AS Sampo Banka

Financial Statements prepared in accordance with
International Financial Reporting Standards as adopted by European Union
for the years ended 31 December 2005 and 2004
and Independent Auditors' report

TABLE OF CONTENTS

REPORT OF THE SUPERVISORY COUNCIL AND THE BOARD OF DIRECTORS OF THE BANK

Year 2005 for Sampo Banka (hereinafter also – the Bank) was a year of continuing growth supported by implementation of main strategic decisions in areas of banking information technologies, human resources, bank services and products offered.

As a result Sampo Banka increased total assets by 53% comparing to the year 2004. Bank continued active issuance of loans and achieved 79% increase over total loan portfolio and 81% increase over mortgage loans portfolio. The deposit portfolio has grown by 20% compared to the year end 2004.

During 2005, the Bank’s growth and development has been supported by share capital increase up to LVL 8.5 million from LVL 3.5 million. Due to further expansion such support will be continued during 2006.

In 2005 Sampo Banka started implementation process of the new Banking Information System, which will allow the Bank to offer modern, competitive and comprehensive technologies and services for the Bank’s customers.

At the end of 2005 Bank opened it’s first branch and this fact should be recognized as a successful start of a branch network development to be expanded over next few years.

We truly believe that 2006 will continue to provide many positive upsides for all of our customers and the bank. We will offer a wider basket of services to our clients and introduce new Information Technologies solutions, especially in the area of Internet banking.

We are looking forward to operate in the continuously growing Latvian financial market and believe in our ability to continue the Bank’s long-term growth.

On behalf of the Bank:

Chairman of the Council	Chairman of the Board
Georg Franz Friedrich Schubiger	Ingus Grasis

15 February 2006

As at the date of signing the financial statements:

The Supervisory Council

Name	*Position*	*Date of appointment*
Georg Franz Friedrich Schubiger	Chairman of the Council	*29.11.2005. (re-elected)*
Edvīns Korneliuss	Deputy Chairman of the Council	*10.02.2006*
Jukka Edvin Ohls	Member of the Council	*29.11.2005. (re-elected)*
Petri Kalervo Niemisvirta	Member of the Council	*29.11.2005 (re-elected)*
Markku Juhani Pehkonen	Member of the Council	*29.11.2005 (re-elected)*
Risto Kalle Kustaa Tornivaara	Member of the Council	*29.11.2005 (re-elected)*
Gintautas Galvanauskas	Member of the Council	*29.11.2005.*

During 2005 the following members of the Council have resigned:

Name	*Position*	*Date of appointment*	*Date of resignation*
Georg Franz Friedrich Schubiger	Deputy Chairman of the Council	*24.11.2004*	*29.11.2005.*
Jukka Edvin Ohls	Deputy Chairman of the Council	*24.11.2004.*	*10.02.2006*
Petri Kalervo Niemisvirta	Member of the Council	*24.11.2004.*	*29.11.2005.*
Markku Juhani Pehkonen	Member of the Council	*22.03.2005.*	*29.11.2005.*
Risto Kalle Kustaa Tornivaara	Member of the Council	*22.03.2005.*	*29.11.2005.*
Nikolajs Sigurds Bulmanis	Member of the Council	*24.11.2004.*	*29.11.2005.*

The Board of Directors

Name	*Position*	*Date of appointment*
Ingus Grasis	Chairman of the Board	*07.12.2005.*
Edvīns Korneliuss	Member of the Board	*07.12.2005 (re-elected)*
Svetlana Ovčiņņikova	Member of the Board, CFO	*29.08.2005.*
Ilze Šulce	Member of the Board, Legal department	*20.02.2003.*

During 2005 the following members of the Board have resigned:

Name	*Position*	*Date of appointment*	*Date of resignation*
Inta Karsuma	Member of the Board	*12.11.1996.*	*28.06.2005.*
Inga Gulbe	Member of the Board	*12.11.1996.*	*29.08.2005.*
Valda Auziņa	Member of the Board	*20.02.1998.*	*07.12.2005.*
Edvīns Korneliuss	Chairman of the Board	*28.06.2005.*	*07.12.2005.*
Edvīns Korneliuss	Member of the Board	*01.12.2005.*	*10.02.2006*
Robertas Čipkus	Chairman of the Board	*24.11.2004.*	*29.08.2005.*

STATEMENT OF RESPONSIBILITY OF THE MANAGEMENT

15 February 2006

The Management of AS Sampo Banka (hereinafter – the Bank) are responsible for the preparation of the financial statements of the Bank.

The financial statements set out on pages 7 to 39 are prepared in accordance with the source documents and present fairly the financial position of the Bank as at 31 December 2005 and 2004 and the results of its operations, changes in shareholders' equity and cash flows for the years then ended.

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

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

On behalf of the Bank:

Chairman of the Council Georg Franz Friedrich Schubiger	Chairman of the Board Ingus Grasis

INDEPENDENT AUDITOR'S REPORT

To the shareholders
of AS Sampo Banka

We have audited the accompanying financial statements of AS Sampo Banka (hereinafter - the Bank) for the year ended 31 December 2005, set out on pages 7 through 39, which comprise the balance sheet, the statements of income, changes in shareholders` equity and cash flows, and the related notes. These financial statements are the responsibility of the Bank`s management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit 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 audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above give a true and fair view of the financial position of the Bank as at 31 December 2005, and of the results of their operations and their cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by European Union.

Ernst & Young Baltic SIA
License No.17

Diāna Krišjāne
Personal ID code: 250873- 12964
Chairperson of the Board
Latvian Sworn Auditor
Certificate No.124

Riga, Latvia
15 February 2006

INCOME STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2005 AND 2004

	Notes	2005 LVL	2004 LVL
Interest income	3	2,094,420	1,795,366
Interest expense	4	(1,284,142)	(787,950)
NET INTEREST INCOME		**810,278**	**1,007,416**
Commission income	5	103,851	75,863
Commission expense		(74,425)	(73,389)
Net gain from operations with foreign currencies and trading securities	6	291,842	95,352
Other operating income		534	163
OPERATING INCOME		**1,132,080**	**1,105,405**
Administrative expenses	7,8	(928,321)	(550,366)
Amortization and depreciation charge	14,15	(29,943)	(13,863)
Other operating expenses		(138)	(36,137)
Impairment losses on loans and advances	12	(85,398)	(209,393)
Release of previously established allowance for impairment losses	12	358,194	16,310
PROFIT BEFORE TAXATION		**446,474**	**311,956**
Corporate income tax	9	(25,490)	(58,180)
NET PROFIT		**420,984**	**253,776**
Earnings per share	22	9.72	7.25

The accompanying notes on pages 11 to 39 form an integral part of these financial statements.

