees		4,658	0%	-
Loans and advances secured by deposits		551	0%	-
Loans to self-governments within A area		981	20%	196
Demand deposits with credit institutions within A area		9,912	20%	1,982
Fixed income securities of credit institutions within A area		4,047	20%	809
Loans and advances secured by A area credit institution securities		618	20%	124
Loans and advances fully secured by mortgage registered with the Land book		17,801	50%	8,901
Prepayments and accrued income		833	50%	417
Loans to self-governments within B area		283	100%	283
Fixed income securities of credit institutions within B area		1,733	100%	1,733
Due from credit institutions within the B area		441	100%	441
Corporate debt securities		1,543	100%	1,543
Other loans and advances to customers		131,701	100%	131,701
Shares and other non-fixed income securities		175	100%	175
Investments in associated and related entities not deducted from equity		5	100%	5
Fixed assets		9,394	100%	9,394
Other assets		4,276	100%	4,276
Total assets		242,228		161,980
Memorandum items				
Outstanding guarantees secured by deposits	100%	68	0%	-
Outstanding guarantees	100%	463	100%	463
Credit letters secured by deposits	100%	135	0%	-
Other credit letters	100%	627	100%	627
Credit commitments secured by deposits	50%	352	0%	-
Credit commitments secured by Latvian government guarantees	50%	19	0%	-
Other items, not included in the weighting	50%	15,282	100%	7,641
Interest derivate instruments with the initial term of over 14 days				
4 to 5 years	4%	1,054	20%	8
9 to 10 years	9%	351	20%	6
Foreign currency exchange transactions with an initial term over 14 days				
0% risk weighting	2%	70	0%	-
20% risk weighting	2%	52	20%	-
Total risk weighted assets and memorandum items				170,725
Foreign currency open positions subject to capital charge				242
Capital Adequacy Ratio				11.6%

**A/S LATVIJAS KRĀJBANKA
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42. CAPITAL ADEQUACY (continued)

The Bank's capital adequacy ratio in accordance with the guidelines set forth by the Basle Committee is calculated using the following weights:

<i>Capital Adequacy Calculation Under the Basle Agreement</i>				
	Credit equivalent	Balance in LVL 000's	Risk Weighting	Risk Weighted Assets
Assets				
Cash and deposits on demand with the Bank of Latvia		28,513	0%	-
Balances due from A area governments		24,763	0%	-
Loans and advances secured by A area government securities or A area government guarantees		4,658	0%	-
Loans and advances secured by deposits		551	0%	-
Loans to self-governments within A area		981	20%	196
Demand deposits with credit institutions within A area		9,912	20%	1,982
Loans and advances secured by A area credit institution securities		618	20%	124
Fixed income securities of credit institutions within A area		4,047	20%	809
Loans and advances fully secured by mortgage registered with the Land book		17,801	50%	8,901
Demand deposits with local governments within B area		283	100%	283
Prepayments and accrued income		833	100%	833
Due from credit institutions within the B area		441	100%	441
Fixed income securities of credit institutions within B area		1,733	100%	1,733
Corporate debt securities		1,543	100%	1,543
Other loans and advances to customers		132,182	100%	132,182
Shares and other non-fixed income securities		175	100%	175
Investments in associated and related entities not deducted from equity		126	100%	126
Fixed assets		9,394	100%	9,394
Intangible assets		828	100%	828
Other assets		4,276	100%	4,276
Total assets		243,658		163,826

**A/S LATVIJAS KRĀJBANKA
NOTES TO THE FINANCIAL STATEMENTS
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42. CAPITAL ADEQUACY (continued)

<i>Capital Adequacy Calculation Under the Basle Agreement</i>				
	Credit equivalent	Balance in LVL 000's	Risk Weighting	Risk Weighted Assets
<i>Memorandum items</i>				
Outstanding guarantees secured by deposits	100%	68	0%	-
Outstanding guarantees	100%	463	100%	463
Credit letters secured by deposits	100%	135	0%	-
Other credit letters	100%	627	100%	627
Credit commitments secured by deposits	50%	352	0%	-
Credit commitments secured by Latvian government guarantees	50%	29	0%	-
Other items, not included in the weighting	50%	15,282	100%	7,641
Interest derivate instruments with the initial term of over 14 days				
4 to 5 years	4%	1,054	20%	8
9 to 10 years	9%	351	20%	6
Foreign currency exchange transactions with an initial term over 14 days				
0% risk weighting	2%	70	0%	-
20% risk weighting	2%	52	20%	-
Total risk weighted assets and memorandum items				172,571
Foreign currency open positions subject to capital charge				242
Capital Adequacy Ratio				12.3%

