

BALTIC INTERNATIONAL BANK
ANNUAL REPORT
2005



Baltic
International
Bank

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ANNUAL REPORT

2005

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Valeri Belokon

Valeri Belokon



*It has been said that figures rule the world; maybe.
I am quite sure it is figures which show us whether it is being ruled well or badly.
Johan Wolfgang Goethe*

Dear Ladies and Gentlemen,

I am very pleased to present to you this Annual Report, not only because it is a distinctive testimonial to the bank's excellent performance results achieved during the year 2005. It is my great pleasure to present a well-formulated concept that encompasses all visions and expectations of our shareholders and actual facts speaking for themselves.

We can say with certainty that we have found and occupied our niche, and we continue to enhance the quality of products and services offered by the bank. We grow together with our valued customers. Together with our customers, we explore ever new ways to stand ready to provide the best customized and individually tailored solutions.

You are offered to acquaint yourselves with current and future challenges and priorities for the bank. I strongly believe that the information contained in this Annual Report will help us to foster mutual understanding, and hence to strengthen our partnership.

And now, Ladies and Gentlemen, I am delighted to introduce *Baltic International Bank* to you!

Yours faithfully,
Valeri Belokon
Chairman of the Board



Leonid Kramnoy

Leonid Kramnoy



Dear Ladies and Gentlemen,

It gives us great pleasure and satisfaction to present to you the 2005 Annual Report of *JSC Baltic International Bank*.

During the past year, the bank continued to develop dynamically under severe competitive pressure faced by the financial markets and within the context of ever increasing control and responsibility for the quality of products and services offered.

The bank continues expanding its array of new banking products and financial instruments. All efforts are directed towards broadening the possibilities for your business to enable you to manage the available financial resources in a more effective and efficient way and to obtain additional resources for further successful development of your businesses.

Due to the joint efforts of the members of our staff, specialists and the top management team, we have demonstrated outstanding results with a significant growth of assets, increase in the loan and investment portfolios, and improvement of other important indicators of the financial performance. The bank's profit figure for 2005 hit the highest level ever attained over the recent years and is a clear testimony to the fact that the bank has chosen the correct strategy aimed at providing services that fully meet your requirements and expectations, our respected customers.

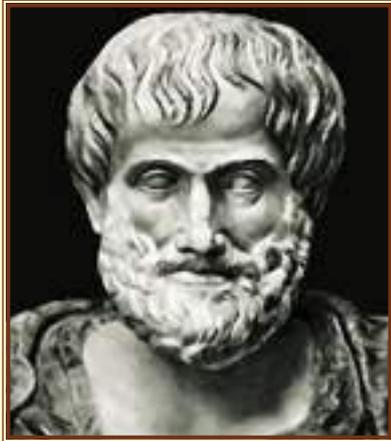
We take this opportunity to thank all customers and business partners for our cooperation which allows us to look to the future with optimism. We explicitly affirm our commitment to continuing our long-standing and mutually beneficial partnership.

Best regards,
Leonid Kramnoy
Chairman of the Council



Aristotle 384-322 BC

Aristotle



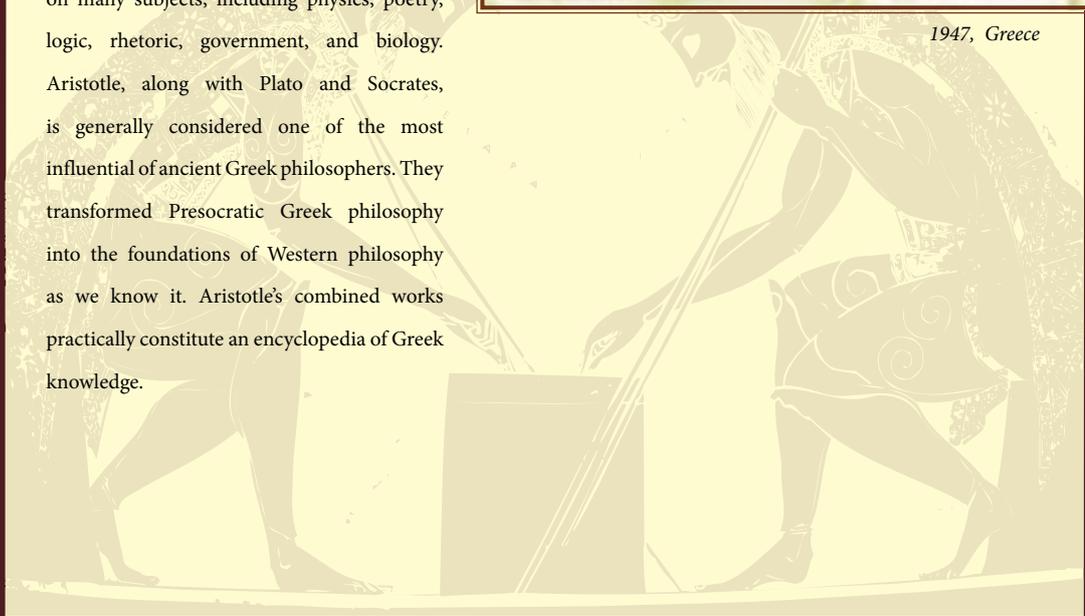
Well begun is half done.

Aristotle

Born in Macedonia, at the age of 17 Aristotle went to Athens to study at Plato's Academy. Having traveled a lot, he finally settled down in Pella, capital of Macedonia, and became a teacher of a boy Alexander, later known as Alexander the Great. In 335, when Alexander became king, Aristotle returned to Athens and established his own school, the Lyceum. Aristotle wrote books on many subjects, including physics, poetry, logic, rhetoric, government, and biology. Aristotle, along with Plato and Socrates, is generally considered one of the most influential of ancient Greek philosophers. They transformed Presocratic Greek philosophy into the foundations of Western philosophy as we know it. Aristotle's combined works practically constitute an encyclopedia of Greek knowledge.



1947, Greece



General Information

Since 1993, *Baltic International Bank* has been and continues to be an active participant of the Latvian financial market. In the year 1993, the bank was registered with the Company Register of the Republic of Latvia and obtained its banking license from the Bank of Latvia. The bank is owned by the Belokon's and the Kramnoy's families. Together, they hold a combined 91% stake in the bank's capital. During the whole period of its existence the bank's shareholders' structure has always been completely transparent.

Since the very beginning of its business activity, the bank has selected the target niche of its activities – servicing high net worth individuals and corporate customers who possess and manage substantial assets and earn high incomes (V.I.P.-customers). The bank has established stringent criteria against which the prospective customers should be selected. The bank's customer base is comparatively small and accounts for approximately 2500 customers. All new customers are required to be introduced and recommended by the bank's existing customers or business partners. This approach, which has been applied over all the 13 years of bank's existence, has proved its value because it enables the bank

- firstly, to work solely with customers who actually need highly personalized customer service and who match the bank's established criteria,
- secondly, to know its customers and to possess

thorough knowledge of customer's business activities which creates an especially significant advantage for the bank at the time when the „Know Your Customer” („KYC”) concept is the key guiding concept in the context of the global anti-money laundering processes.

The bank is a full-fledged member of the Association of Latvian Commercial Banks, the Association of Russian Banks, Latvian – American Financial Forum and the international payments institution “*Europay International*”.

Since 2004, *Baltic International Bank* has ratings assigned by international credit ratings agency Moody's Investors Service:

- long-term deposits: B1
- short-term deposits: Not-Prime
- financial strength rating: E+

All ratings carry a stable outlook.



Catherine the Great (1729 – 1796)

Catherine the

*About the art of governing:
The first rule says — act in a
manner to get people think as if
they themselves so desire.*

Catherine the Great

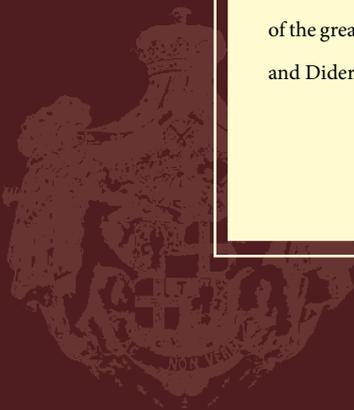


With great devotion a German princess Sophie Augusta Fredericka, later Catherine the Great, aspired after recognition and approval in a country that was unfamiliar for her. Catherine had spared no effort to ingratiate herself, not only with the Empress, but with her husband and the Russian people. She diligently studied the Russian language

and when she wrote her memoirs she represented herself as having made up her mind when she came to Russia to do whatever had to be done in order to be qualified to wear the crown. Under her reign, the country prospered, schools were established, laws enacted, wars fought and won. During her reign Catherine was known as a patron of the arts, literature and education. Catherine the Great corresponded with many of the great minds of her era, including Voltaire and Diderot.



1910, Russia



History and Development

Baltic International Bank's birthday is 3 May 1993 – on that day the bank was registered with the Company Register of the Republic of Latvia. In 1993, almost 70 banks operated at the Latvian financial market. Between 1993 and 2005 the number of the banks decreased 3 times – by the end of 2005 the total number of commercial banks in Latvia was 23. Within the same period of time, *Baltic International Bank's* assets increased 50 times, capital has grown 305 times, profit figure grew 377 times.

While implementing its development strategy initially chosen, *Baltic International Bank* appeared to be a trend-setter in modern banking history of the Republic of Latvia – it became the first to develop and offer the institution of private bankers as a form of servicing V.I.P.-customers. This dates back to the year 1994.

The bank continued to develop intensively after having successfully passed through multiple financial crises (the 1995 banking crisis and the 1998 financial crisis) which led to a prompt closure of many Latvian banks. In 1999, *Baltic International Bank* acquired an insolvent joint stock company “Latvian Industrial Bank”.

In 2004 international credit ratings agency Moody's Investors Service assigned first-time ratings to the bank, and in 2005 the above ratings were reaffirmed. Rating's assignment marks a pivotal moment in the

development of the bank and underpins its more vigorous activity in the international arena.

In 2003 the bank's Shareholders' Council made the decision to expand the bank's activity both domestically and internationally, to

penetrate into new prospective financial services markets, including those in the EU Member States. The opening of the bank's first representative offices in Moscow (Russian Federation) and London (United Kingdom) is one the results of the implementation of the bank's relevant strategy. This occurred during the momentous year – in 2004 Latvia officially acceded to the European Union (EU) and NATO.

The year 2005 set a record in the financial performance of the bank. The bank's assets grew 67 percent, deposits increased by 78 percent, the profit figure increased by 626 percent on a year-over-year basis.



Leonardo da Vinci (1452 – 1519)

Leonardo da Vinci



Wisdom is the daughter of experience.

Leonardo da Vinci

Leonardo da Vinci's genius was unbounded by time and technology, and was driven by his insatiable curiosity, and his intuitive sense of the laws of nature. Da Vinci dedicated himself to discovering of truth and the mysteries of nature. Leonardo helped to set the superstitious world on a course of reason, science and tolerance. In his youth da Vinci was sent to Florence to apprentice as a painter under the guidance of Andrea del Verrocchio. He quickly developed his own artistic style which was unique and contrary to tradition, even going so far as to devise his own special formula of paint. His style was characterized by diffuse shadows and subtle hues and marked the beginning of the High Renaissance period. Later Da Vinci became the court artist for the duke of Milan. Throughout his life he also tried many other professions, including civil engineer, architect, military planner and weapons designer.



1974, Italy



Private Banking

Currently, when banks face a severe competition, customers become more and more educated and advanced in financial matters and pose more increased demands to banks, banks (in particular, private banks) may compete and differentiate themselves at the level of relationships with customers rather than at the services and products level. Put differently, private banks instead of striving towards originality in WHAT they are doing, are trying to do their best to be unique in HOW they are doing what is to be done.

Baltic International Bank is the most experienced Latvian bank in terms of private banking because it has been working in this area within the past 12 years. Over this period of time, the bank succeeded to develop and to improve the respective approach towards its customers and customer service, to expand the array of banking products and services and - that is the main thing - to transform private banking from a method of servicing into the philosophy and culture centered on establishing, preserving and developing the system of relationships between the bank and its customers.