The financial statements were signed on the behalf of the Board of Directors and the Supervisory Council on 15 February 2006 by:

Chairman of the Council Georg Franz Friedrich Schubiger	Chairman of the Board Ingus Grasis

BALANCE SHEETS
AS AT 31 DECEMBER 2005 AND 2004

ASSETS	Notes	2005 LVL	2004 LVL
Cash and balances due from the Bank of Latvia	10	3,361,848	1,975,915
Due from credit institutions:	11	4,360,891	7,736,246
Demand deposits		*2,360,891*	*1,236,246*
Other deposits		*2,000,000*	*6,500,000*
Loans	12	43,737,232	24,108,806
Shares and other investments in non-fixed income securities *(available for sale)*	13	-	44,000
Intangible assets	14	136,550	-
Fixed assets	15	291,549	22,989
Deferred expenses and accrued income	16	11,288	1,627
Current income tax prepayment		71,795	32,862
Deferred income tax asset	9	51,896	21,201
Other assets		1,714	409
Total assets		**52,024,763**	**33,944,055**
LIABILITIES			
Due to credit institutions	17	14,236,587	6,366,806
Term deposits		*14,231,893*	*6,366,806*
Customer deposit accounts	18	27,147,191	22,339,151
Current accounts		*7,822,063*	*4,807,999*
Term deposits		*19,325,128*	*17,531,152*
Deferred income and accrued expenses	19	34,592	46,241
Provision for other liabilities		-	12,691
Other liabilities	20	77,740	71,497
Total liabilities		**41,496,110**	**28,836,386**
SHAREHOLDERS' EQUITY			
Share capital	21	8,500,000	3,500,000
Reserves		1,607,669	1,353,893
Retained earnings		420,984	253,776
Total shareholders' equity		**10,528,653**	**5,107,669**
Total liabilities and shareholders' equity		**52,024,763**	**33,944,055**
OFF-BALANCE-SHEET ITEMS			
Guarantees issued		9,232	9,234
Undrawn credit lines		574,434	323,542

The accompanying notes on pages 11 to 39 form an integral part of these financial statements.

The financial statements were signed on the behalf of the Board of Directors and the Supervisory Council on 15 February 2006 by:

Chairman of the Council Georg Franz Friedrich Schubiger	Chairman of the Board Ingus Grasis

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEARS ENDED 31 DECEMBER 2005 AND 2004

	Share Capital LVL	Reserves LVL	Retained earnings LVL	Total LVL
As of 31 December 2003	**3,500,000**	**979,609**	**601,284**	**5,080,893**
Profit for the year	-	-	253,776	253,776
Dividends	-	-	(227,000)	(227,000)
Appropriations to reserves	-	374,284	(374,284)	-
As of 31 December 2004	**3,500,000**	**1,353,893**	**253,776**	**5,107,669**
Increase in share capital	5,000,000	-	-	5,000,000
Profit for the year	-	-	420,984	420,984
Dividends	-	-	-	-
Appropriations to reserves	-	253,776	(253,776)	-
As of 31 December 2005	**8,500,000**	**1,607,669**	**420,984**	**10,528,653**

The accompanying notes on pages 11 to 39 form an integral part of these financial statements.

In the shareholders meeting held on 18 October 2005 share capital increase of 50,000 ordinary shares with par value LVL 100 was approved. Share capital increase has been registered on 25 October 2005. As at 31 December 2005 the issue has been paid up in full amount.

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED 31 DECEMBER 2005 AND 2004

	Notes	2005 LVL	2004 LVL
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before taxation		446,474	311,956
Depreciation and amortization charge	14, 15	29,943	13,863
Decrease of impairment loss allowances		(353,451)	-
Foreign exchange		(1,098)	5,082
(Increase) in deferred expenses and accrued income		(9,661)	(6,334)
Increase in deferred income and accrued expenses		(11,649)	29,100
Operating profit before changes in assets and liabilities		*100,558*	*353,667*
(Increase)/ decrease in other assets		(1,305)	90
Increase/ (decrease) in other liabilities		6,243	(54,017)
Due from credit institutions		1,000,000	(1,000,000)
(Increase) in loans		(19,287,666)	(3,231,083)
(Decrease)/ increase in due to credit institutions		(1,862,209)	744,535
Increase in customer deposit accounts		4,808,040	8,751,243
Net cash and cash equivalents (used in)/ provided by operating activities		**(15,236,339)**	**5,564,435**
Corporate income tax paid		(95,118)	(95,456)
CASH FLOWS FROM INVESTMENT ACTIVITIES			
Purchase of intangible assets	14	(137,958)	-
Purchase of fixed assets	15	(327,924)	(11,532)
Sale of fixed assets		30,829	-
Sale of equity investments and other long-term investments		44,000	-
Investments		-	(8,000)
Change in fixed income securities		-	779,980
Net cash and cash equivalents provided by investment activities		**(391,053)**	**760,448**
CASH FLOWS FROM FINANCING ACTIVITIES			
Share capital increase		5,000,000	-
Payment of dividends		-	(227,000)
Net cash and cash equivalents used in financing activities		**5,000,000**	**(227,000)**
Net increase/ (decrease) in cash and cash equivalents		**(10,722,510)**	**6,002,427**
Cash and cash equivalents at the beginning of the year		**7,984,979**	**1,987,634**
Foreign exchange		1,098	(5,082)
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	23	**(2,736,433)**	**7,984,979**

The accompanying notes on pages 11 to 39 form an integral part of these financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(1) General information

AS Sampo Banka (previously – A/S Māras Banka) was registered on 12 November 1996 as a Joint Stock Company. It provides retail and corporate banking services in Latvia. In 2004 Sampo Bank plc (registered in Finland) acquired 100% of A/S Māras Banka shares. The Extraordinary Meeting of the Shareholders on the 17 February 2005 took a decision to change the name of the bank to AS Sampo Banka.

AS Sampo Banka main areas of operation include accepting deposits from customers and granting short-term and long-term loans mostly to private individuals, as well as issuing payment cards. In December 2005, the Bank opened its first branch.

Regulatory requirements - The Bank is subject to the regulatory requirements of the Financial and Capital Markets Commission of Latvia. These requirements, amongst others, include maintenance of minimum capital adequacy, minimum share capital requirements, liquidity, foreign currency position and loan concentration by individual customers, group of related customers, and individual related party customers.

A summary of principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

(2) Basis of Preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by European Union (EU). Certain disclosures are prepared in the format required by the Financial and Capital Market Commission and employed by domestic banks. International Financial Reporting Standards (IFRS) referred to above comprise standards and interpretations approved by the International Accounting Standards Board (IASB), and International Accounting Standards and Standing Interpretations Committee interpretations approved by the International Accounting Standards Committee (IASC), effective as at 31 December 2005 as adopted by European Union.

The accompanying financial statements are presented in the national currency of Latvia, the Lat ("LVL").

The preparation of financial statements in conformity with IFRS and the Regulations of Financial and Capital Market Commission require management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(3) Changes in Accounting Policies

The accounting policies adopted are consistent with those of the previous financial year except that the Bank has adopted those new/ revised standards mandatory for financial years beginning on or after 1 January 2005.