43. 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:

	LVI LVL'000	USD USD'000	EUR EUR'000	Other currencies LVL'000	Total LVL'000
Assets					
Cash and deposits on demand with the central bank	24,159	1,252	2,276	826	28,513
Balances due from credit institutions and central banks	7,713	1,380	4,118	718	13,929
Loans and advances to non-banking customers	76,685	10,504	65,395	-	152,584
Bonds and other fixed income securities	26,030	2,927	2,906	-	31,863
Shares and other non-fixed income securities	301	-	-	-	301
Derivative assets	1	-	-	-	1
Fixed and intangible assets	10,222	-	-	-	10,222
Other assets	1,119	3,163	7	3	4,292
Prepayments and accrued income	1,145	116	227	-	1,488
Total assets	147,375	19,342	74,929	1,547	243,193

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FOR THE YEAR ENDED 31 DECEMBER 2005

43. CURRENCY ANALYSIS (cont.)

	LVL LVL'000	USD USD'000	EUR EUR'000	Other currencies LVL'000	Total LVL'000
<u>Liabilities and shareholders' equity</u>					
Balances due to the central bank and credit institutions	3,606	4	12,652	24	16,286
Deposits from the public	149,144	22,487	25,904	621	198,156
Derivative liabilities	83	-	2	-	85
Deferred income and accrued expense	1,994	254	233	-	2,481
Provision for liabilities and charges	1,601	-	-	-	1,601
Other liabilities	1,216	881	482	19	2,598
Subordinated debt	-	-	3,865	-	3,865
Shareholders' equity	18,121	-	-	-	18,121
Total liabilities and shareholders' equity	175,765	23,626	43,138	664	243,193
<i>Net long/ (short) position on balance sheet</i>	<i>(28,390)</i>	<i>(4,284)</i>	<i>31,791</i>	<i>883</i>	<i>0</i>
<u>Off-balance sheet claims from foreign exchange</u>					
Spot foreign exchange receivable	696	356	1,584	-	2,636
Forward foreign exchange receivable	-	87	35	-	122
Forward foreign exchange receivable, SWAP	8,703	3,993	-	-	12,696
Total foreign exchange receivable	9,399	4,436	1,619	-	15,454
<u>Off-balance sheet liabilities arising from foreign exchange</u>					
Spot foreign exchange payable	1,569	178	880	-	2,627
Forward foreign exchange payable	52	35	35	-	122
Forward foreign exchange payable, SWAP	-	-	12,299	480	12,779
Total foreign exchange payable	1,621	213	13,214	480	15,528
<i>Net long/(short) position on foreign exchange</i>	<i>7,778</i>	<i>4,233</i>	<i>(11,595)</i>	<i>(480)</i>	<i>(74)</i>
<i>Net long/(short) position</i>	<i>(20,612)</i>	<i>(61)</i>	<i>20,196</i>	<i>403</i>	<i>(74)</i>
<u>Contingent liabilities</u>					
Guarantees	267	114	150	-	531
Other off-balance liabilities	-	31	731	-	762
Total contingent liabilities	267	145	881	-	1,293
<u>Financial commitments</u>					
Credit commitments	7,932	929	7,235	-	16,096
Operating lease commitments	141	-	-	-	141
Total financial commitments	8,340	1,074	8,116	-	17,530

The Latvian banking legislation requires that open positions in each foreign currency may not exceed 10% of the Bank's equity (see Note 42 for the definition of equity under the Bank of Latvia's regulations) and that the total net foreign currency open position may not exceed 20% of the equity.

The Bank's total net open currency position at 31 December 2005 was 502 thousand lats or 3.2% of equity. As at 31 December 2004, the Bank complied with the requirements for the net open currency position.

In line with Latvia's preparations for accession to the European Economic and Monetary Union, on 31 December 2004 the Bank of Latvia changed the peg of the lat from XDR and determined a fixed pegged rate of 1 EUR = 0.702804 LVL effective as of 1 January 2005.