To become the bank of choice for its customers, *Baltic International Bank* points out the following aspects that are decisive for customers: mutual trust, bank's desire and ability to understand a particular customer's needs, the capability to develop and offer a solution individually tailored towards the needs

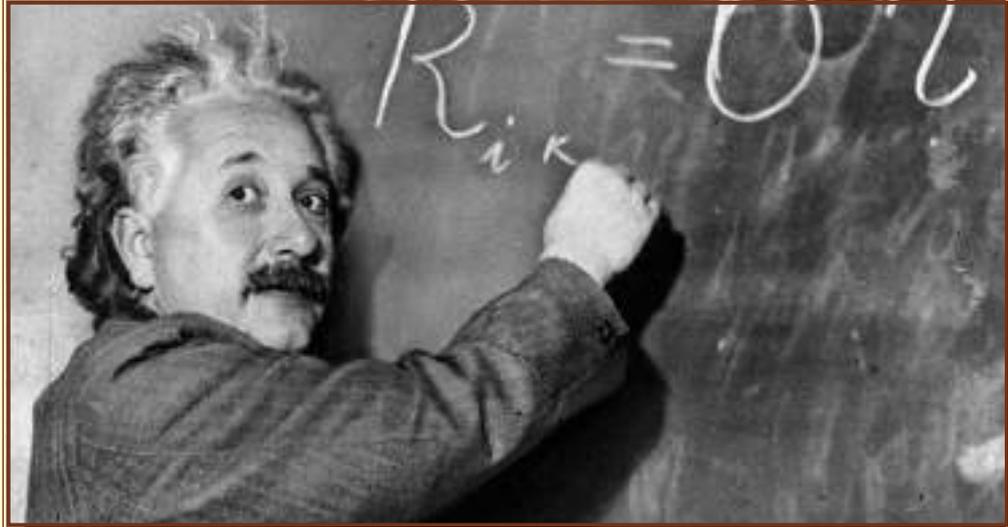
of a definite customer, taking into consideration all customer's preferences. The ability to offer a personalized approach towards every single customer is a main competitive advantage of *Baltic International Bank*. Personalized approach fosters the establishment and the strengthening of long-standing relations with customers, which is the primary objective of *Baltic International Bank*.

In 2005 *Baltic International Bank* has entered a new stage of the development and realization of private banking philosophy. For customers, whose assets reached a certain value and therefore the issue of asset management became of vital importance, the bank offered the respective services – assets and wealth management. The bank's organizational structure was revised to include the institution of vice presidents - specialists working with the largest customers.



Albert Einstein (1879 – 1955)

Albert Einstein



Everyone since childhood knows that some things are not possible, but there are always fools, who do not know it. They make discoveries.

Albert Einstein

This famous scientist was born on March 14th in Germany. At the age of twelve he was fascinated by a book of geometry, and in year 1905, when he was 26, he developed the famous formula of energy $E=mc^2$ and in year 1915 – Theory of Relativity. During his lifetime Einstein was granted citizenship of Switzerland, the USA and Germany, thus symbolically being a cosmopolite, and there were no any borders for his imagination and spirit. In 1884th, when Albert was only five years old his father showed him a compass and the boy was amazed by the invisible force that adjusted the small pointer always towards north. Starting from this day Einstein was looking for the centre of force, until discovered, that it does not exist, but is scattered around and in each of us.



1968, Israel

Presence Abroad

In 2003, as part of its long-term development strategy, *Baltic International Bank* initiated the project designed to open the first representative offices of the bank. As a result of identification of the needs of existing customers and evaluation of the prospects of the expansion of the bank's activity in the new geographic markets, as well as on the threshold of Latvia's EU accession, *Baltic International Bank* decided to establish two foreign representative offices -

- 1) In Moscow (Russian Federation)
- 2) In London (United Kingdom)

In 2004 the bank obtained all the required authorizations and licenses. During the same year Moscow-based representative office started its active work directed towards conducting marketing research activities in Russia, dissemination of information about the bank's business activity, enhancement of the bank's brand image in Russia, and rendering support and assistance to the bank's existing customers in Moscow and across the Russian Federation and other CIS countries.

London-based representative office of *Baltic International Bank* commenced its work in 2005, and at the beginning of 2006 the bank announced the official opening and arranged the reception for major customers and business partners. During the event, the bank's senior management provided the guests

with the information regarding tasks and future plans of the bank's representative office in London.

The availability of representative offices in the world's large financial centres enables *Baltic International Bank* to have access to the markets of the EU and other Western countries, as well as markets of the CIS and other Eastern countries.



Blaise Pascal (1623 - 1662)

Blaise Pascal



1987, France

To foresee is to manage.

Blaise Pascal

A French mathematician, physicist, and religious philosopher, educated by his father. Pascal's earliest work was in the natural and applied sciences, where he made important contributions to the construction of mechanical calculators and the study of fluids, and clarified the concepts of pressure and vacuum by expanding the work of Evangelista Torricelli. As a mathematician, Pascal is probably best known for his work with Fermat in 1654, in which he laid down the principles of the Theory of Probabilities. Precocious, persevering, a perfectionist, yet seeking to be meek and humble – a religious mathematician, who organized his relationship with the outer world with help of unbendable laws of geometry.



Blaise Pascal

Blaise Pascal

Highlights of Development Strategy for 2005 – 2010

Baltic International Bank's strategy envisages further development and streamlining of the private banking philosophy.

The bank will continue to cooperate only with large individual and corporate customers, whose assets' structure and origin are transparent and legitimate and whose business activities are open and clear to the bank.

In frames of this strategy, the bank plans:

- 1) to keep and expand its international presence;
- 2) instead of focusing on product profitability to give the priority to the development of long-standing relationships with the customers, which will enhance customer loyalty and hence, will lead to an increase in the bank's profitability in a long-run;
- 3) to develop the asset and wealth management services meeting the customer's requirements for reliability, safety and profitability;
- 4) to concentrate its efforts to achieve the maximal understanding of the customers' needs, specific nature of their businesses which will enable the bank to effectively identify their needs and demands in their relationships with the bank and to provide them with individually tailored and most professional solutions.

To successfully implement the aforesaid plans, *Baltic International Bank* will continue:

- 1) to place a strong emphasis on the continuous training and comprehensive development of the bank's personnel and senior executive officers;
- 2) to develop information technologies and technological infrastructure;
- 3) to broaden the spectrum of banking products and services;
- 4) to streamline and to improve quality of customer service.



Alexander Suvorov (1729 - 1800)

Alexander Suv



2000, Pridnestrovie

*Win with ability, not
with numbers.*

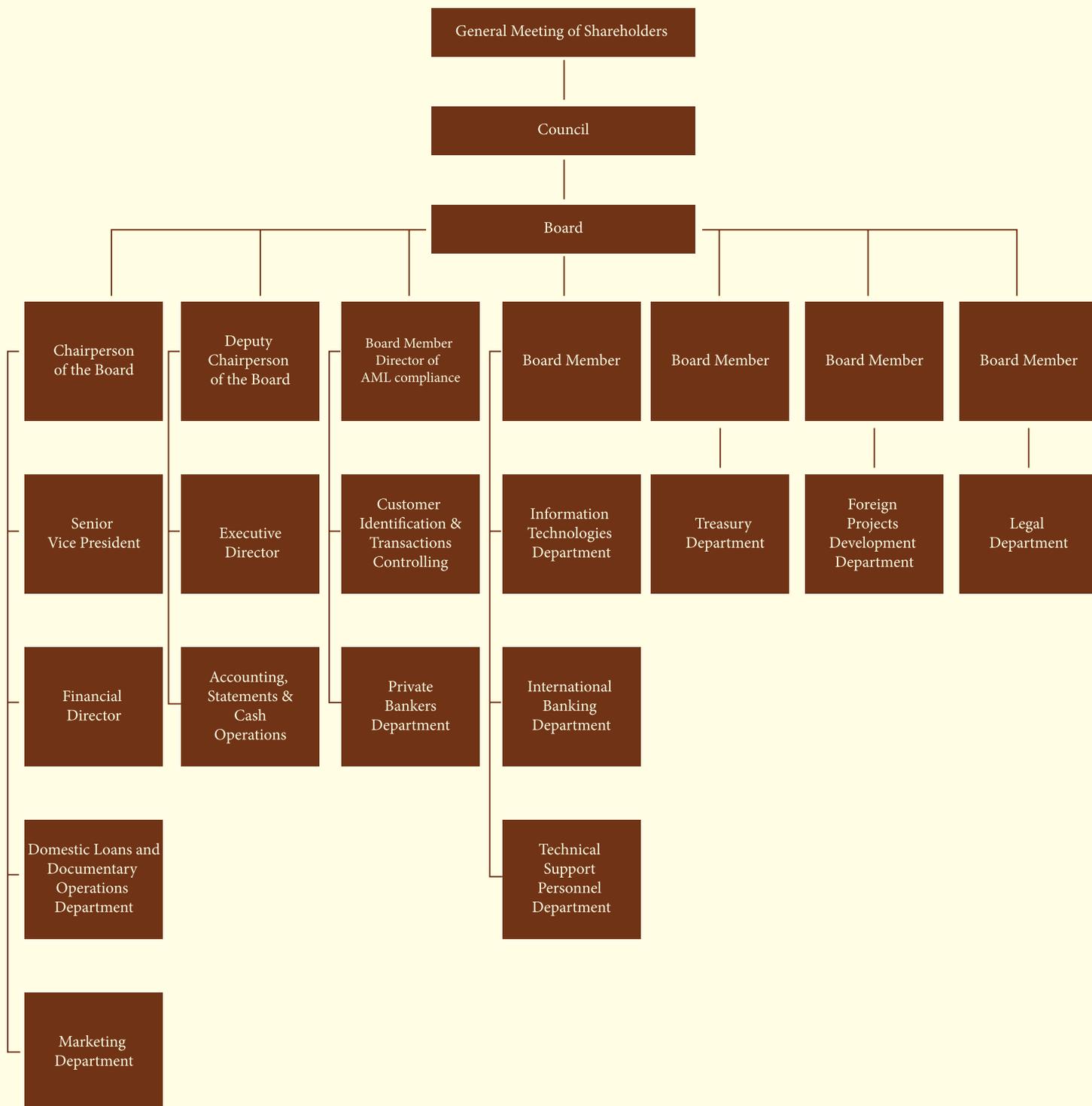
Alexander Suvorov



Suvorov came from the old Russian noble family. These are only few of his numerous ranks and awards – Generalissimo of Russia's Land and Naval Forces, Prince of Italy, Count of the Holy Roman Empire. Suvorov was one of the few generals in history who never lost a battle. The famous work written by Suvorov was "The Science of Victory". The star of Suvorov's military talent rose in the second Catherinian Russian-Turkish war of 1787-1791, when he commanded the Kremenchug Division. The Russians long cherished the memory of Suvorov.



Organizational Chart

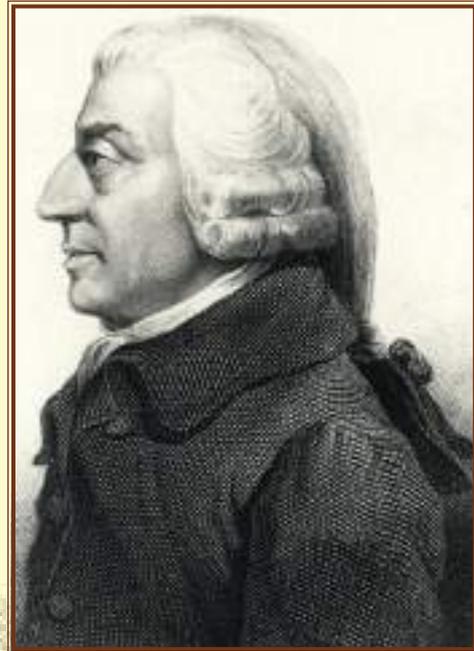


Adam Smith (1723 – 1790)

Adam Smith

Invisible hand guides economies toward maximum efficiency and mutual benefit.

Adam Smith



Adam Smith was a Scottish political economist and moral philosopher. His work “Inquiry into the Nature and Causes of the Wealth of Nations” was one of the earliest attempts to study the historical development of industry and commerce in Europe. That work helped to create the modern academic discipline of economics. One of the main points of “The Wealth of Nations” is that the free market, while appearing chaotic and unrestrained, is actually guided to produce the right amount and variety of goods by a so-called “invisible hand”. Adam Smith had a strong passion for liberty, reason and free speech. He had apparently devoted a considerable part of his income to numerous secret acts of charity. He was renowned for comprehensive thinking.



1981, Scotland

JSC «BALTIC INTERNATIONAL BANK»

AUDITORS' REPORT AND FINANCIAL STATEMENTS
PREPARED IN ACCORDANCE WITH INTERNATIONAL FINANCIAL
REPORTING STANDARDS AND THE REQUIREMENTS
OF THE FINANCIAL AND CAPITAL MARKET'S COMMISSION
FOR THE YEARS ENDED 31 DECEMBER 2005 AND 2004.