The changes in accounting policies result from adoption of the following new or revised standards:
IFRS 2 "Share-Based Payment";
IFRS 3 "Business Combinations", IAS 36 (revised) "Impairment of Assets" and IAS 38 (revised) "Intangible Assets";
IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations";
IAS 1 (revised) "Presentation of Financial Statements";
IAS 2 (revised) "Inventories";
IAS 8 (revised) "Accounting Policies, Changes in Accounting Estimates and Errors";
IAS 10 (revised) "Events after the Balance Sheet Date";

IAS 16 (revised) “Property, Plant and Equipment”;
IAS 17 (revised) “Leases”;
IAS 24 (revised) “Related Party Disclosures”;
IAS 27 (revised) “Consolidated and Separate Financial Statements”;
IAS 28 (revised) “Investments in Associates”;
IAS 31 (revised) “Interests in Joint Ventures”;
IAS 32 (revised) “Financial Instruments: Presentation and Disclosure”;
IAS 33 (revised) “Earnings per Share”;
IAS 39 (revised) “Financial Instruments: Recognition and Measurement”; and
IAS 40 (revised) “Investment property”.

The principle effects of these changes in policies are not significant for the Bank.

IFRSs and IFRIC Interpretations not yet effective

The Bank has not applied the following specific provisions of IFRSs and IFRIC Interpretations that have been issued but are not yet effective:

IAS 1 (amended 2005) “Presentation of Financial Statements” (Capital Disclosures);
IAS 19 (amended 2004) “Employee Benefits” (Actuarial Gains and Losses, Group Plans and Disclosures);
IAS 39 (amended 2005) “Financial Instruments: Recognition and Measurement” (Cash Flow Hedge Accounting of Forecast Intragroup Transactions, Fair Value Option, Insurance Contracts regarding Financial Guarantee Contracts);
IFRS 6 “Exploration for and Evaluation of Mineral Resources”;
IFRS 7 “Financial Instruments: Disclosures”;
IFRIC 4 “Determining whether an Arrangement contains a Lease”;
IFRIC 5 “Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds”.

The Bank expects that the adoption of the pronouncements listed above will have no significant impact on the Bank’s financial statements in the period of initial application, except for IFRS 7 “Financial Instruments: Disclosures”.

IFRS 7 “Financial instruments: Disclosures” and IAS 1 amendment “Capital Disclosures”

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

(4) Foreign Currencies

Transactions denominated in foreign currencies are translated into Latvian lat at the official Bank of Latvia exchange rate on the date of the transaction, which approximates the prevailing market rates. Monetary assets and liabilities, including unmatured commitments to deliver or acquire foreign currencies under spot exchange transactions, if any, are translated at the exchange rate on the balance sheet date.

The applicable rates used for the principal currencies as of 31 December were as follows:

	2005	2004
USD	0.593	0.516
EUR	0.703	0.703

All realised gains and losses are recorded in the income statement in the period in which they arise. Unrealised gains and losses on exchange rate translation are credited or charged at foreign exchange rates prevailing at the year-end to the income statement.

(5) Comparative figures

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

Following reclassifications were made to conform the presentation of the current year: accrued interest, deferred income and other items, related to specific financial instruments were included in the value of instrument (previously reported separately as other assets/ liabilities). The effect of reclassifications is presented in the table below:

	2004 (comparative) figures		
	As reported	Restate-ments	Restated
Balance sheet			
Total assets and liabilities	**24,007,632**	**101,174**	**24,108,806**
Loans to customers, net	24,007,632	101,174	24,108,806
Deferred expenses and accrued income	135,663	(101,174)	34,489
Customer deposit accounts	22,285,131	54,020	22,339,151
Accrued expenses and deferred income	100,261	(54,020)	46,241
Income statement			
Net profit	**253,776**	**-**	**253,776**
Interest income	2,002,997	(207,631)	1,795,366
Cumulative effect of change in ccounting policy (see Note 27)	(207,631)	207,631	-

Reclassification effect has no impact on financial year 2004 profit of the Bank, only the carrying amounts of respective financial instruments as of 31 December 2004.

(6) Recognitions of revenue and expenses

Interest income and expense are recognized on an accrual basis calculated using the effective interest method. Loan origination fees for loans issued to customers are deferred (together with related direct costs) and recognized as an adjustment to the effective yield of the loans. Fees, commissions and other income and expense items are generally recorded on an accrual basis when the service has been provided. Portfolio and other management advisory and service fees are recorded based on the applicable service contracts.

Income from penalty payments is recognised on a cash basis.

(7) Intangible assets

Intangible assets include computer software and licences.

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic lives of 1 to 3 years and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortisation periods and methods for intangible assets with finite useful lives are reviewed at least at each financial year-end.

Costs associated with maintaining computer software programmes are recorded as an expense as incurred.

(8) Fixed Assets

Fixed assets are stated at historical cost, less accumulated depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

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

Depreciation is calculated using the straight-line method over the estimated useful lives as follows:

Furniture	20%
Computers	35%
Other fixed assets	20%

Leasehold improvements are capitalised and depreciated over the remaining lease contract period or the life of the lease asset, whichever is shorter, on a straight-line basis.

Gains and losses on disposal of fixed assets are recognised in the income statement in the year of disposal.

Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use.

(9) Cash and Cash Equivalents

For the purposes of the cash flow statement cash and cash equivalents comprise balances with less than three months' maturity, including cash and deposits with the Bank of Latvia and other credit institutions less balances due to the Bank of Latvia and credit institutions with a maturity of less than three months.

(10) Financial assets

The Bank recognises financial asset on its balance sheet when, and only when, the Bank becomes a party to the contractual provisions of the instrument.

Financial assets in the scope of IAS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Bank determines the classification of its financial assets at initial recognition and, where allowed and appropriate, re-evaluates this designation at each financial year-end.

All "regular way" purchases and sales of investments are recognised using trade date accounting.

Financial assets at fair value through profit or loss

Financial assets classified as held for trading are included in the category "financial assets at fair value through profit or loss". Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Such assets are initially accounted for at acquisition cost and are subsequently revalued at the fair value, which is market price. Related profit or loss on revaluation is charged directly to the income statement. Interest and dividends on such investments are recognised as interest income and dividend income respectively.

Held to maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Bank has the positive intention and ability to hold to maturity. Investments intended to be held for an undefined period are not included in this classification. Other long-term investments that are intended to be held-to-maturity, such as bonds, are subsequently measured at amortised cost. This cost is computed as the amount initially recognised minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initially recognised amount and the maturity amount. This 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 and discounts. For investments carried at amortised cost, gains and losses are recognised in the income statement when the investments are derecognised or impaired, as well as through the amortisation process.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in income when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Loans and advances are recognised at their trade date.

Loan agreements foresee the possibility of repayment before the maturity date. The management of the Bank cannot estimate how often or when clients would use such an option and therefore impact of such repayment, if any, was not reflected in the financial statements of the Bank.

Non-performing loans

Loans are treated as non-performing when loan principal or interest payable is overdue for 90 and more days.