Effective 1 January 2005, there are no restrictions for the corresponding parts of the net open positions in Euro and Lats as stated in the FCMC normative acts on changes to the LVL pegging to EUR set by the Bank of Latvia.

44. ASSETS, LIABILITIES AND MEMORANDUM ITEMS BY MATURITY PROFILE

Liquidity risk arises in the general funding of the Bank's activities and in the management of positions. It includes both the risk of being unable to fund assets at appropriate maturities and rates and the risk of being unable to liquidate an asset at a reasonable price and in an appropriate time frame.

Funds are raised using instruments including deposits, subordinated liabilities and share capital. The Bank strives to maintain a balance between continuity of funding and flexibility through the use of liabilities with a range of maturities. The Bank continually assesses liquidity risks by identifying and monitoring the changes in funding required to meet business goals.

In addition, the Bank holds a portfolio of liquid assets as part of its liquidity risk management strategy.

The relationship between the maturity of assets and liabilities, as well as memorandum items is indicative of liquidity risk and the extent to which it may be necessary to raise funds to meet outstanding obligations. The table below allocates the Bank's assets, liabilities and memorandum items to maturity based on the time remaining from the balance sheet date to the contractual maturity dates.

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44. ASSETS, LIABILITIES AND MEMORANDUM ITEMS BY MATURITY PROFILE
(continued)

	Over-due LVL'000	Within 1 month LVL'000	1 - 3 months LVL'000	3 - 6 months LVL'000	6 - 12 months LVL'000	1 - 5 years LVL'000	Over 5 years and undated LVL'000	Total LVL'000
Assets								
Cash and deposits with the central Bank	-	28,513	-	-	-	-	-	28,513
Balances due from credit institutions and central banks	-	13,867	62	-	-	-	-	13,929
Loans and advances to non-banking customers	710	5,717	6,247	6,622	21,850	66,395	45,043	152,584
Bonds and other fixed income Securities	-	8,975	-	-	5,552	15,204	2,132	31,863
Derivative assets	-	-	-	-	-	-	-	1
Shares and other non-fixed income Securities	-	-	-	-	-	-	301	301
Fixed and intangible assets	-	-	-	-	-	-	10,222	10,222
Other assets	-	648	-	-	-	-	3,644	4,292
Prepayments and accrued income	34	853	131	106	46	-	318	1,488
Total assets	744	58,573	6,441	6,728	27,448	81,599	61,660	243,193
Liabilities and shareholders' Equity								
Balances due to the central bank and credit institutions	-	16,286	-	-	-	-	-	16,286
Deposits from the public	-	125,169	13,490	17,672	29,417	11,825	583	198,156
Derivative liabilities	-	85	-	-	-	-	-	85
Deferred income and accrued Expense	-	985	330	368	367	415	16	2,481
Provision for liabilities and charges	-	1,601	-	-	-	-	-	1,601
Other liabilities	-	2,598	-	-	-	-	-	2,598
Subordinate capital	-	-	-	-	-	-	3,865	3,865
Shareholders' equity	-	-	-	-	-	-	18,121	18,121
Total liabilities and shareholders' equity	-	146,724	13,820	18,040	29,784	12,240	22,585	243,193
Net liquidity gap	744	(88,151)	(7,379)	(11,312)	(2,336)	69,359	39,075	-
Contingent liabilities								
Total contingent liabilities	-	1,293	-	-	-	-	-	1,293
Financial commitments								
Credit commitments	-	16,096	-	-	-	-	-	16,096
Operating lease commitments	-	141	-	-	-	-	-	141
Total financial commitments	-	17,530	-	-	-	-	-	17,530

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45. REPRICING MATURITY OF ASSETS AND LIABILITIES BASED ON INTEREST RATE CHANGES

Interest rate risk represents the impact of changes in the market rates on the Bank's financial position. Daily banking activities involve interest rate risk influenced by repayment terms of assets and liabilities related to interest income and expenses or date of revision of interest rates. The Bank seeks to control this risk through the activities of the Bank's Treasury Department and Assets and Liabilities Management Committee.