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MANAGEMENT REPORT

Annual Report 2005

Dear Ladies and Gentlemen,

We are pleased to report that in the context of growing financial markets and a rising standard of living, the year 2005 set a record in the financial performance of the Bank. This has been primarily attributable to the Bank's chosen strategy: to provide a comprehensive range of financial services topped with a high level of professional customer service.

During the fiscal year 2005, the Bank's assets grew 67 percent to LVL 74 532 002 (in absolute figures). By the end of 2005, the loan portfolio reached the level of LVL 19 793 414, representing a 19 percent (LVL 3 222 694) increase on a year-over-year basis. Undoubtedly, the Bank's activities in raising borrowed funds proved to be a success: the volume of total deposits increased by LVL 27 841 143 (78 percent).

The Bank's financial result enjoyed a marked growth: the Bank's 2005 profit hit record of LVL 2 163 212, which exceeds seven times 2004 year's profit figure. The significant increase in the profit figure is largely due to successful activities in the many areas, such as granting loans, settlement of payments, the foreign exchange market and stock market services.

The year 2005 was viewed as the initial stage of the transition period during which the Bank continued boosting the turnover and offering its customer the full array of traditional banking products and at the same time focused on private banking as a priority objective.

We developed and implemented a new deposit program. As part of this program, we introduced a new product – Certificate of Deposit (CD). Added to this, we offered an increasingly wider choice of investment products and advisory & consulting services. The Bank provided its customers with the opportunity to use multicurrency accounts for transactions involving EuroCard/ MasterCard and Maestro-branded payment cards.

In 2005, the Bank completed a structural reorganization which had started in 2004. As a result of the restructure, we enlarged the membership of our Management Board and reallocated the spectrum of responsibility. Bank's representative offices in Moscow and London also took an active part in enhancing the business process.

The international credit ratings agency *Moody's Investors Service* reaffirmed the ratings assigned to the Bank. The ratings reflect good liquidity levels, ability to maintain capitalization at acceptable levels, improvement of credit quality, and containment of market risk.

Success comes to those who are the strongest! We strive to be the strongest in the realization of a priority objective that we have set ourselves: to provide a high degree of personalized service in a complex environment in which we transact our business. To attain our objectives, we need to rely heavily upon a team oriented towards success.

We are personally thankful to all those who contributed to the 2005 financial results and made this possible. And we hope that you will encourage us to continue our efforts in moving forward in the world of business and finance!

28 March 2006

Leonid Kramnoy
Chairperson of the Council



Valeri Belokon
Chairperson of the Board



SUPERVISORY COUNCIL AND MANAGEMENT BOARD

SUPERVISORY COUNCIL (as at 31 December 2005)

Name	Position held	Appointed	Re-elected
Leonid Kramnoy	Chairperson of the Council	10/10/2003	-
Vilori Belokon	Deputy Chairperson of the Council	10/10/2003	-
Viacheslav Kramnoy, sr.	Member of the Council	18/07/1997	10/10/2003

MANAGEMENT BOARD (as at 31 December 2005)

Name	Position held	Appointed	Re-elected
Valeri Belokon	Chairperson of the Board	15/08/2003	-
Alon Nodelman	Member of the Board	15/08/2003	-
	Deputy Chairperson of the Board	13/10/2004	-
Janis Apelis	Member of the Board	15/08/2003	-
Ilona Gulchak	Member of the Board	15/08/2003	-
Albert Reznik	Member of the Board	13/09/2005	-
Bogdan Andrushchenko	Member of the Board	13/09/2005	-
Dinars Kolpakovs	Member of the Board	13/09/2005	-
Ilze Lase	Nominee Member of the Board	13/09/2005	-

In the year 2005, no changes were made in the Council's membership. In the year 2005, the Bank announced the following changes to the composition of the Board:

Anita Lase resigned from her post as a member of the Board in accordance with the Council decision of 13 September 2005, and we welcomed three new members to our Board: Albert Reznik, Bogdan Andrushchenko and Dinars Kolpakovs. Ilze Lase has been approved as a candidate for Board membership.

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES

Annual Report 2005

Riga

28 March 2006

The financial statements are prepared in accordance with the source documents and present fairly the Bank's financial position as of the end of the financial year ended 31 December 2005 and the results of its operations and cash flows for the year then ending according to the accounting principles set forth in International Financial Reporting Standards.

The management confirms that suitable accounting policies have been used and applied consistently and reasonable and prudent judgments and estimates have been made in the preparation of the financial statements for the period from 1 January 2005 to 31 December 2005 set out on pages 27 to 64. The management also confirms that applicable International Financial Reporting Standards have been used in the preparation of the financial statements and that these financial statements have been prepared on a going concern basis and comply with the Financial and Capital Market Commission Regulations on the Annual Reports of Credit Institutions in all material respects.

The Bank's management is also responsible for keeping proper accounting records, for taking reasonable steps to safeguard the assets of the Bank and to prevent and detect fraud and other irregularities. They are also responsible for managing the Bank in compliance with the Financial and Capital Market Commission on the Annual Reports of Credit Institutions and other legislation of the Republic of Latvia in all material respects.

Leonid Kramnoy
Chairperson of the Council



Valeri Belokon
Chairperson of the Board



INDEPENDENT AUDITORS' REPORT

To the Shareholders of JSC "Baltic International Bank":

We have audited the accompanying balance sheets of a JSC "Baltic International Bank" (the Bank) as of 31 December 2005 and 2004 and the related statements of profit and loss, changes in shareholders' equity and cash flows for the years then ended. 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 audits.

We conducted our audits in accordance with International Standards on Auditing issued 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. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Bank as of 31 December 2005 and 2004 and the results of its operations and cash flows for the years then ended in accordance with International Financial Reporting Standards and the financial reporting requirements of the Financial and Capital Market Commission.

Without qualifying our opinion, we draw attention to Note 3 (Risk management) to the financial statements, which describes the status of implementation of Anti Money Laundering Procedures, including know your client, procedures and controls as well as the Financial and Capital Market Commission reviews on the Bank.

We have read the management report for the year ended 31 December 2005 as shown on page 23 of the annual report and we have not identified any material discrepancies between the historical financial information presented in this report and the historical financial statements for the year ended 31 December 2005.

Deloitte Audits Latvia SIA
License No. 43

Kenneth Taylor Hansen
Authorized representative



Silvija Gulbe
Sworn auditor
Certificate No. 142



Riga, Latvia
28 March 2006

STATEMENTS OF PROFIT AND LOSS

for the fiscal years ended December 31, 2005 and 2004

Annual Report 2005

	Notes	2005 LVL	2004 LVL
Interest income	4	2 867 026	2 294 890
Interest expense	5	(711 666)	(716 375)
Net interest income		2 155 360	1 578 515
Fee and commission income	6	2 160 425	1 041 262
Fee and commission expense	7	(766 916)	(355 224)
Net fee and commission income		1 393 509	686 038
Dividends received		7 414	25 153
Net trading income	8	1 284 763	195 449
Other operating income	9	8 355	9 737
Total operating income		4 849 401	2 494 892
Administrative expenses	10	(2 553 656)	(2 267 005)
Depreciation and amortization	23, 24	(223 517)	(191 834)
Other operating expenses	11	(104 186)	(75 924)
Total operating expenses		(2 881 359)	(2 534 763)
Provision expense	18	(235 797)	(491 193)
Release of provisions	18	217 198	1 176 842
Gain /(loss) on fair value of investment property	12	242 000	(348 000)
Current year profit before taxation		2 191 443	297 778
Income tax	13	(28 231)	-
Current year profit after taxation		2 163 212	297 778
Earnings per share	34	1.42106	0.19562

The accompanying notes on pages 32 to 64 are an integral part of these financial statements.

These financial statements (pages 27 to 64) were approved by the Management Board on 28 March 2006.

Leonid Kramnoy
Chairperson of the Council



Valeri Belokon
Chairperson of the Board



BALANCE SHEETS AND OFF - BALANCE SHEET ITEMS as of December 31, 2005 and 2004

ASSETS	Notes	2005 LVL	2004 LVL
			Reclassification
Cash and balances with the central bank	15	5 447 147	2 298 524
Due from credit institutions	16	39 583 723	19 896 913
Financial assets designated at fair value through profit or loss		4 813 285	2 136 765
<i>Securities held for trading</i>	17	4 735 801	2 048 695
<i>Derivative contracts</i>	19	77 484	88 070
Securities available for sale	20	135 334	135 336
Securities held to maturity	21	201 858	394 336
Loans	22	19 793 414	16 570 720
Intangible assets	23	177 181	205 117
Fixed assets	24	1 253 100	1 186 683
Investment property	25	1 465 000	1 223 000
Deferred expenses and accrued income	26	346 832	364 912
Other assets	27	1 315 128	262 144
Total assets		74 532 002	44 674 450

(continued on the next page)

The accompanying notes on pages 32 to 64 are an integral part of these financial statements.

These financial statements (pages 27 to 64) were approved by the Management Board on 28 March 2006.

Leonid Kramnoy
Chairperson of the Council



Valeri Belokon
Chairperson of the Board



BALANCE SHEETS AND OFF - BALANCE SHEET ITEMS as of December 31, 2005 and 2004

LIABILITIES AND SHAREHOLDERS' EQUITY	Notes	2005 LVL	2004 LVL
Due to credit institutions and central bank	28	715 496	2 071 902
Deposits	29	63 655 452	35 814 309
Debt securities in issue	30	1 111 875	-
Derivative contracts	19	23 286	65 010
Deferred income and accrued expenses	31	473 009	266 846
Deferred taxes	13	159 232	131 001
Other liabilities	32	454 373	327 288
Subordinated liabilities	33	132 048	354 075
Total liabilities		66 724 771	39 030 431
Shareholders' equity	34	7 807 231	5 644 019
<i>Share capital</i>		7 611 285	7 611 285
<i>Reserve capital and other reserves</i>		545 024	545 024
<i>Accumulated deficit</i>		(2 512 290)	(2 810 068)
<i>Profit for the current year</i>		2 163 212	297 778
Total liabilities and shareholders' equity		74 532 002	44 674 450
OFF-BALANCE SHEET ITEMS			
Sureties and guarantees		256 682	226 004
Commitments to customers		4 436 349	2 663 164
Total off-balance sheet items	38	4 693 031	2 889 168

(concluded)

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These financial statements (pages 27 to 64) were approved by the Management Board on 28 March 2006.

Leonid Kramnoy
Chairperson of the Council



Valeri Belokon
Chairperson of the Board



STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY for the fiscal years ended December 31, 2005 and 2004

	Paid-in share		Accumulated	TOTAL
	capital	Reserve capital	deficit	
	LVL	LVL	LVL	LVL
Balance as at 31 December 2003	7 611 285	545 024	(2 810 068)	5 346 241
Profit for the year	-	-	297 778	297 778
Balance as at 31 December 2004	7 611 285	545 024	(2 512 290)	5 644 019
Profit for the year	-	-	2 163 212	2 163 212
Balance as at 31 December 2005	7 611 285	545 024	(349 078)	7 807 231

The accompanying notes on pages 32 to 64 are an integral part of these financial statements.

STATEMENTS OF CASH FLOWS

for the fiscal years ended December 31, 2005 and 2004

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	Notes	2005 LVL	2004 LVL
Cash flow from operating activities			
Profit before taxes		2 191 443	297 778
Depreciation and amortization		223 517	192 846
Increase/(decrease) in provisions for doubtful debts and off-balance sheet commitments		18 599	(685 649)
Gain on translation of foreign currencies		(205 961)	(246 210)
Unrealised (gain) on fair value of trading and other financial instruments		(32 703)	(175 833)
(Gain)/loss on revaluation of long-term financial investments	12	(242 000)	348 000
Gain on disposal of fixed assets, intangible assets and investment property		(3 052)	-
Increase/(decrease) in cash and cash equivalents from operating activities before changes in assets and liabilities		1 949 843	(269 068)
Increase in deferred income and accrued expenses		206 163	9 451
Decrease/(increase) in deferred expenses and accrued income		12 534	(177 081)
Increase in other assets		(1 056 800)	(73 866)
Increase in other liabilities		88 420	23 528
Increase in accruals for liabilities and payments		-	6 967
Increase in trading securities		(2 654 403)	(636 432)
Increase in balances due from credit institutions and central banks		(889 498)	-
Increase in loans		(3 222 029)	(2 872 290)
Increase/(decrease) in balances due to credit institutions and central banks		25 400	(146 519)
Increase in deposits		27 841 143	10 597 420
Increase in cash and cash equivalents from operating activities		22 300 773	6 462 110
Cash flow from investing activities			
Purchase of fixed assets, intangible assets and investment property		(267 283)	(287 851)
Acquisition of stakes in undertakings and other long-term investments		-	(103 241)
Proceeds from the sale of fixed assets, intangible assets and investment property		8 338	2 493 000
Proceeds from the sale of stakes in undertakings and other long-term investments		190 000	-
(Decrease)/increase in cash and cash equivalents as a result of investing activities		(68 945)	2 101 908
Cash flow from financing activities			
Decrease in subordinated liabilities		(222 027)	(15 354)
Issuance of debt securities		1 111 875	-
Increase/(decrease) in cash and cash equivalents as a result of financing activities		889 848	(15 354)
Increase in cash and cash equivalents		23 121 676	8 548 664
Opening balance of cash and cash equivalents		20 691 135	11 896 261
Gain on translation of foreign currencies	8	205 961	246 210
Closing balance of cash and cash equivalents		35 44 018 772	20 691 135

The accompanying notes on pages 32 to 64 are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS for the fiscal years ended December 31, 2005 and 2004

1. GENERAL INFORMATION

Established to cater the needs of both individual and corporate customers, JSC “Baltic International Bank” (hereinafter referred to as the Bank) provides a comprehensive range of financial services: personal and corporate loans, acceptance of money deposits and other repayable funds, funds transfers, treasury and capital market services carried out according to customer instructions and for the Bank’s own trading purposes.