Write-offs

When the loans and advances cannot be recovered, they are written-off and charged against impairment for possible credit losses. The management of the Bank makes the decision on writing-off loans. Recoveries of loans previously written-off are credited to the income statement.

Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the three preceding categories. After initial recognition available-for sale financial assets are measured at fair value with gains or losses being recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in equity is included in the income statement.

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business on the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions, reference to the current market value of another instrument, which is substantially the same and discounted cash flow analysis.

(11) Derecognition of financial assets and liabilities

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the Bank has transferred its rights to receive cash flows from the asset, or retained the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; and
- the Bank either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Bank has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Bank's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Bank could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Bank's continuing involvement is the amount of the transferred asset that the Bank may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the Bank's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

(12) Offsetting

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

(13) Impairment of financial assets

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows. Future cash flows consists of any proceeds received, including, but not limiting to, any payments received, realisation of collateral and other payments. Present value of future cash flows is estimated using discount factor, which covers both: cash flow assessment and effective interest rate. The carrying amount of the asset is reduced through use of an impairment account in the income statement.

The Bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

(14) Impairment of other assets

The Bank assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Bank makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash- generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses of continuing operations are recognised in the income statement in those expense categories consistent with the function of the impaired asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation (if any), had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in profit or loss unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase. After such a reversal the depreciation charge (if any) is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

(15) Fair values of financial assets and liabilities

For financial instruments traded in organised financial markets the fair value is determined by reference to quoted market prices. Bid prices are used for assets and offer prices are used for liabilities. The fair value of interest-bearing financial instruments is estimated based on discounted cash flows using the interest rates for items with similar terms and risk characteristics. Where the fair values of financial assets and liabilities differ materially from their book values, such fair values are separately disclosed in the notes to the financial statements. The Management believe that the fair value of amount due from banks, loans and receivables, amounts due to banks and customer deposits approximate their book values.

(16) Borrowings

The Bank recognises financial liability on its balance sheet when, and only when, the Bank becomes a party to the contractual provisions of the instrument.

In the balance sheet borrowings are recognised initially at cost amounting to their issue proceeds net of transaction costs. Subsequently borrowings stated at amortised cost and any difference between net proceeds and value at redemption is recognised in the income statement over the period of borrowings using the effective interest rate.

(17) Share capital

Share capital is shown in the balance sheet at the amount subscribed.

(18) Corporate income tax

Corporate income tax payable is assessed based on the taxable income for the period in accordance with Latvian tax legislation. Beginning with 2004, the tax rate stated by Latvian tax legislation is 15 %.

Deferred tax is provided on the liability method whereby deferred tax assets are recognized for deductible temporary differences and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax basis. Deferred income tax is determined using tax rates that have been enacted and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised where it is probable that future taxable profit will be available against which the tax assets can be utilised.

(19) Dividends

Dividends on ordinary shares are recognised in equity in the period in which they are approved by the Bank's shareholders.

(20) Off-balance sheet items

All liabilities that give rise to balance sheet exposures are accounted for as off balance sheet liabilities. This allows the bank to assess capital requirement and to allocate funds required to cover those obligations.

(21) Leases

Finance – Bank as lessee

The Bank recognizes finance leases as assets and liabilities in the balance sheet at the date of commencement of the lease term at amounts equal to the fair value of the leased property or, if lower, at the present value of the minimum lease payments. In calculating the present value of the minimum lease payments the discount factor used is the interest rate implicit in the lease, when it is practicable to determine; otherwise, the Bank's incremental borrowing rate is used. Initial direct costs incurred are included as part of the asset. Lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to periods during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

The costs identified as directly attributable to activities performed by the lessee for a finance lease, are included as part of the amount recognised as an asset under the lease.

Operating – Bank as lessee

Leases of assets under which the risks and rewards of ownership are effectively retained by the lessor are classified as operating leases. Lease payments under an operating lease are recognized as expenses on a straight-line basis over the lease term and included into other administrative and operating expenses.

(22) Error corrections

The Bank shall correct material prior period errors retrospectively in the first set of financial statements authorised for issue after their discovery by restating the comparative amounts for the prior period(s) presented in which the error occurred or if the error occurred before the earliest prior period presented, restating the opening balances of assets, liabilities and equity for the earliest prior period presented.

When it is impracticable to determine the period-specific effects of an error on comparative information for one or more prior periods presented, the entity shall restate the opening balances of assets, liabilities and equity for the earliest period for which retrospective restatement is practicable (which may be the current period).

(23) Credit-related commitments

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

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

(24) Provisions

Provisions are recognized when the Bank has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The expense relating to any provision is presented in the income statement. If the effect of the time value of money is material, provisions are discounted using current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a borrowing cost.

Provisions made to guarantees and stand-by facilities.

The amount of the loss is recognized when it is probable that the Bank will recognize an outflow of economic benefit that can be reliably estimated and represents a present legal or constructive obligation.

(25) Contingencies

Contingent liabilities are not recognised in the financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is not recognised in the financial statements but disclosed when an inflow or economic benefits is probable.

(26) Use of estimates in the preparation of financial statements

The preparation of financial statements in conformity with International Financial Reporting Standards, as published by the International Accounting Standards Board, requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses and disclosure of contingencies. The significant areas of estimation used in the preparation of the accompanying financial statements relate to depreciation and evaluation of impairment for loans, provisions for loan commitments and stand-by facilities.

Below are presented key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date that has a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

The Bank regularly reviews its loans and receivables to assess impairment. The Bank uses its experienced judgement to estimate the amount of any impairment loss in cases where a borrower is in financial difficulties and there are few available historical data relating to similar borrowers. Similarly, the Bank estimates changes in future cash flows based on the observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the group of loans and receivables when scheduling its future cash flows. The Bank uses its experienced judgement to adjust observable data for a group of loans or receivables to reflect current circumstances. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Future events may occur which will cause the assumptions used in arriving at the estimates to change. The effect of any changes in estimates will be recorded in the financial statements, when determinable.

During 2005, the Management of the Bank changed the estimate regarding loan issuance commission recognition term. Effective from 1 January 2005 it was changed from 3 to 15 years. Should the Bank continued to apply the previous estimate of 3 years deferral period further, the net profit for the year 2005 and the shareholders equity as at 31 December 2005 would increase for LVL 167 thousand.

(27) Earnings per share

Earnings per share amounts are calculated by dividing net profit for the year attributable to ordinary equity holders of the parent by the weighted number of ordinary shares outstanding during the year.

(28) Subsequent events

Post-year-end events that provide additional information about the Bank's position at the balance sheet date (adjusting events) are reflected in the financial statements. Post-year-end events that are not adjusting events are disclosed in the notes when material.

2. RISK MANAGEMENT

The Bank has developed and follows risk management policies describing and regulating ways to minimize the risk of losses. The Board and Council have approved risk management policies. The Board supervises the risk management system but responsibility over implementation lies with business line managers. The risk management system is under continuous improvement in response to development of the Bank's activities and financial market.

Interest rate, foreign exchange and liquidity risk
Interest rate risk arises due to potential adverse changes of interest payments on the Bank's local and foreign assets and payments for the Bank's liabilities.