	Withi 1 mont LVL'000	1-3 months LVL'000	3-6 months LVL'000	6-12 months LVL'000	1-5 years LVL'000	Over 5 years LVL'000	on-interest bearing LVL'000	Total LVL'000
Assets								
Cash and deposits with the central bank	14,578	-	-	-	-	-	13,935	28,513
Balances due from credit institutions and central banks	13,929	-	-	-	-	-	-	13,929
Loans and advances to non-banking customers	5,717	121,573	3,614	12,335	6,179	2,456	710	152,584
Bonds and other fixed income securities	9,549	-	-	4,978	15,204	2,132	-	31,863
Shares and other non-fixed income securities	-	-	-	-	-	-	301	301
Derivative assets	-	-	-	-	-	-	1	1
Fixed and intangible assets	-	-	-	-	-	-	10,222	10,222
Other assets	2,951	-	-	-	-	-	1,341	4,292
Prepayments and accrued income	-	-	-	-	-	-	1,488	1,488
Total assets	46,724	121,573	3,614	17,313	21,383	4,588	27998	243,193
Liabilities								
Balances due to the central bank and credit institutions	16,286	-	-	-	-	-	-	16,286
Deposits from the public	125,169	14,454	17,602	29,330	11,242	359	-	198,156
Derivative liabilities	-	-	-	-	-	-	85	85
Other liabilities	-	-	-	-	-	-	2,598	2,598
Deferred income and accrued expense	-	-	-	-	-	-	2,481	2,481
Provision for liabilities and charges	-	-	-	-	-	-	1,601	1,601
Total liabilities	141,455	14,454	17,602	29,330	11,242	359	6,765	221,207
Subordinated debt	-	-	-	-	-	3,865	-	3,865
Shareholders' equity	-	-	-	-	-	-	18,121	18,121
Total liabilities and shareholders' equity	141,455	14,454	17,602	29,330	11,242	4,224	24,886	243,193
Total interest sensitivity gap	(94,731)	107,119	(13,988)	(12,017)	10,141	364	3,112	-

46. RELATED PARTIES

Related parties are defined as shareholders who have significant influence over the Bank, 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.

	31.12.2005 LVL '000	31.12.2004 LVL '000
<i>Credit exposure to related parties:</i>		
Loans and advances to related parties:		
- Management	85	149
- related legal entities	1,757	746
- other related private individuals	21	12
Total loans and advances to related parties	1,863	907
Credit commitments to related legal entities	-	121
Credit commitments to Management	151	64
Credit commitments to other related private individuals	30	5
Total credit exposure to related parties	2,044	1,097

As at 31 December 2005, the Bank had received funding from related corporate customers and private individuals totalling LVL 6 thousand (2004: 4 thousand) and 671 thousand (200: 936 thousand), respectively. All deposits from related parties are attracted on market terms and conditions. No impairment losses have been recognized in respect of loans given to related parties.

47. SEGMENT REPORTING

Segment	Retail		Corporate		Total	
	2005 LVL'000	2004 LVL'000	2005 LVL'000	2004 LVL'000	2005 LVL'000	2004 LVL'000
Loans	75,545	46,616	79,882	77,721	155,427	124,337
Deposits	163,285	120,128	34,871	37,863	198,156	157,991
Interest income from loans	4,771	3,017	5,606	5,632	10,377	8,649
Interest expenses on deposits	3,351	2,686	391	702	3,742	3,388
Comission and fee income	5,206	4,711	1,733	1,329	6,939	6,040
Comission and fee expense	-	-	1,486	1,005	1,486	1,005

For certain classifications in the above table the management has estimated balances to allocated segments where appropriate. This classification is not readily available from management reporting systems used by the Bank's management.



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Auditors' Report

To the shareholders of A/S "Latvijas Krājbanka"

We have audited the accompanying balance sheet of A/S "Latvijas Krājbanka" as of 31 December 2005 and the related income statement and the statements of changes in shareholders' equity and cash flows for the year then ended, as set out on pages 10 to 50. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audit. In addition, it is our responsibility to assess whether the accounting information included in the Statement of the Management 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 Statement of the Management was limited to the aforementioned scope, and did not include a review of any information other than drawn from the financial statements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present a true and fair view, in all material respects, of the financial position of A/S "Latvijas Krājbanka" as of 31 December 2005 and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards promulgated by the International Accounting Standards Board. The Statement of the Management is consistent with the financial statements.

KPMG Baltics SIA
Licence No 55
Riga, Latvia
28 February 2006

Patrick Querubin
Partner

Inga Lipšāne
Sworn Auditor
Certificate No. 112