In the Republic of Latvia, the Financial and Capital Market Commission serves as a unified financial services regulator and an integrated financial supervisory authority.

The Financial and Capital Market Commission (referred to herein as the Commission) is an integrated financial supervisory institution for all financial services including banking, the stock-market, and insurance. The aim of the Commission is to provide protection of interests of investors and depositors and to ensure development and stability of the financial and capital market.

The practice of the Commission is to conduct thorough inspections of every market participant, at least once a year. These inspections also include reviews of banks’ compliance with the national legislative requirements on Anti-Money Laundering (AML), as well as the adoption of international standards and industry best practices.

2. INTERPRETATION OF ACCOUNTING POLICIES AND THE PRINCIPLES OF ASSESSMENT

Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) issued by the International Accounting Standards Board (“IASB”) and interpretations issued by the International Financial Reporting Interpretations Committee (“IFRIC”) as well as in accordance with the requirements of the Latvian Financial and Capital Market Commission.

The presentation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and their reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Basis of preparation

The financial statements are presented in lats, unless indicated otherwise. The Bank measurement currency is Latvian lat.

The Bank maintain its books of account and prepare statements for regulatory purposes in accordance with Latvian accounting principles. The accompanying financial statements are based on the accounting records, together with appropriate adjustments and reclassifications necessary for fair presentation in accordance with IFRS. In certain instances, the reported amounts relating to the previous accounting period have been reclassified to conform to the current year’s presentation.

In the current year, the Bank has adopted all of the new and revised Standards and Interpretations issued by the International Accounting Standards Board (the IASB) and the International Financial Reporting Interpretations Committee (IFRIC) of the IASB that are relevant to its operations and effective for accounting periods beginning on 1 January 2005. The adoption of these new and revised Standards and Interpretations did not have any material impact on the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

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

At the date of approval of these financial statements, IFRS 7 Financial Instruments: Disclosures were issued but not yet effective. The Bank anticipates that the adoption of these Standards and Interpretations in future periods will have no material impact on the financial statements of the Bank.

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

Reclassification

In accordance with the transition provisions of IAS 39, which came into effect on 1 January 2005, the management reclassified the following opening balances of security portfolios.

NOTES TO THE FINANCIAL STATEMENTS

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Assets items before reclassification as at 31 December 2004		Assets items after reclassification as at 31 December 2004	
Item	Balance, LVL	Item	Balance, LVL
1. Debt securities and other fixed-income securities	1 778 807		
1.1. Government debt securities	277 404		
1.1.1. Securities held to maturity	192 513	Securities held to maturity	192 513
1.1.2. Securities held for trading	84 891	Securities held for trading	84 891
1.2. Bonds of other issuers and other fixed income securities	1 501 403		
1.2.1. Securities held to maturity	201 823	Securities held to maturity	201 823
1.2.2. Securities held for trading	1 299 580	Securities held for trading	1 299 580
2. Equity shares and other variable yield securities	672 449		
2.1. Securities held to maturity	8 225	Securities available for sale	8 225
2.2. Securities held for trading	664 224	Securities held for trading	664 224
3. Investments in associated undertakings	127 111	Securities available for sale	127 111
Total	2 578 367	Total	2 578 367

Foreign currency translation

Transactions denominated in foreign currencies are translated into the functional currency (Latvian lats) at the official Bank of Latvia exchange rate prevailing on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into the Latvian lats according to the official Bank of Latvia exchange rates prevailing at the end of the period.

Gains or losses resulting from fluctuations in the exchange rate are included in the profit and loss statement for the period. The applicable rates for the principal currencies held by the Bank were as follows:

Currency name		The Bank of Latvia's rate valid	The Bank of Latvia's rate valid
		as at 31.12.2005	as at 31.12.2004
1 BYR	=	LVL 0.000275	LVL 0.000237
1 EUR	=	LVL 0.702804	LVL 0.703000
1 GBP	=	LVL 1.021000	LVL 0.996000
1 RUB	=	LVL 0.020600	LVL 0.018600
1 USD	=	LVL 0.593000	LVL 0.516000

Accounting for income and expenses

All interest income and expenses are recognized in the financial statements on an accruals basis. Fees and commissions received from customers are included in the income as at the transaction date, unless otherwise provided by the relevant agreement between the Bank and the customer. Interest income and expense are recognised in the income statement for all instruments measured at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts. Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Debt securities and equity shares

Securities owned by the Bank are categorized into portfolios in accordance with the Bank's intent on the acquisition of the securities and pursuant to the Bank's security investment strategy. The Bank developed a security investment strategy and, reflecting the intent of the acquisition, allocated securities to "Securities held to maturity", "Securities held for trading" and "Securities available for sale". The principal difference among the portfolios relates to the approach to the measurement of securities and the recognition of their fair values in the financial statements.

All securities held by the Bank are recognized using trade date accounting and initially record at their cost including transaction costs (acquisition cost), except for those financial assets carried at their fair values on the statements of profit and loss.

Securities held for trading

Securities held for trading comprise fixed-income and variable-yield securities issued by the Latvian and cross-border issuers. Securities held for trading are initially recognized at acquisition cost (which includes transaction costs) and subsequently re-measured to fair value based on market prices. Realized and unrealised gains or losses are recorded as net trading income or net trading loss, respectively.

Securities available for sale

Securities held by the Bank for an indefinite period of time are categorized as securities available for sale. Securities, whose quoted market value is not determined in an active market and whose fair value cannot be reliably measured are carried at acquisition cost. Gains or losses on available-for-sale investments are recognized directly in equity, through the statement of changes in equity, except for impairment losses and foreign exchange gains and losses until the financial asset is derecognized, at which time the cumulative gain or loss previously recognized in equity is recognized in profit or loss.

Securities held to maturity

Securities held to maturity include government securities and corporate bonds, which are carried at amortized cost. Securities held to maturity are accounted for using a settlement date basis for purchases. Initially, held-to-maturity securities are recorded at their purchase value adjusted for discounts or premiums. Subsequently the effective interest rate method is applied for amortizing discounts over the term to maturity.

Derivative financial instruments

Financial derivatives, including over-the-counter (OTC) foreign-exchange derivatives (currency *forwards* and *swaps*), initially are accounted for at acquisition cost, plus associated costs, and subsequently are re-measured at fair value. Financial assets and financial liabilities resulting from re-measuring each individual derivative financial instrument at its fair value are recorded on the balance sheet as assets or liabilities, whichever is appropriate. Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in the income statement.

Loans

Loans are measured at amortised cost using the effective interest rate method.

Loans which are treated as non-performing, interest is no longer recorded as income, but specific provisions are made for previously accrued but non-received payments.

When a loan is uncollectible it is written off against the related impairment provision; subsequent recoveries are credited to the provision expense in the profit and loss statement.

Impairment of financial assets

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

The Bank first assesses whether any objective evidence of impairment exists individually for financial assets that are individually significant and for all loans with overdue payments or interest regardless of the size of the outstanding principal. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment; such a collective assessment is carried out to identify the risk of impairment (decrease in value).

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

Whenever there is objective evidence that an impairment loss on loans and receivables carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amounts and estimated present value of future cash flows. As the Bank's loan portfolio predominantly comprises loans secured by real estate, Bank uses discounted collateral realization value as an approximation of the present value of

NOTES TO THE FINANCIAL STATEMENTS

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future cash flows. For the measurement of collective impairment the Bank assumes that all contractual cash flows will be received, and recognizes impairment loss based on historical loss experience, which is adjusted on the basis of then-currently available data.

The carrying amount of the assets is reduced through the use of an allowance and the increase/decrease in the amount of the impairment loss is recognized in the statements of profit and loss.

Other off-balance sheet exposures

As a part of its routine business function, the Bank engages in off-balance sheet arrangements associated with lending, issuing bank guarantees and opening letters of credit. These financial transactions are recorded in the financial statements as at the effective date of the relevant agreement.

Intangible assets

The Bank's intangible assets comprise licenses, which allow the Bank to carry on banking business, and computer software. The intangible assets are accounted for at their historical cost less amortization. Intangible assets amortization term is determined by the Bank based on the intangible asset's useful life, if any; in the event that such a term is not stated, the Bank amortizes the intangible asset into expenses over a period of 5 years. The Bank applies the straight-line method of depreciation to write off intangible assets, based on the assumption that intangible assets constantly lose their value.

Tangible fixed assets

Tangible assets are recorded in the Bank's financial statements at their historical cost less accumulated depreciation. Tangible assets having a purchase price below LVL 100 are expensed at the moment of purchase. Tangible fixed assets purchased for foreign currency are accounted for in lats at the Bank of Latvia's established rate valid as at the assets factual delivery date.

Depreciation periods for individual categories of assets are as follows:

Buildings	50 years
Machinery	5 years
Motor vehicles	5 years
Other fixed assets	10 years
Computers	5 years

Land and assets under construction are not depreciated. Costs relating to the maintenance and repair of the Bank's fixed assets are included in the statements of profit and loss when they arise. Whenever a complete repair and renovation prolong the asset's useful life (change the value of the asset), then the repair and renovation expenditure amount is added to the fixed asset's historic cost.

Investment property

Investment property is initially recognized in the balance sheet at its purchase value, including purchase costs. Subsequently, the investment property is revalued and accounted for at its fair value based on its market price. Gain or loss from the change in the value is recorded in the statements of profit and loss and reported under “Gain or loss on revaluation of long-term financial investments” item.

Repo operations (*repos*)

Securities sold under repurchase agreements (*repos*) are recorded in the financial statements along with other securities, while the Bank's commitments are included in the respective items in the liabilities-side of the balance sheet, as “Due to credit institutions” or “Deposits” depending on the agreement's characteristics.

Fair value of financial assets and liabilities

Fair value is based on the intentions for further activity of the Bank in certain financial assets and financial liabilities, taking into account its current financial position. The initial evaluation of financial assets and financial liabilities of the Bank is carried out at the fair value of the included asset and received liability for its repayment, including the transaction costs. The subsequent evaluation of financial assets and liabilities in the Bank's balance sheet is carried out at depreciated cost, excluding trading assets and liabilities and derivatives. The fair value of a financial asset and financial liability is established by means of an evaluation method based on readily available market prices, interest rates, norms of determined losses for granted loans, and the coefficient for discounting. The trading portfolio consisting of the Bank's securities is carried at fair value, which is based on published quotes on active markets.

Cash and cash equivalents

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

Debt securities in issue

Debt securities in issue include bills of exchange/promissory notes issued by the Bank. Debt securities are recognized at fair value of consideration received. Interest expense resulting from issuance of the debt securities are recorded on the statements of profit and loss as interest expense.

Corporate income tax

Corporate income tax in the Republic of Latvia is a direct tax on profits, which is collected at the rate of 15%. Deferred tax liabilities or claims arise for the Bank as a result of short-term differences, connected with non-simultaneous recognition of income and expense in the financial statements or tax declaration prepared by the Bank. Deferred taxes apply to the probable future tax claims and liabilities for all transactions and events, recognized in the financial statements or tax declaration of the Bank. Basic short-term differences arise because of differences between the depreciation rates of fixed assets, used for financial accounting and for tax purposes, and general accruals for bad debts and other expenses.