The Board controls the operations of the Bank's units in charge of the management of interest rate risk and plans the Bank's future operations. The credit department controls the daily aspects of activities related to management of interest rate risk.

Foreign exchange risk management is governed by the Bank's foreign exchange risk management policy. The accounting department of the Bank maintains control over limits of foreign exchange positions in order to avoid losses arising from adverse changes in exchange rates.

Liquidity risk management is determined by the Bank's liquidity management policy, which includes treatment of the risk of untimely settlement of customer and creditor claims.

***Credit risk* –** The Bank has developed a credit policy regulating controls over credit risk. Credit risk includes untimely or incomplete settlement of debtor liabilities. The Board and Credit Committee manage the risk. The Credit department continuously monitors compliance with related procedures and limits. Other risks such as operational risk, counter party risk as well as control over money market transactions with other banks and customers is the responsibility of the assets and liabilities committee.

***Other risks related to operations* –** The Bank's operations might be exposed to other risks that may result in unexpected losses. The cause of such risks may be, for instance: human errors or fraud, disruption of information systems, insufficient internal control and procedures etc. The Board and respective structural units of the Bank manage these risks. The Bank maintains the resources necessary for continued operations.

3. INTEREST INCOME

	2005 LVL	2004 LVL
Loans	1,901,404	1,944,867
Placements with other banks	193,016	58,130
Cumulative effect of change in accounting policy (see Note 27)	-	(207,631)
Total	2,094,420	1,795,366

INTEREST EXPENSE

	2005 LVL	2004 LVL
Deposits	953,464	560,526
Due to credit institutions	330,678	227,424
Total	1,284,142	787,950

COMMISSION INCOME

2005

		2004
	LVL	LVL
Account maintenance and money transfers	74,190	58,849
Other	29,661	17,014
Total	103,851	75,863

NET GAIN FROM OPERATIONS WITH FOREIGN CURRENCIES AND TRADING SECURITIES

	2005	2004
	LVL	LVL
Profit from currency exchange operations, net	290,744	98,623
Profit from disposal of “Latu rezerves fonds”	-	1,811
Loss from foreign currency revaluation, net		

1,098

(5,082)

Total

291,842

95,352

SALARIES AND RELATED SOCIAL EXPENSES

Salaries and related social expenses include compensation to employees and related social security and other benefits. In 2005 the Bank employed an average of 34 (2004: 25) employees.

2005

2004

LVL

LVL

Council member remuneration

58,208

9,084

Board members remuneration

123,811

126,976

Staff salaries

211,285

169,130

Social security expense

82,101

69,079

Total

475,405

374,269

ADMINISTRATIVE EXPENSES

	2005	2004
	LVL	LVL
Sponsorship and marketing	194,786	42,614
Professional fees	88,284	35,818
Rent and other maintenance costs	77,179	34,100
Communication and office supplies	39,327	32,615
Other	53,340	30,950
Total	452,916	176,097

CORPORATE INCOME TAX

	2005	2004
	LVL	LVL
Current corporate income tax	56,185	88,083
Changes in deferred corporate income tax	(30,695)	(22,675)
State Revenue Service audit results	-	(7,228)
Total	25,490	58,180

Reconciliation of the net profit before tax to the tax charge:

	2005	2004
	LVL	LVL
Profit before tax	446,474	311,956
Expected tax charge, applying current tax rate of 15%	66,971	46,793

Tax effect of:

Permanent differences	8,093	1,089
Sponsorship	(14,046)	(17,521)
Recognized prior year assets	(35,318)	-
Not recognised deferred tax asset	-	35,318
State Revenue Service audit results	-	(7,228)
Other	(210)	(271)
Corporate income tax charge	25,490	58,180

Deferred tax (asset)/liabilities:

	2005	2004
	LVL	LVL
Deferred tax liabilities:		

Temporary difference due to accelerated tax depreciation	18,911	1,846
Deferred tax assets:		
Deferred loan origination fees	(68,350)	(34,883)
Collective impairment allowance	-	(21,578)
Accruals for unused vacations	(2,457)	(1,904)
Net deferred tax (asset)/liability	(51,896)	(56,519)
Allowance for realisation	-	35,318
Net deferred tax (asset)/liability	(51,896)	(21,201)

CASH AND BALANCES DUE FROM THE BANK OF LATVIA

2005	2004
LVL	

LVL

Held at the Bank of Latvia

2,806,625

1,514,425

Cash

555,223

461,490

Total

3,361,848

1,975,915

The correspondent account in the Bank of Latvia is interest bearing effective June 2004 at an average rate of 0.4% in 2004 and 1.5% in 2005.

DUE FROM CREDIT INSTITUTIONS

Balances due from credit institutions are composed as follows:

2005

2004

LVL

LVL

Latvian credit institutions

2,921,263

7,065,123

OECD area credit institutions

1,439,628

671,123

Due from credit institutions

4,360,891

7,736,246

Balances due from Latvian credit institutions were as follows:

	2005	2004
	LVL	LVL
SEB Unibanka	2,323,859	3,664,129
Hansabanka	517,739	3,219,959
Latvijas Krājbanka	79,664	181,035
Total	2,921,262	7,065,123

Balances due from OECD area credit institutions were as follows:

	2005	2004
	LVL	LVL
Sampo Bank plc	867,879	

259,143

Sampo Bankas AB

2,045

-

Wachovia Bank, NA

-

211,426

Deutsche Bank

398,020

134,277

HSBC Bank plc

68,810

58,382

Midland Bank plc

12,397

7,895

JP Morgan Chase Bank

90,477

-

Total

1,439,628

671,123

In 2005 and 2004 the average interest rate on deposits due from other banks was 2.77% and 2%, respectively.

LOANS

Loans are composed as follows:

2005

2004

LVL

LVL

Private companies

5,474,223

3,803,740

Total gross loans to corporate customers

5,474,223

3,803,740

Loans to private individuals

37,723,537

20,381,008

Non-profit organizations

26,868

27,794

Bank staff and their relatives

704,700

429,120

Total gross loans to private individuals and other customers

38,455,105

20,837,922

Total loans to customers

43,929,328

24,641,662

Allowance for loan impairment

(192,096)

(532,856)

Total loans, net

43,737,232

24,108,806

The composition of the gross loan portfolio by industry profile is as follows:

2005

2004

LVL

LVL

Mortgage loans

38,238,538

19,821,358

Real estate development, construction

2,878,633

1,828,720

Trade

1,088,197

1,159,809

Forestry

573,242

488,561

Construction

672,461

101,428

Transport and communications

290

63,563

Other industries

477,967

1,178,223

Total loans

43,929,328

24,641,662

LVL 202,349 (2004: LVL 301,589) of loans are secured by deposits.

The composition of the loan portfolio by geographic profile is as follows:

	2005	2004
	LVL	LVL
Residents of Latvia	43,660,418	24,598,647
Residents of OECD area	208,939	33,108
Other	59,971	9,907
Total loans	43,929,328	24,641,662
Allowance for loan impairment	(192,096)	(532,856)

Net loans

43,737,232

24,108,806

During 2005 and 2004 the average interest rate for loans was 5.8% and 7.7%, respectively.

The following table provides an analysis of movement in the impairment loss allowance balance for possible credit losses:

	2005	2004
	LVL	LVL
31 December 2004	532,856	417,756
Impairment allowance charge for the year	85,398	209,393
Reversal	(358,194)	(16,310)
Write-off	(67,964)	(77,983)
31 December 2005	192,096	**532,856**

SHARES AND OTHER INVESTMENTS IN NON-FIXED INCOME SECURITIES (AVAILABLE FOR SALE)

2005

2004

LVL

LVL

Unipensija

-

44,000

-

44,0
00

The Bank made an investment in the non-profit organisation, joint stock company, open pension fund Unipensija on 25 February 2000. In 2005 the shares were sold.

4. INTANGIBLE ASSETS

Formatted: Bullets and Numbering

LVL	Licenses	Software	Total intangible assets
Historical cost			
31 December 2004	**-**	**-**	**-**
Additions	84,502	53,456	137,958
Disposals	-	-	-
31 December 2005	**84,502**	**53,456**	**137,958**
Accumulated amortization			
31 December 2004	-	-	-
Charge for the year	1,408	-	1,408
Disposals	-	-	-
31 December 2005	**1,408**	**-**	**1,408**
Net book value			
31 December 2004	**-**	**-**	**-**
31 December 2005	**83,094**	**53,456**	**136,550**

Formatted: Bullets and Numbering

5. FIXED ASSETS

LVL	Office Equipment	Leasehold Improvements	Total Fixed Assets
Historical cost			
31 December 2003	**39,407**	**7,299**	**46,706**
Additions	11,532	-	11,532
Disposals	(8,382)	(5,106)	(13,488)
31 December 2004	**42,557**	**2,193**	**44,750**
Accumulated depreciation			
31 December 2003	**16,418**	**4,968**	**21,386**
Charge for the year	12,459	1,404	13,863
Disposals	(8,382)	(5,106)	(13,488)
31 December 2004	**20,495**	**1,266**	**21,761**
Net book value			
31 December 2003	**22,989**	**2,331**	**25,320**
31 December 2004	**22,062**	**927**	**22,989**
Historical cost			
31 December 2004	**42,557**	**2,193**	**44,750**
Additions	282,946	42,167	325,113
Disposals	(52,146)	(675)	(52,821)
31 December 2005	**273,357**	**43,685**	**317,042**
Accumulated depreciation			
31 December 2004	**20,495**	**1,266**	**21,761**
Charge for the year	27,988	547	28,535
Disposals	(21,317)	(675)	(21,992)
31 December 2005	**27,166**	**1,138**	**28,304**
Net book value			
31 December 2004	**22,062**	**927**	**22,989**
31 December 2005	**246,191**	**42,547**	**288,738**

The assets stated above are held for the Bank’s own use. The balance sheet value of fixed assets includes also advance payment for fixed assets in amount of LVL 2,811.

6. DEFERRED EXPENSES AND ACCRUED INCOME

Formatted: Bullets and Numbering

	2005 LVL	2004 LVL
Deferred expenses	11,054	932
Other accrued income	234	695
Total	**11,288**	**1,627**

Formatted: Bullets and Numbering

7. DUE TO CREDIT INSTITUTIONS

	2005 LVL	2004 LVL
To SEB Unibanka	3,900,675	6,155,906
To Sampo Bank plc	10,335,912	210,900
Total	**14,236,587**	**6,366,806**

During 2005 and 2004 the average interest rate due to credit institutions was 3.2% and 3.4%, respectively.

8. DEPOSITS

Formatted: Bullets and Numbering

	2005 LVL	2004 LVL
Private persons	16,303,967	14,656,362
Private companies	5,658,714	3,474,656
Non - residents	3,592,812	2,756,916
Public and religious organisations	1,591,698	1,451,217
Total	**27,147,191**	**22,339,151**

During 2005 and 2004 the average weighted interest rate for deposits was 3.8% and 3.6%, respectively.

9. DEFERRED INCOME AND ACCRUED EXPENSES

Formatted: Bullets and Numbering

	2005 LVL	2004 LVL
Annual bonuses for staff	-	30,961
Other	34,592	15,280
Total	**34,592**	**46,241**

10. OTHER LIABILITIES

Formatted: Bullets and Numbering

	2005 LVL	2004 LVL
Money in transit	63,713	68,172
Other	14,027	3,325
Total	**77,740**	**71,497**

11. SHARE CAPITAL

Formatted: Bullets and Numbering

As at 31 December 2005 the Bank's issued share capital consists of 85,000 ordinary shares. All shares are fully paid.

Sampo Bank plc (registered in Finland) owns 100% of AS Sampo Banka shares. The ultimate shareholder of the Bank is Sampo plc (registered in Finland).

Formatted: Bullets and Numbering

12. EARNINGS PER SHARE

Earnings per share are computed by dividing net earnings by the weighted average number of issued ordinary shares.

	2005	2004
Net profit (LVL)	**420,984**	**253,776**
Weighted average common stock outstanding	43,333	35,000
Earnings per common share (LVL)	**9,72**	**7.25**

During 2004 dividends for the year 2003 have been paid in the total amount of 227,000 LVL.

13. CASH AND CASH EQUIVALENTS

Formatted: Bullets and Numbering

	2005	2004
Cash and due from the Bank of Latvia	3,361,848	1,975,915
Balances due from credit institutions with maturity up to 3 months	4,360,891	6,736,246
Balances due to credit institutions with maturity up to 3 months	(10,459,172)	(727,182)
Total	**(2,736,433)**	**7,984,979**

The balance due to credit institutions with maturity up to 3 months mainly consists of funds received from its shareholder Sampo Bank plc.

The Bank has received a support letter from Sampo Bank plc stating that necessary funds will be provided to the Bank to continue its operating activities.

FOREIGN CURRENCY EXPOSURE

The analysis of assets and liabilities as of 31 December 2005 according to the currencies in which they are denominated is as follows:

	LVL LVL'000	USD LVL'000	EUR LVL'000	Other LVL'000	Total LVL'000
Assets					
Cash and balances due from the Bank of Latvia	3,041	121	190	10	3,362
Due from credit institutions	2,275	1,278	774	34	4,361
Loans	12,729	3,387	27,621	-	43,737
Intangible assets and fixed assets	428	-	-	-	428
Deferred expenses and accrued income	11	-	-	-	11
Other assets	125	-	-	-	125
Total assets	**18,609**	**4,786**	**28,585**	**44**	**52,024**
Liabilities					
Due to credit institutions	302	1,835	12,099	-	14,236
Customer deposit accounts	18,793	3,144	5,135	75	27,147
Deferred income and accrued expenses	35	-	-	-	35
Other liabilities	78	-	-	-	78
Shareholders' equity	10,528	-	-	-	10,528
Total liabilities and shareholders' equity	**29,736**	**4,979**	**17,234**	**75**	**52,024**
Total long position			11,351		
Total short position	(11,127)	(193)		(31)	

According to the Law on Credit Institutions, the total open position in foreign currencies should not exceed 20% of regulatory capital, and no individual open position should exceed 10%.