3. RISK MANAGEMENT

The Bank's financial business is exposed to various risks, of which core risk categories are reputational risk, credit risk, liquidity risks, currency risk and market risk. All the aforementioned risks stem from the impairment of the borrower's credit solvency, exchange rates fluctuations, interest rates fluctuations, and other factors. The Bank's risk management policies set forth regulatory limits on risk transactions and outline the procedures designed to mitigate the risks across all of the Bank's business areas. The Bank's Board and two committees - the Credit Committee and the Resources Supervision Committee - continuously verify compliance with the regulatory requirements and guidelines outlined in the Bank's internal documents. In view of the expansion of the Bank's activity and the evolvement of the financial market, the Bank regularly improves its risk management system over which the Internal Audit Department maintains continuing control.

Reputational risk

The financial system may be exploited by money launderers and those who finance terrorism, which in turn can pose a significant reputational risk to banks unless they ensure an adequate level of due diligence to be able to identify, monitor and avoid reputational risk. The Bank therefore develops and consequently implements its internal policies and procedures in order to comply with the guidelines and requirements outlined in international and domestic regulatory documents:

1. Valid laws and legislative decrees of the Republic of Latvia;
2. Guidelines and recommended standards adopted by the Financial and Capital Market Commission and the Association of Latvian Commercial Banks;
3. Global Anti-Money Laundering/Counter-Financing of Terrorism (AML/CFT) policies and regulations;
4. International best practice.

During 2005, the Bank has been focusing on the updating and analyzing information of the existing customer base, establishing an efficient system of monitoring customers' activity, training of personnel, verifying the effectiveness of the AML procedures and the efficiency of the implementation. The number of employees in the AML Compliance Division increased compared to the prior year.

NOTES TO THE FINANCIAL STATEMENTS

The Bank has also put in place a revised set of AML/CFT and Know Your Customer (KYC) policies and procedures which provide guidelines for:

- Performing customer due diligence (CDD) through identification and verification processes;
- On-going supervision and monitoring of customers' business activities;
- Carrying out customers' business process analysis (BPA);
- Identifying suspicious and unusual financial transactions; filing suspicious activity reports (SARs) to investigative, law enforcement and judicial authorities;
- Retaining of the information concerning Bank's customers and their business and financial activity;
- Staff training;

The above mentioned procedures reflect processes already implemented in the Bank as well as contain additional measures regarding documenting separate processes in AML/KYC:

- the results of enhanced due diligence of customer base;
- the results of day-to-day monitoring arrangements;
- decisions taken regarding the analysis of daily financial transactions.

The Bank's Board has determined until 1st July 2006 for the implementation of separate additional measures in AML/CFT newly adopted in October 2005. By the publication date of the 2005 Annual Report the Bank has implemented the internal policy designed for documenting daily monitoring results and relevant decisions. The nearest plans envisage the completion of the process for documenting the results of enhanced due diligence on the active customer base, e.g. additional information on the status of beneficial owners of separate customers, and enhanced analysis of customer business processes.

The Financial and Capital Market Commission (the Commission), which regulates the financial services industry in Latvia, focuses on supervising and enforcing compliance with AML/CFT standards in the course of routine audits conducted in Latvian banks. In October 2005, the Commission performed a regular review of the Bank and confirmed that the Bank's internal AML policies and guidance incorporate global best practices and the Commission's recommendations, and adherence to the policies and procedures in the course of banking business would ensure compliance with the Latvian law *On the Prevention of Money Laundering* (the AML law). The Commission agrees that Bank needs the time for implementation of the newly adopted developments of the policies and procedures. As mentioned above the Bank has determined the final term of implementation of the policies and procedures till 1 July 2006.

Credit risk

Credit risk is the risk that the Bank may sustain losses through a counterparty's or debtor's failure to meet contractual obligations vis-à-vis the Bank.

For the purpose of minimizing credit risk, the Bank has set operating limits on various deals and transactions, for instance, limits on the exposures incurred by the Bank to individual customers (including any bank), depending on the borrower's financial position, registration and the region where the borrower's business is based, and depending on the amount and type of the underlying collateral, currency of the transaction, and other criteria. All of the said restrictions are set forth by the Bank's internal policies and regulations. The Bank's structural units are obligated to enforce the limits set. The Resources Supervision Committee, the Credit Committee and the Bank's Board are

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charged with the control function. The Bank's adopted procedures are designed to trace, analyze and monitor credit risk, complemented by the maintenance of limits set by internal policies and regulations, to ensure that a multilateral control system is in place whenever the Bank seals any transaction that involves allocation of the Bank's resources.

Liquidity risk

Liquidity is the Bank's ability to ensure that its unexpected or forecasted financing needs are satisfied to meet legally proven claims of the Bank's creditors. Liquidity is understood as the Bank's ability to convert assets into ready cash with the minimal losses or to borrow funds at a reasonable price.

The Bank meets its liquidity requirements in compliance with the Bank's Liquidity Management Policy, as adopted by the Bank's Board and Council. The Policy sets forth terms for overall net position limits on a maturity basis. The Resources Supervision Committee has the responsibility to ensure uniform implementation of this Policy. The Committee sets appropriate liquidity net positions sub-limits on the maximum aggregate deposit amount deposited by an individual customer (group of connected customers) and other restrictions. Also, the Committee ensures the enforcement of operating limits and adherence to the procedures. To comply with the regulatory requirements of the Financial and Capital Market Commission, the Bank is obligated to hold sufficient liquid assets reserve to meet its financial commitments, however not less than 30% of the Bank's total current liabilities.

As at 31 December 2005, the Bank's liquidity ratio stood at 83% (2004: 69%).

Refer to Note 41 for Maturity analysis – the table that analyses the Bank's assets and liabilities into relevant maturity groupings, based on the remaining period at the balance sheet date to the contractual maturity date.

Currency risk

Exchange rate fluctuations may affect the Bank's financial position and cash flow. Currency risk inherent in the transactions is calculated separate for each currency with respect to foreign currency-denominated assets and liabilities and the projected cash flow from derivative financial instruments.

To monitor currency risk, the Bank has formulated the Foreign Exchange Risk Management Policy. The Resources Supervision Committee's responsibility is to ensure that the regulatory requirements outlined in the Policy are implemented. The regulatory requirements impose restrictions both on the size of currency conversion transactions and the net open foreign-currency position (NOFP). Under the Law *On Credit Institutions*, the net open position in any foreign currency may not exceed 10 percent, while the overall foreign exchange exposure may not exceed 20 percent of the Bank's equity. In the financial market, the Bank is a party to *spot*, *swap* and *forward* contracts for the delivery of foreign currencies.

The Bank's net open foreign exchange positions are shown in Note 42.

Interest rate risk

Interest rate risk is the risk that fluctuating interest rates will adversely affect the Bank's earnings and the Bank's economic value.

To manage interest rate risk, the Bank has formulated and adopted the Interest rate risk management policy and the Procedure designed for measuring, monitoring and controlling interest rate risk. To set interest rate risk limits, the Delta approach (Delta measures interest rate changes) is used. Given a one percent change in the interest rate under the Delta approach, the Bank calculates the affect on the annual net interest profit separately for every single currency and for the overall foreign exchange exposure. The Resources Supervision Committee is responsible for ensuring that the requirements outlined in the aforementioned Procedure are implemented and the Bank's officers operate within prescribed limits. The Bank's Board regularly resets the Bank's pre-determined interest rates based on the analysis of the current market and based on the predictions for the rise or fall of interest rates.

Refer to Note 43 to see the analysis of assets and liabilities by maturity profile based on fluctuating interest rates.

Market risk

The Bank focuses a lot of attention on the monitoring and analysis of market risk. The Bank has adopted its Trading Portfolio Policy designed to define the structure of the Bank's trading portfolio and to set out the maximum effective open position transacted with an individual issuer and the limits by the maturity profile of the securities. The Resources Supervision Committee is charged with the responsibility of implementing the Trading Portfolio Policy. The Internal Audit Department is charged with a continuing control function.

Operational risk

Operational risk, i.e. the risk of losses arising from various types of human (staff members) or technical (software and hardware failures) errors, contingencies, fire and other factors of this sort. To prevent losses caused by operational risk, the Bank has adopted internal guidance documents, such as the internal by-law, fire safety regulations, technical system and facility safety regulations, information classification rules and other rules, regulations and directives. The Bank's Board has appointed a task force whose task is to ensure the implementation of the regulatory requirements set forth in the aforesaid internal guidance documents.

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4. INTEREST INCOME

	2005	2004
	LVL	LVL
Loans	1 903 115	1 452 036
Due from credit institutions	792 717	731 626
Investments in securities	155 858	100 161
Payment cards	15 336	11 067
	2 867 026	2 294 890

5. INTEREST EXPENSE

	2005	2004
	LVL	LVL
Deposits	600 488	598 262
Due to credit institutions	86 912	113 546
Debt securities	20 595	-
Subordinated liabilities	3 671	4 567
	711 666	716 375

6. FEE AND COMMISSION INCOME

	2005	2004
	LVL	LVL
Servicing of settlements	1 768 652	819 744
Trust operations	126 868	31 816
Forex transactions	85 023	108 457
Fees and commissions from banks	63 650	-
Payment cards	62 330	39 101
Cash operations	24 250	16 833
Servicing of loans	10 689	10 713
Other fee and commission income	18 963	14 598
	2 160 425	1 041 262

7. FEE AND COMMISSION EXPENSE

	2005	2004
	LVL	LVL
Services of correspondent banks	602 247	231 575
Services of agents and brokers	121 898	95 654
Payment cards	21 915	18 769
Securities-based transactions	20 750	9 226
Other fee and commission expense	106	-
	766 916	355 224

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8. NET TRADING INCOME

	2005	2004
	LVL	LVL
Gain/(loss) on foreign exchange operations	828 361	(303 229)
Gain on trading in financial instruments	217 738	76 635
Gain on revaluation of positions in foreign currency	205 961	246 210
Gain on revaluation of trading and other financial instruments	32 703	175 833
	1 284 763	195 449

9. OTHER OPERATING INCOME

	2005	2004
	LVL	LVL
Proceeds from selling fixed assets	5 956	85
Penalty amounts received	591	5 152
Rent of premises	-	2 372
Other	1 808	2 128
	8 355	9 737

10. ADMINISTRATIVE EXPENSES

	2005	2004
	LVL	LVL
Staff salaries	948 420	718 830
Professional services	393 788	345 125
Communication	246 366	214 059
Social insurance payments	209 476	164 516
Lease, renovation and maintenance of fixed assets	198 084	148 749
Business trips	140 452	59 132
Representation expenses	88 004	67 410
Motor vehicles	55 448	41 701
Real property tax	18 912	35 577
Security	6 603	230 516
Other	248 103	241 390
	2 553 656	2 267 005

11. OTHER OPERATING EXPENSES

	2005	2004
	LVL	LVL
Advertising and publicity	36 403	37 232
Association membership fees	27 753	18 570
Penalties paid	19 837	19 142
Loss from selling fixed assets	1 130	-
Other	19 063	980
	104 186	75 924

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12. GAIN/(LOSS) ON FAIR VALUE OF INVESTMENT PROPERTY

	2005	2004
	LVL	LVL
Fair value adjustment (Note 25)	242 000	258 000
Loss on disposal (Note 25)	-	(606 000)
Fair value adjustment and disposal of investment property	242 000	(348 000)

13. INCOME TAX

a) Income tax charge

	2005	2004
	LVL	LVL
Income tax	-	-
Deferred tax	28 231	-
Total	28 231	-

b) Reconciliation between tax expense and accounting profit

	2005	2004
	LVL	LVL
Profit before taxation	2 191 443	297 778
Expected tax charge, applying the current tax rate of 15% (2004:15%)	328 716	44 667
<i>Tax effect of:</i>		
non-deductible expenses	(47 009)	273 446
tax loss carried forward	(268 806)	(318 113)
tax allowances	(12 901)	-
Deferred tax	(28 231)	-
Income tax charge for the year	(28 231)	-

c) Deferred taxes

	2005	2004
	LVL	LVL
Temporary differences in amortization of fixed assets	(180 171)	(144 404)
Temporary differences in vacation accruals	13 324	7 718
Temporary differences resulting from remeasuring assets	7 615	-
Temporary differences in tax loss carried forward	-	5 685
Deferred tax liabilities	(159 232)	(131 001)

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14. TAXES AND SOCIAL INSURANCE PAYMENTS

	2005	2004
	LVL	LVL
Social tax	297 641	235 276
Personnel income tax	192 468	152 959
Real property tax	18 912	35 008
Value added tax	13 171	8 416
Income tax withheld from non-residents	4 332	2 172
Total taxes paid	526 524	433 831

15. CASH AND BALANCES WITH THE CENTRAL BANK

	2005	2004
	LVL	LVL
Cash	605 667	657 447
Balance with the Bank of Latvia	4 841 480	1 641 077
	5 447 147	2 298 524

The Bank is required to ensure that a monthly average balance (in lats) with the Bank of Latvia exceeds the statutory reserve requirement ratio for commercial banks. As at reporting date the Bank has complied with the reserve requirements of the Bank of Latvia.