Since 1 January 2005, the Bank of Latvia has stated a fixed currency exchange rate for Lat against Euro, i.e. 0.702804. From this moment the Bank of Latvia will ensure that the market rate will not differ from the official rate for more than 1%.

In accordance with Financial and Capital Market Commission regulations there are no limits to EUR currency open position.

14. LIQUIDITY RISK

Formatted: Bullets and Numbering

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

	Up to 1 month LVL'000	1 to 3 months LVL'000	3 to 6 months LVL'000	6 to 12 months LVL'000	1 to 5 years LVL'000	Over 5 years LVL'000	Other LVL'000	Total LVL'000
Assets								
Cash and balances due from the Bank of Latvia	3,362	-	-	-	-	-	-	3,362
Due from credit institutions	4,361	-	-	-	-	-	-	4,361
Loans	5,357	352	899	1,651	33,127	2,351	-	43,737
Intangible assets and fixed assets	-	-	-	-	-	-	428	428
Deferred expenses and accrued income	-	-	11	-	-	-	-	11
Other assets	125	-	-	-	-	-	-	125
Total assets	**13,205**	**352**	**910**	**1,651**	**33,127**	**2,351**	**428**	**52,024**
Liabilities and shareholders' equity								
Due to credit institutions	3,519	6,940	492	615	2,670	-	-	14,236
Customer deposit accounts	10,471	3,826	1,226	2,910	8,714	-	-	27,147
Deferred income and accrued expenses	2	3	4	3	23	-	-	35
Other liabilities	78	-	-	-	-	-	-	78
Shareholders' equity	-	-	-	-	-	-	10,528	10,528
Total liabilities and shareholders' equity	**14,070**	**10,769**	**1,722**	**3,528**	**11,407**	**-**	**10,528**	**52,024**
Net liquidity position	(865)	(10,417)	(812)	(1,877)	21,720	2,351	(10,100)	

The Bank has received a support letter from Sampo Bank plc stating that necessary funds will be provided to the Bank to continue its operating activities.

The remaining period to maturity of assets and liabilities at 31 December 2004 was as follows:

	Up to 1 month LVL'000	1 to 3 months LVL'000	3 to 6 months LVL'000	6 to 12 months LVL'000	1 to 5 years LVL'000	Greater than 5 years LVL'000	Other LVL'000	Total LVL'000
Assets								
Cash and balances due from the Bank of Latvia	1,976	-	-	-	-	-	-	**1,976**
Due from credit institutions	3,336	3,400	1,000	-	-	-	-	**7,736**
Loans	2,228	173	337	794	20,577	-	-	**24,109**
Investments in non-fixed income securities	-	-	-	-	-	44	-	**44**
Fixed assets	-	-	-	-	-	-	23	**23**
Deferred expenses and accrued income	2	-	-	-	-	-	-	**2**
Other assets	-	-	33	-	-	-	21	**54**
Total assets	**7,542**	**3,573**	**1,370**	**794**	**20,577**	**44**	**44**	**33,944**
Liabilities and shareholders equity								
Due to credit institutions	-	727	586	727	4,327	-	-	**6,367**
Customer deposit accounts	6,979	3,106	909	1,631	9,714	-	-	**22,339**
Deferred income and accrued expenses	15	31	-	-	-	-	-	**46**
Provisions for other liabilities	-	-	13	-	-	-	-	**13**
Other liabilities	71	-	-	-	-	-	-	**71**
Shareholders' equity	-	-	-	-	-	-	5,108	**5,108**
Total liabilities	**7,065**	**3,864**	**1,508**	**2,358**	**14,041**		**5,108**	**33,944**
Net liquidity position	477	(291)	(138)	(1,564)	6,536	44	(5,064)	

15. INTEREST RATE RISK

Formatted: Bullets and Numbering

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The length of time for which the rate of interest is fixed on a financial instrument therefore indicates to what extent it is exposed to interest rate risk.

The table below reflects allocation of assets and liabilities of the Bank as of 31 December 2005 based on remaining period from reporting date to interest rate repricing date.

	Up to 1 month LVL '000	1 to 3 months LVL '000	3 to 6 months LVL '000	6 to 12 months LVL '000	1 to 5 years LVL '000	Over 5 years LVL '000	Non-interest bearing funds LVL '000	Total LVL '000
Assets								
Cash and balances due from the Bank of Latvia	2,807	-	-	-	-	-	555	**3,362**
Due from credit institutions	4,361	-	-	-	-	-	-	**4,361**
Loans	43,686	1	2	3	45	-	-	**43,737**
Intangible assets and fixed assets	-	-	-	-	-	-	428	**428**
Deferred expenses and accrued income	-	-	-	-	-	-	11	**11**
Other assets	-	-	-	-	-	-	125	**125**
Total assets	**50,854**	**1**	**2**	**3**	**45**	**-**	**1,119**	**52,024**
Liabilities								
Due to credit institutions	14,236	-	-	-	-	-	-	**14,236**
Customer deposit accounts	9,159	3,690	1,296	2,975	8,619	-	1,408	**27,147**
Deferred income and accrued expenses	2	3	4	3	23	-	-	**35**
Other liabilities	-	-	-	-	-	-	78	**78**
Shareholders' equity	-	-	-	-	-	-	10,528	**10,528**
Total liabilities and shareholders' equity	**23,397**	**3,693**	**1,300**	**2,978**	**8,642**	**-**	**12,014**	**52,024**
Off balance sheet items	584	-	-	-	-	-	-	**584**
Total liabilities, shareholders' equity and off balance sheet items	**23,981**	**3,693**	**1,300**	**2,978**	**8,642**	**-**	**12,014**	**52,608**
Interest rate repricing gap	26,873	(3,692)	(1,298)	(2,975)	(8,597)	-	(10,895)	

The table below reflects allocation of assets and liabilities of the Bank as of 31 December 2004 based on remaining period from reporting date to interest rate repricing date.