The reserve requirement amounted to LVL 4 420 356 (2004: LVL 1 517 894) at the end of the year.

16. DUE FROM CREDIT INSTITUTIONS

	2005	2004
	LVL	LVL
Repayable on demand	28 708 106	18 485 753
Other claims	10 875 719	1 411 260
	39 583 825	19 897 013
Provisions (Note 18)	(102)	(100)
	39 583 723	19 896 913

The table below shows the geographical concentration of claims on credit institutions:

	2005	2004
	LVL	LVL
Due from credit institutions incorporated in the OECD countries	22 544 772	15 934 631
Due from credit institutions incorporated in other countries	13 441 602	1 784 645
Due from credit institutions incorporated in the Republic of Latvia	3 597 451	2 177 737
	39 583 825	19 897 013
Provisions (Note 18)	(102)	(100)
	39 583 723	19 896 913

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17. SECURITIES HELD FOR TRADING

	2005	2004
	LVL	LVL
Total debt securities	3 884 185	1 384 471
<i>Government treasury bills</i>	211 980	84 891
<i>Bonds of other issuers and other fixed-income securities</i>	3 672 205	1 299 580
Equity shares	851 616	664 224
	4 735 801	2 048 695

The table below shows the securities recorded at fair market value (by issuer profile):

	2005	2004
	LVL	LVL
Debt securities of financial institutions	3 063 743	773 373
Debt securities of non-financial companies	453 443	437 235
Debt securities of central governments	211 980	84 891
Debt securities of credit institutions	155 019	88 972
Total debt securities	3 884 185	1 384 471
Equity shares of non-financial companies	825 243	652 424
Equity shares of financial institutions	22 041	10 347
Equity shares of credit institutions	4 332	1 453
Total equity shares	851 616	664 224
	4 735 801	2 048 695

As at 31 December 2005, debt securities with total book value LVL 357 294 (2004: LVL 387 400) were pledged as collateral for *repo* loans totaling LVL 311 805 (2004: LVL 400 000).

18. ANALYSIS OF CHANGES IN PROVISIONS

	Provisions					Total
	Provisions	for claims	Provisions	Provisions	Provisions	
	for losses	on the credit	for other	for accrued	for off-balance	
	on loans	institutions	assets	income	sheet exposures	
	LVL	LVL	LVL	LVL	LVL	LVL
Provisions as at 31 December 2004	1 449 231	100	9 965	29 293	-	1 488 589
Amounts written-off	(660 698)	-	(10 339)	(9 077)	-	(680 114)
Increase in provisions	215 198	-	14 402	6 881	(684)	235 797
Release from provisions	(215 863)	-	-	(1 335)	-	(217 198)
Difference due to fluctuations						
to foreign exchange rates	111 551	2	1 082	2 605	684	115 924
Provisions as at 31 December 2005	899 419	102	15 110	28 367	-	942 998

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19. DERIVATIVE CONTRACTS

	2005	2005	2004	2004
	Assets	Liabilities	Assets	Liabilities
	LVL	LVL	LVL	LVL
Foreign currency exchange SWAP transactions				
Nominal basic value	13 478 364	13 422 158	11 061 282	11 048 391
Fair value	77 484	23 286	88 070	65 010

20. SECURITIES AVAILABLE FOR SALE

Company	2005	2004
	LVL	LVL
JSC "Capital"	127 111	127 111
S.W.I.F.T. SCRL	8 223	8 225
	135 334	135 336

21. SECURITIES HELD TO MATURITY

	2005	2004
	LVL	LVL
Government treasury bills	100 707	192 513
Bonds of other issuers and other fixed-income securities	101 151	201 823
	201 858	394 336

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22. LOANS

(a) Loans by type	2005	2004
	LVL	LVL
Mortgage loans	5 200 504	1 335 758
Commercial loans	4 115 062	4 888 569
Consumer loans	2 741 774	1 862 248
Industrial loans	1 612 945	2 201 749
Overdrafts	656 937	2 967 480
Finance leasing	88 682	229 329
Payment cards	80 212	59 710
Other	6 196 717	4 475 108
	20 692 833	18 019 951
Provisions (Note 18)	(899 419)	(1 449 231)
	19 793 414	16 570 720
(b) Loan profile by geographic locale	2005	2004
	LVL	LVL
Residents of the Republic of Latvia	17 333 981	11 284 410
Residents of EU countries	1 271 066	3 191 999
Residents of other OECD countries	682 244	2 052 586
Residents of CIS countries	196 577	679 785
Residents of other countries	1 208 965	811 171
	20 692 833	18 019 951
Provisions (Note 18)	(899 419)	(1 449 231)
	19 793 414	16 570 720
(c) Loans by customer profile	2005	2004
	LVL	LVL
Loans to private companies	13 409 824	13 184 194
Loans to private individuals	5 666 736	4 044 659
Loans to financial institutions	975 093	595 943
Insider loans (senior management and staff members)	641 180	195 155
	20 692 833	18 019 951
Provisions (Note 18)	(899 419)	(1 449 231)
	19 793 414	16 570 720
(d) Loans by terms of maturity	2005	2004
	LVL	LVL
Up to 1 month (inclusive)	1 623 568	3 540 221
1 to 3 months	14 233	413 110
3 to 6 months	-	1 703
6 to 12 months	1 156 838	1 318 185
1 to 5 years	14 450 631	6 964 990
More than 5 years	3 447 563	5 781 742
	20 692 833	18 019 951
Provisions (Note 18)	(899 419)	(1 449 231)
	19 793 414	16 570 720

NOTES TO THE FINANCIAL STATEMENTS

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23. INTANGIBLE ASSETS

	Software, licenses and others LVL	Pre-payments for intangible assets LVL	Total LVL
Historical cost			
As at 31 December 2004	241 355	96 513	337 868
Additions	19 820	7 006	26 826
Disposals	(53 051)	-	(53 051)
As at 31 December 2005	208 124	103 519	311 643
Amortization			
As at 31 December 2004	(132 751)	-	(132 751)
Amortization	(54 762)	-	(54 762)
Disposals	53 051	-	53 051
As at 31 December 2005	(134 462)	-	(134 462)
Net book value			
As at 31 December 2004	108 604	96 513	205 117
As at 31 December 2005	73 662	103 519	177 181

24. FIXED ASSETS

	Buildings and land (in own use) LVL	Leased fixed assets-related capital expenditure LVL	Motor vehicles LVL	Office outfit LVL	Pre- payments for fixed assets LVL	Total LVL
Historical cost						
As at 31 December 2004	273 108	408 762	182 532	804 051	3 663	1 672 116
Additions	-	37 566	-	75 796	127 095	240 457
Disposals	-	-	(22 680)	(30 973)	-	(53 653)
Reclassification	-	-	12 242	95 128	(107 370)	-
As at 31 December 2005	273 108	446 328	172 094	944 002	23 388	1 858 920
Depreciation						
As at 31 December 2004	(38 414)	-	(67 780)	(379 239)	-	(485 433)
Depreciation	(5 179)	-	(34 003)	(129 573)	-	(168 755)
Disposals	-	-	19 167	29 201	-	48 368
As at 31 December 2005	(43 593)	-	(82 616)	(479 611)	-	(605 820)
Net book value						
As at 31 December 2004	234 694	408 762	114 752	424 812	3 663	1 186 683
Net book value						
As at 31 December 2005	229 515	446 328	89 478	464 391	23 388	1 253 100

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25. INVESTMENT PROPERTY

	LVL
As at 31 December 2003	4 064 000
Sale	(2 493 000)
Loss from sale	(606 000)
Revaluation	258 000
As at 31 December 2004	1 223 000
Revaluation	242 000
As at 31 December 2005	1 465 000

On 5 December 2005, the Bank's investment property that comprises the building and the land located in Rīga, Grēcinieku iela 6 was reappraised by certified appraiser a/s "Biznesa Konsultāciju Grupa" at fair market value (FMV).

Construction and renovation works on the investment property are currently in progress.

26. DEFERRED EXPENSES AND ACCRUED INCOME

	2005	2004
	LVL	LVL
Accrued interest on loans to non-banking financial companies	141 930	143 640
Deferred expenses	79 959	178 243
Other accrued income	64 394	27 376
Accrued interest on interbank loans	47 120	17 909
Accrued interest on securities	41 796	27 037
Provisions (Note 18)	(28 367)	(29 293)
	346 832	364 912

27. OTHER ASSETS

	2005	2004
	LVL	LVL
Money in transit (replenishment of a correspondent account)	622 650	-
Pre-payments	555 864	152 979
Unsettled spot forex transactions	71 961	43 169
Other accounts receivable	34 431	22 146
Unidentified funds outflow from correspondent accounts	21 233	26 712
Precious metals	15 975	20 049
Funds placed in guarantee funds	8 103	7 033
Tax overpayment	21	21
Provisions (Note 18)	(15 110)	(9 965)
	1 315 128	262 144

As at 31 December 2005 the line "Pre-payments" includes pre-payments totaling LVL 554 134 for a complete repair and renovation of the investment property.

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28. DUE TO CREDIT INSTITUTIONS AND CENTRAL BANK

	2005	2004
	LVL	LVL
Repayable on demand	122 496	588 302
Other liabilities	593 000	1 483 600
	715 496	2 071 902

The table below shows geographically-referenced figures:

	2005	2004
	LVL	LVL
Credit institutions incorporated in the Republic of Latvia	613 522	516 093
The Bank of Latvia	-	400 000
Credit institutions incorporated in non-OECD countries	101 974	1 155 809
	715 496	2 071 902

29. DEPOSITS

	2005	2004
	LVL	LVL
Repayable at call		
Private companies	44 177 097	22 814 733
Private individuals	2 000 603	1 171 812
State-owned companies	162 324	97 955
Financial institutions	11 077	10 836
Public organizations	1 475	1 089
Municipalities	1	1
	46 352 577	24 096 426
Term deposits		
Private companies	11 725 677	7 570 323
Private individuals	4 579 393	3 282 493
Financial institutions	997 805	865 067
	17 302 875	11 717 883
Total deposits	63 655 452	35 814 309

30. DEBT SECURITIES IN ISSUE

	2005	2004
	LVL	LVL
Bills of exchange	1 111 875	-
	1 111 875	-

In 2005, average annual interest rate of 6.08% was applied to the debt securities in issue.

NOTES TO THE FINANCIAL STATEMENTS

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Outstanding bills of exchange

	Face value	Coupon rate	Maturity date	Carrying value, LVL
	1 800 000 USD	6%	11/09/2007	1 067 400
	75 000 U SD	8%	29/12/2006	44 475
				1 111 875

31. DEFERRED INCOME AND ACCRUED EXPENSES

	2005	2004
	LVL	LVL
Accrued interest payable	190 196	142 788
Other accrued expense	144 905	31 244
Unused vacation accrued expenses	88 829	51 460
Accruals for other payments	47 773	40 714
Deferred income	1 306	640
	473 009	266 846

32. OTHER LIABILITIES

	2005	2004
	LVL	LVL
Suspense account	366 104	201 636
Other accounts payable	48 332	52 723
Unsettled spot forex transactions	39 937	72 929
	454 373	327 288

33. SUBORDINATED LIABILITIES

Unlike ordinary deposits, subordinated deposits are seven-year fixed term, and early withdrawal is only allowed in the event of winding up or bankruptcy of the Bank. The liabilities are to be repaid only after the claims of other creditors have been satisfied, however before the shareholders' claims have been met.

Depositor	Currency	Amount		Repayment date	Amount	
		in currency	Interest rate		in LVL, 2005	in LVL, 2004
Belokon Holdings	USD	85 000	5.50%	07/05/2006	50 405	43 860
Belokon Holdings	USD	50 000	0.00%	30/09/2006	29 650	25 800
Vilmo Line	LVL	30 000	0.00%	12/01/2007	30 000	30 000
Belokon Holdings	USD	25 000	0.00%	20/10/2008	14 825	12 900
Abdulins A.N.	USD	39 000	0.00%	07/05/2005	-	20 124
Belokon Holdings	USD	50 000	0.00%	08/05/2005	-	25 800
Impex Land	USD	74 000	4.00%	04/05/2005	-	38 184
Oristo Finance	USD	75 000	0.00%	28/04/2005	-	38 700
Tara Group LLC	USD	100 000	0.00%	06/05/2005	-	51 600
Uniparks AS	USD	94 068	0.00%	08/05/2005	-	48 539
Other	-	-	-	-	7 168	18 568
Total	-	-	-	-	132 048	354 075

34. SHAREHOLDERS' EQUITY

The total authorized and paid-in share capital remained unchanged from 2004 year's level and at 2005-end was represented by 1 522 257 (One million five hundred twenty two thousand two hundred fifty seven) ordinary voting shares.

These are registered shares, each having a par value of LVL 5.00 (five lats). The total par value of the shares equals LVL 7 611 285 (seven million six hundred eleven thousand two hundred eighty five lats).

Of the Bank's 102 shareholders, 34 are legal entities and 68 are private individuals.

Reserve capital totaling LVL 545 024 is formed from the contributions made by the Bank's shareholders.

Listed below are the shareholders who each directly control more than 10 percent of the shares in the shareholders' equity:

Valerijs Belokon	37,2053 %
Viacheslav Kramnoy	27,9721 %
Vilori Belokon	12,1657 %

The table below shows earnings per share which is computed as follows:

	2005	2004
Profit for the year (LVL)	2 163 212	297 778
Ordinary shares (number)	1 522 257	1 522 257
Earnings per share (LVL per share)	1.42106	0.19562

35. CASH AND CASH EQUIVALENTS

	2005	2004
	LVL	LVL
Cash	605 667	657 447
Balance with the Bank of Latvia	4 841 480	1 641 077
Due from other credit institutions with up to 3 months remaining maturity	38 694 223	19 897 013
Due to the Bank of Latvia with up to 3 months remaining maturity	-	(400 000)
Due to other credit institutions with up to 3 months remaining maturity	(122 496)	(1 104 302)
Provisions (Note 18)	(102)	(100)
	44 018 772	20 691 135

NOTES TO THE FINANCIAL STATEMENTS

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36. RELATED PARTY TRANSACTIONS

Related parties include the following: shareholders of the Bank who exercise a significant influence over the management policy of the Bank, their associates, members of Bank's Council and Board, senior level executives, their immediate family members, the undertakings they control, and Bank's affiliates and undertakings over which the Bank exercises a dominant influence.

	Average	Amount	Off-balance	2005, total	2004, total
	interest		sheet items		
Assets		LVL	LVL	LVL	LVL
Loans, net	-	2 170 225	62 314	2 232 539	1 808 501
<i>Bank-related undertakings and individuals</i>	7.09%	2 179 424	9 175	2 188 599	1 714 138
<i>Council and Board</i>	7.04%	1 678	52 569	54 247	46 416
<i>Other senior executives</i>	-	-	570	570	58 368
<i>Provisions for losses on loans and advances</i>	-	(10 877)	-	(10 877)	(10 421)
Securities available for sale	-	127 111	-	127 111	127 111
Accrued income	-	1 210	-	1 210	10 926
Total assets and off-balance sheet liabilities	-	2 298 546	62 314	2 360 860	1 946 538
Liabilities					
Deposits deposited by related parties	5.05%	2 399 063	-	2 399 063	3 044 597
Subordinated liabilities	3.21%	102 048	-	102 048	108 360
Accrued expense	-	22 802	-	22 802	15 954
Total liabilities	-	2 523 913	-	2 523 913	3 168 911

The table below shows income and expense resulting from related party transactions:

	2005	2004
	LVL	LVL
Interest income	146 718	100 057
Interest expense	(121 326)	(108 196)
Net interest income	25 392	(8 139)
Expenses related to provisions for doubtful debts	(456)	(971)
Result	24 936	(9 110)

37. TRUST AGREEMENTS

The Bank enters into trust agreements with private individuals and legal entities, residents and non-residents of the Republic of Latvia. As at 31 December 2005, the Bank's administered assets totaled LVL 8 660 000. As at 31 December 2004, the Bank's administered assets stood at LVL 5 470 306.

Trust transactions are included in off-balance sheet item.

38. OFF-BALANCE SHEET ITEMS

As at 31 December 2005, the amount totaling LVL 197 419 (2004: LVL 170 555) was blocked in the Bank's customer accounts as collateral to secure sureties and guarantees issued to Bank's customers, including other off-balance sheet commitments to customers.

Sureties and guarantees, which represent irrevocable assurances and promise that the Bank will make payments to the beneficiary (third party) in the event that the obligor (customer) fails to honor his/her obligations to third parties, carry the same credit risk as loans.

Commitments to extend credit and liabilities for credit cards represent unused portions of authorizations to extend credit. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to a loss in an amount equal to the total unused commitments.

	2005	2004
	LVL	LVL
Sureties and guarantees	256 682	226 004
Commitments to customers	4 436 349	2 663 164
Commitments to extend credit	3 977 260	2 288 328
Liabilities for credit cards	457 660	373 593
Other liabilities	1 429	1 243
	4 693 031	2 889 168

39. INFORMATION ON THE BANK'S STAFF

In 2005, the Bank's average staff complement grew to reach the figure 155 (in 2004 – 136). Remuneration to the Bank's Council and Board members amounted to:

	2005	2004
	LVL	LVL
Council members	30 824	13 254
Board members	83 269	55 053
	114 093	68 307

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40. CAPITAL ADEQUACY CALCULATION

The Bank's capital adequacy ratio reflects the capital level required for hedging against credit risk and market risk which the Bank's assets and off-balance sheet liabilities are exposed to. Therefore, to comply with the Financial and Capital Market Commission's regulatory requirements, the capital adequacy ratio may not be less than 8 percent.

As at 31 December 2005

	Amount LVL	Risk weight category %	Risk-weighted value LVL
Bank's portfolio credit risk capital requirements			
ASSETS			
Cash and balances with the central bank	5 450 496	0%	-
Due from credit institutions			
<i>Credit institutions incorporated in OECD countries</i>	22 567 841	20%	4 513 568
<i>Credit institutions incorporated in EU countries (except for OECD countries)</i>	249 218	20%	49 844
<i>Due from credit institutions of the Republic of Latvia</i>	3 578 492	20%	715 698
<i>Due from other credit institutions</i>	13 231 942	100%	13 231 942
Securities and investments			
<i>Due from the central government of the Republic of Latvia</i>	101 520	0%	-
<i>Securities issued by credit institutions incorporated in the Republic of Latvia and other fixed income securities</i>	102 398	20%	20 480
<i>Equity shares and other variable yield securities</i>	135 334	100%	135 334
Loans			
<i>Claims secured by fixed-term deposits</i>	1 736 554	0%	-
<i>Claims secured by mortgages on real property registered with the Land Registry Office</i>	29 232	50%	14 616
<i>Claims on borrowers who are not credit institutions, except for lower-risk claims</i>	18 141 191	100%	18 141 191
Prepaid expenses and accrued income, if those are not attributable to a particular counterparty	79 959	50%	39 980
Fixed assets and investment property	3 272 234	100%	3 272 234
Other assets	825 388	100%	825 388
TOTAL RISK-WEIGHTED VALUE OF ASSETS	69 501 799	-	40 960 275

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OFF-BALANCE SHEET LIABILITIES

Adjustment of 100 percent risk-weight for credit risk

Guarantees issued

<i>0% risk-weighing</i>	53 679	0%	-
<i>100% risk-weighing</i>	203 004	100%	203 004

Adjustment of 50 percent risk-weight for credit risk

Commitments to extend credit, open credit line,
and similar liabilities

<i>0% risk-weighing</i>	143 740	0%	-
<i>100% risk-weighing</i>	4 291 161	100%	2 145 581

Other items carrying average risk

<i>100% risk-weighing</i>	1 429	100%	715
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The credit equivalent amount of foreign-currency derivative contracts

<i>20% risk-weighing</i>	137 136	20%	27 427
<i>100% risk-weighing</i>	12 746	100%	12 746

TOTAL OFF-BALANCE SHEET LIABILITIES	4 842 895		2 389 473
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TOTAL RISK-WEIGHTED VALUE OF ASSETS AND OFF-BALANCE SHEET LIABILITIES	43 349 748
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BANK'S PORTFOLIO CREDIT RISK CAPITAL REQUIREMENT	3 467 980
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EQUITY (NET WORTH)

Paid-in share capital	7 611 285
Reserve capital and other reserves	545 024
Accumulated deficit	(2 512 290)
Profit for the current year	2 163 212
Intangible assets	(177 181)
Tier 1 Core Capital	7 630 050

Subordinated liabilities with remaining maturity

<i>up to 1 year (inclusive)</i>	80 055	0%	-
<i>1 to 2 years</i>	30 000	20%	6 000
<i>2 to 3 years</i>	14 825	40%	5 930
<i>3 to 4 years</i>	7 168	60%	4 301

Tier 2 Supplementary Capital	16 231
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TOTAL CAPITAL	7 646 281
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Total capital requirements

Bank's portfolio credit risk capital requirement	3 467 980
Foreign exchange risk capital requirement	34 210
Position risk capital requirement	324 260
Counterparty risk capital requirement	6 560
Total amount of market risk capital requirements	365 030

Equity coverage for capital requirements	3 813 271
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CAPITAL ADEQUACY RATIO (%)	15.96%
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CAPITAL ADEQUACY RATIO as at 31 December 2004 (%)	20.32%
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NOTES TO THE FINANCIAL STATEMENTS

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41. ANALYSIS OF ASSETS AND LIABILITIES BY MATURITY PROFILE as at 31 December 2005

	Demand	Less than 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	5 years and more	Others	Pledged	TOTAL
ASSETS										
Cash and balances with the central bank	5 447 147	-	-	-	-	-	-	-	-	5 447 147
Due from credit institutions	29 089 979	9 011 244	593 000	296 500	593 000	-	-	-	-	39 583 723
Securities held for trading	3 709 341	-	-	-	-	-	669 166	-	357 294	4 735 801
Derivative contracts	-	77 484	-	-	-	-	-	-	-	77 484
Securities available for sale	-	-	-	-	-	-	135 334	-	-	135 334
Securities held to maturity	201 858	-	-	-	-	-	-	-	-	201 858
Loans	883 316	645 329	790 535	1 119 626	6 196 237	8 077 974	2 080 397	-	-	19 793 414
Intangible assets	-	-	-	-	-	-	177 181	-	-	177 181
Fixed assets	-	-	-	-	-	-	-	1 253 100	-	1 253 100
Investment property	-	-	-	-	-	-	-	1 465 000	-	1 465 000
Deferred expenses and accrued income	85 421	144 521	53 678	20 831	21 290	17 295	3 796	-	-	346 832
Other assets	622 650	71 961	-	-	-	-	620 517	-	-	1 315 128
Total assets	40 039 712	9 950 539	1 437 213	1 436 957	6 810 527	8 095 269	3 686 391	2 718 100	357 294	74 532 002
LIABILITIES										
Due to credit institutions and central bank	122 496	-	-	-	593 000	-	-	-	-	715 496
Deposits	46 361 769	6 800 732	3 870 436	384 934	5 101 670	824 106	-	-	311 805	63 655 452
Debt securities in issue	-	-	-	-	44 475	1 067 400	-	-	-	1 111 875
Derivative contracts	-	23 286	-	-	-	-	-	-	-	23 286
Deferred income and accrued expenses	203 680	111 389	57 478	11 791	50 149	36 412	2 110	-	-	473 009
Deferred taxes	-	-	-	-	159 232	-	-	-	-	159 232
Other liabilities	414 436	39 937	-	-	-	-	-	-	-	454 373
Subordinated liabilities	-	-	-	50 405	29 650	51 993	-	-	-	132 048
Off-balance sheet liabilities*	4 639 352	-	-	-	-	-	-	-	-	4 639 352
Total liabilities	51 741 733	6 975 344	3 927 914	447 130	5 978 176	1 979 911	2 110	-	311 805	71 364 123
Maturity gap	(11 702 021)	2 975 195	(2 490 701)	989 827	832 351	6 115 358	3 684 281	x	x	x

*Off- balance sheet liabilities are diminished by the amount of the issued guarantees, which are secured by the deposits deposited with the Bank and totaling LVL 53 679.