	Up to 1 month LVL '000	1 to 3 months LVL '000	3 to 6 months LVL '000	6 to 12 months LVL '000	1 to 5 years LVL '000	Greater than 5 years LVL '000	Non-interest bearing funds LVL '000	Total LVL '000
Assets								
Cash and balances due from the Bank of Latvia	1,514	-	-	-	-	-	462	**1,976**
Due from credit institutions	3,336	3,400	1,000	-	-	-	-	**7,736**
Loans	23,897	-	-	3	209	-	-	**24,109**
Investments in non-fixed income securities	-	-	-	-	-	-	44	**44**
Fixed assets	-	-	-	-	-	-	23	**23**
Deferred expenses and accrued income	-	-	-	-	-	-	2	**2**
Other assets	-	-	-	-	-	-	54	**54**
Total assets	**28,747**	**3,400**	**1,000**	**3**	**209**	**-**	**585**	**33,944**
Liabilities								
Due to credit institutions	6,367	-	-	-	-	-	-	**6,367**
Customer deposit accounts	6,186	3,100	909	1,736	9,609	-	799	**22,339**
Deferred income and accrued expenses	-	-	-	-	-	-	46	**46**
Provisions for other liabilities	-	-	-	-	-	-	13	**13**
Other liabilities	-	-	-	-	-	-	71	**71**
Shareholders' equity	-	-	-	-	-	-	5,108	**5,108**
Total liabilities and shareholders' equity	**12,553**	**3,100**	**909**	**1,736**	**9,609**	**-**	**6,037**	**33,944**
Off balance sheet items	333	-	-	-	-	-	-	333
Total liabilities, shareholders' equity and off balance sheet items	**12,886**	**3,100**	**909**	**1,736**	**9,609**	**-**	**6,037**	**34,277**
Interest rate repricing gap	**15,861**	**300**	**91**	**(1,733)**	**(9,400)**	**-**	**(5,452)**	

16. GEOGRAPHIC CONCENTRATION OF ASSETS AND LIABILITIES

Formatted: Bullets and Numbering

The table below reflects geographic concentration of assets and liabilities of the Bank as of 31 December 2005:

	Latvia LVL'000	OECD LVL'000	Other countries LVL'000	Total LVL'000
Assets				
Cash and balances due from the Bank of Latvia	3,362	-	-	**3,362**
Due from credit institutions	2,921	1,440	-	**4,361**
Loans	42,028	1,649	60	**43,737**
Intangible assets and fixed assets	428	-	-	**428**
Deferred expenses and accrued income	11	-	-	**11**
Other assets	125	-	-	**125**
Total assets	**48,875**	**3,089**	**60**	**52,024**
Liabilities and shareholders' equity				
Due to credit institutions	3,901	10,335	-	**14,236**
Customer deposit accounts	23,554	2,680	913	**27,147**
Deferred income and accrued expenses	35	-	-	**35**
Other liabilities	78	-	-	**78**
Shareholders' equity	10,528	-	-	**10,528**
Total liabilities and shareholders' equity	**38,096**	**13,015**	**913**	**52,024**
Off-balance sheet items	**584**	**-**	**-**	**584**

The table below reflects geographic concentration of assets and liabilities of the Bank as of 31 December 2004:

	Latvia LVL'000	OECD LVL'000	Other countries LVL'000	Total LVL'000
Assets				
Cash and balances due from the Bank of Latvia	1,976	-	-	**1,976**
Due from credit institutions	7,065	671	-	**7,736**
Loans	24,066	33	10	**24,109**
Investments in non-fixed income securities	44	-	-	**44**
Fixed assets	23	-	-	**23**
Deferred expenses and accrued income	2	-	-	**2**
Other assets	54	-	-	**54**
Total assets	**33,230**	**704**	**10**	**33,944**
Liabilities and shareholders' equity				
Due to credit institutions	6,156	211	-	**6,367**
Customer deposit accounts	19,582	1,965	792	**22,339**
Deferred income and accrued expenses	46	-	-	**46**
Provisions for other liabilities	13	-	-	**13**
Other liabilities	71			**71**
Shareholders' equity	5,108	-	-	**5,108**
Total liabilities and shareholders' equity	**30,976**	**2,176**	**792**	**33,944**
Off-balance sheet items	333	-	-	333

Formatted: Bullets and Numbering

17. CHANGE IN ACCOUNTING POLICY

An adjustment in the amount of LVL 207,631 (before tax effect) has been made in the income statement for the year ended 31 December 2004 representing the effect of a change in accounting policy of the treatment of loan origination fees and related direct costs associated with the loan origination. Before 2004, the Bank has credited loan origination fees and charged direct costs related to loan issuance immediately to the income statement. In 2004 the Bank started to defer these fees and related direct costs over the estimated average life of the loan and at the end of each reporting period adjusts recognised interest income.

18. CAPITAL ADEQUACY

Formatted: Bullets and Numbering

Based upon the Financial and Capital Market Commission (FCMC) regulations the Bank's equity to be utilized in the capital adequacy ratio as of 31 December 2005 and 2004 has been calculated as follows:

	2005 LVL'000	2004 LVL'000
Tier 1		
Paid in share capital	8,500	3,500
Reserves	1,607	1,354
Audited profit	421	254
Total first tier	**10,528**	**5,108**
Equity to be utilized in the capital adequacy ration calculation	**10,528**	**5,108**

The Bank's capital adequacy ratio based upon the Financial and Capital Market Commission regulations as of 31 December 2005 and 2004 was 25% and 19%, respectively. The FCMC requires all Latvian banks to maintain a capital adequacy ratio above 8% of risk-weighted assets.

According to FCMC requirements

	2005 LVL'000	2004 LVL'000
0% risk weighted assets – group 1		
Cash and due from the Bank of Latvia	3,362	1,975
Loans secured by term deposits	202	302
Total group 1	**3,564**	**2,277**
Weighted value	-	-
20% risk weighted assets – group 2		
Due from credit institutions registered in OECD area	3,440	671
Due from credit institutions of the Republic of Latvia	921	565
Total group 2	**4,361**	**1,236**
Weighted value	872	247
50% risk weighted assets – group 3		
Due form the credit institutions registered in the Republic of Latvia, except due on demand	-	6,500
Loans, fully secured by mortgage on residential property	8,676	2,030
Deferred expenses and accrued income	83	136
Total group 3	**8,759**	**8,666**
Weighted value	4,379	4,333
100% risk weighted assets - group 5		
Loans	35,061	21,676
Non-fixed income securities and equity investments	-	44
Intangible assets and fixed assets	428	23
Other assets	2	22
Total group 5	**35,491**	**21,765**
Weighted value	35,491	21,765
Off-balance sheet liabilities (100% risk)	**324**	**324**
Weighted value	324	324
Total assets and off-balance sheet items	**52,499**	**34,268**
Total weighted value of assets and off-balance sheet items (B)	41,066	26,669
Shareholders' equity (A)	**10,528**	**5,108**
Capital adequacy ratio (A / B *100)	25.6%	19.2%
Minimum capital adequacy ratio per the Financial and Capital Market Commission requirements	8%	8%

19. RELATED PARTIES

Formatted: Bullets and Numbering

Related parties are defined as shareholders, employees, members of the Council, members of the Board, their close relatives, and companies in which they have a controlling interest.

Lending to, deposits, guarantees and borrowings from related parties during the period are set out below.

	31/12/2005 LVL	Average interest rate %	31/12/2004 LVL	Average interest rate %
Deposits from shareholders and other related parties	-	-	1,735,984	5,7
Amounts due from Sampo Bank plc	869,924	2.0	259,143	1.1
Amounts due to and borrowings from Sampo Bank plc	10,335,912	2.1	210,900	2.2
Loans to management and other related parties	91,494	3.04	185,300	6.1

*****