As at 31 December 2004:

Assets	23 474 730	3 919 332	1 149 000	35 240	2 357 705	6 115 640	4 620 603	2 614 800	387 400	44 674 450
Liabilities	29 117 866	5 157 473	1 795 593	3 232 498	1 539 302	631 622	-	-	400 000	41 874 354
Maturity gap	(5 643 136)	(1 238 141)	(646 593)	(3 197 258)	818 403	5 484 018	4 620 603	x	x	x

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42. ANALYSIS OF ASSETS AND LIABILITIES BY CURRENCY PROFILE as at 31 December 2005

ASSETS	LVL	EUR	USD	RUB	BYR	Other currencies	TOTAL LVL
Cash and balances with the central bank	5 110 837	154 462	173 206	-	-	8 642	5 447 147
Due from credit institutions	42 838	5 500 575	29 493 649	2 880 504	1 254 653	411 504	39 583 723
Securities held for trading	669 166	-	4 066 635	-	-	-	4 735 801
Derivative contracts	77 484	-	-	-	-	-	77 484
Securities available for sale	127 111	8 223	-	-	-	-	135 334
Securities held to maturity	201 858	-	-	-	-	-	201 858
Loans	6 925 144	5 395 570	7 472 700	-	-	-	19 793 414
Intangible assets	142 457	34 724	-	-	-	-	177 181
Fixed assets	1 253 100	-	-	-	-	-	1 253 100
Investment property	1 465 000	-	-	-	-	-	1 465 000
Deferred expense and accrued income	110 432	62 429	173 891	-	80	-	346 832
Other assets	680 241	1 690	633 197	-	-	-	1 315 128
Total assets	16 805 668	11 157 673	42 013 278	2 880 504	1 254 733	420 146	74 532 002
LIABILITIES							
Due to credit institutions and central bank	23	4 262	711 211	-	-	-	715 496
Deposits	2 460 118	7 940 406	49 031 497	2 645 817	1 363 857	213 757	63 655 452
Debt securities in issue	-	-	1 111 875	-	-	-	1 111 875
Derivative contracts	23 286	-	-	-	-	-	23 286
Deferred income and accrued expenses	207 822	86 975	178 089	123	-	-	473 009
Deferred taxes	159 232	-	-	-	-	-	159 232
Other liabilities	81 095	60 747	306 438	4 920	617	556	454 373
Subordinated liabilities	37 168	-	94 880	-	-	-	132 048
Shareholders' equity	7 807 231	-	-	-	-	-	7 807 231
Total liabilities and shareholders' equity	10 775 975	8 092 390	51 433 990	2 650 860	1 364 474	214 313	74 532 002
BALANCE POSITION	6 029 693	3 065 283	(9 420 712)	229 644	(109 741)	205 833	
Unsettled spot forex contracts	(585 000)	1 315 772	(826 848)	-	-	128 100	
Forward contracts	(6 031 843)	(3 789 519)	10 103 069	-	-	(225 500)	
NET POSITION	(587 150)	591 536	(144 491)	229 644	(109 741)	108 433	
Ratio to the shareholders' equity (%)*			-2%	3%	-1%		

The sum of overall foreign exchange exposure and the net position in gold stood at 4.61% the Bank's equity as at 31 December 2005 (2004: 11%).

* Equity (net worth) totaling LVL 7 646 281 (2004: LVL 5 478 308) as at 31 December 2005

As at 31 December 2004:

Assets	10 220 603	29 030 796	4 206 934	902 184	143 617	170 316	44 674 450
Liabilities	8 905 917	31 936 523	2 935 577	650 195	195 918	50 320	44 674 450
Balance position	1 314 686	(2 905 727)	1 271 357	251 989	(52 301)	119 996	-
Net position	(537 671)	452 873	5 345	17 858	639	44 086	-

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43. REPRICING MATURITIES OF ASSETS AND LIABILITIES as at 31 December 2005

	Up to 1 month (inclusive)	1 to 3 months	3 to 6 months	6 to 12 months	1 year and more	No interest is paid	Others	TOTAL
	LVL	LVL	LVL	LVL	LVL	LVL	LVL	LVL
ASSETS								
Cash and balances								
with the central bank	4 841 480	-	-	-	-	605 667	-	5 447 147
Due from credit institutions	36 198 398	593 000	296 500	593 000	-	1 902 825	-	39 583 723
Securities held for trading	31 972	129 430	35 777	129 172	3 557 834	851 616	-	4 735 801
Derivative contracts	-	-	-	-	-	77 484	-	77 484
Securities available for sale	-	-	-	-	-	135 334	-	135 334
Securities held to maturity	-	100 051	-	-	101 807	-	-	201 858
Loans	1 677 209	1 203 527	1 595 886	6 838 768	8 166 901	311 123	-	19 793 414
Intangible assets	-	-	-	-	-	-	177 181	177 181
Fixed assets	-	-	-	-	-	-	1 253 100	1 253 100
Investment property	-	-	-	-	-	-	1 465 000	1 465 000
Deferred expenses and accrued income	-	-	-	-	-	346 832	-	346 832
Other assets	-	-	-	-	-	1 315 128	-	1 315 128
Total assets	42 749 059	2 026 008	1 928 163	7 560 940	11 826 542	5 546 009	2 895 281	74 532 002
LIABILITIES AND SHAREHOLDERS' EQUITY								
Due to credit institutions and central bank	18 034	-	-	593 000	-	104 462	-	715 496
Deposits	36 675 211	3 870 436	384 934	5 101 670	824 106	16 799 095	-	63 655 452
Debt securities in issue	-	-	-	44 475	1 067 400	-	-	1 111 875
Derivative contracts	-	-	-	-	-	23 286	-	23 286
Deferred income and accrued expenses	-	-	-	-	-	473 009	-	473 009
Deferred taxes	-	-	-	-	-	159 232	-	159 232
Other liabilities	-	-	-	-	-	454 373	-	454 373
Subordinated liabilities	-	-	50 405	29 650	51 993	-	-	132 048
Shareholders' equity	-	-	-	-	-	-	7 807 231	7 807 231
Total liabilities and shareholders' equity	36 693 245	3 870 436	435 339	5 768 795	1 943 499	18 013 457	7 807 231	74 532 002
Balance sheet sensitivity to interest rate risk	6 055 814	(1 844 428)	1 492 824	1 792 145	9 883 043	(12 467 448)	(4 911 950)	-
As at 31 December 2004:								
Assets	23 844 564	1 982 613	544 265	3 169 135	8 852 980	3 538 982	2 741 911	44 674 450
Liabilities	23 438 350	1 772 618	3 201 632	1 389 383	606 721	8 621 727	5 644 019	44 674 450
Balance sheet sensitivity to interest rate risk	406 214	209 995	(2 657 367)	1 779 752	8 246 259	(5 082 745)	(2 902 108)	-

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44. GEOGRAPHICAL CONCENTRATION OF ASSETS AND LIABILITIES as at 31 December 2005

ASSETS	EU		Other	CIS	Others	TOTAL
	Latvia	Member States	OECD countries			
	LVL	LVL	LVL	LVL	LVL	LVL
Cash and balances with the central bank	5 447 147	-	-	-	-	5 447 147
Due from credit institutions	3 577 708	22 793 990	1 779	13 210 246	-	39 583 723
Securities held for trading	669 166	1 601 390	2 454 284	-	10 961	4 735 801
Derivative contracts	76 057	-	-	1 427	-	77 484
Securities available for sale	127 111	8 223	-	-	-	135 334
Securities held to maturity	201 858	-	-	-	-	201 858
Loans	16 526 350	1 271 066	590 484	196 577	1 208 937	19 793 414
Intangible assets	177 181	-	-	-	-	177 181
Fixed assets	1 253 100	-	-	-	-	1 253 100
Investment property	1 465 000	-	-	-	-	1 465 000
Deferred expenses and accrued income	182 427	38 507	71 773	26 523	27 602	346 832
Other assets	1 255 882	14 856	31 438	2 226	10 726	1 315 128
Total assets	30 958 987	25 728 032	3 149 758	13 436 999	1 258 226	74 532 002
LIABILITIES AND SHAREHOLDERS' EQUITY						
Due to credit institutions and central bank	613 522	-	-	43 829	58 145	715 496
Deposits	5 991 831	12 795 506	24 356 544	4 639 137	15 872 434	63 655 452
Debt securities in issue	1 111 875	-	-	-	-	1 111 875
Derivative contracts	-	-	5 861	922	16 503	23 286
Deferred income and accrued expenses	287 956	97 045	44 886	22 511	20 611	473 009
Deferred taxes	159 232	-	-	-	-	159 232
Other liabilities	430 852	7 466	921	7 211	7 923	454 373
Subordinated liabilities	102 048	-	30 000	-	-	132 048
Shareholders' equity	4 467 121	1 935	627 915	2 710 165	95	7 807 231
Total liabilities and shareholders' equity	13 164 437	12 901 952	25 066 127	7 423 775	15 975 711	74 532 002
OFF-BALANCE SHEET ITEMS						
Sureties and guarantees	154 489	-	44 475	48 823	8 895	256 682
Off-balance sheet commitments to customers	513 711	144 422	2 209 790	49 597	1 518 829	4 436 349
Total off-balance sheet items	668 200	144 422	2 254 265	98 420	1 527 724	4 693 031

As at 31 December 2004:

Assets	18 758 237	3 796 079	18 845 646	2 461 737	812 751	44 674 450
Liabilities	8 014 897	1 841 778	21 511 609	6 879 649	6 426 517	44 674 450
Off-balance sheet liabilities	1 696 576	59 418	891 157	143 748	98 269	2 889 168

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45. PRODUCTIVITY OF BANK'S BALANCE SHEET

	2005			2004		
	Average monthly balance LVL	Interest income/ expense LVL	Average interest rate %	Average monthly balance LVL	Interest income/ expense LVL	Average interest rate %
ASSETS						
Cash	770 721	-	-	524 612	-	-
Claims on central bank payable on demand	2 785 298	44 392	1.6%	1 216 496	7 068	0.6%
Due from credit institutions	26 289 887	748 326	2.8%	16 837 673	724 558	4.3%
Loans, net	21 417 055	1 918 450	9.0%	16 594 843	1 463 103	8.8%
<i>Loans</i>	23 084 296	1 918 450	8.3%	18 100 294	1 463 103	8.1%
<i>Provisions for doubtful debts</i>	(1 667 241)	-	-	(1 505 451)	-	-
Debt securities	2 925 847	155 858	5.3%	1 847 803	100 161	5.4%
Other assets	5 697 052	-	-	5 041 710	-	-
(A) TOTAL ASSETS	59 885 860	2 867 026	4.8%	42 063 137	2 294 890	5.5%
LIABILITIES						
Due to credit institutions and central bank	1 570 431	86 912	5.5%	2 398 289	113 546	4.7%
Deposits	48 312 496	600 488	1.2%	31 651 619	598 262	1.9%
<i>Deposits repayable at call</i>	37 019 007	171 474	0.5%	16 550 710	61 772	0.4%
<i>Term deposits</i>	11 293 489	429 014	3.8%	15 100 909	536 490	3.6%
Debt securities in issue	356 056	20 595	5.8%	-	-	-
Subordinated liabilities	208 276	3 671	1.8%	368 559	4 567	1.2%
Other liabilities	3 181 188	-	-	1 931 867	-	-
(B) Total liabilities	53 628 447	711 666	1.3%	36 350 334	716 375	2.0%
Shareholder's equity	6 257 413	-	-	5 712 803	-	-
(C) Total liabilities and shareholders' equity	59 885 860	711 666	1.2%	42 063 137	716 375	1.7%
Net interest income		2 155 360			1 578 515	
Interest spread % (A)-(B)			3.5%			3.5%
Investment spread % (A)-(C)			3.6%			3.8%

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46. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

BALANCE SHEET ITEMS	2005, LVL		2004, LVL	
	Carrying value	Estimated fair value	Carrying value	Estimated fair value
Assets				
Cash and balances with the central bank	5 447 147	5 447 147	2 298 524	2 298 524
Due from credit institutions	39 583 723	39 617 024	19 896 913	19 899 670
Securities held for trading	4 735 801	4 735 801	2 048 695	2 048 695
Securities held to maturity	201 858	201 858	394 336	394 336
Loans	19 793 414	20 854 869	16 570 720	17 064 871
Total assets	69 761 943	70 856 699	41 209 188	41 706 096
Liabilities				
Due to credit institutions and central bank	715 496	715 496	2 071 902	2 071 902
Deposits	63 655 452	64 173 225	35 814 309	36 201 559
Debt securities in issue	1 111 875	1 111 875	-	-
Subordinated liabilities	132 048	132 048	354 075	354 075
Total liabilities	65 614 871	66 132 644	38 240 286	38 627 536

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