



**AS "Akciju komerčbanka "Baltikums""
Financial Statement as of 30 September,
2005**

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Report of Management

The 3rd quarter of 2005 was successful for JSC "Akciju komercbanka "Baltikums" (hereinafter – the Bank) and its subsidiary companies. In the first nine months of 2005 all companies of the Bank group achieved good operating results.

We continued to accomplish the main goals that were set forth when conducting our first issue of bonds - increasing the loan portfolio and improving profitability.

In the 3rd quarter of 2005 the Bank increased its total loan portfolio to LVL 15.4 million and the loan portfolio excluding loans against the collateral of securities to LVL 10.4 million. The average value of the loan portfolio excluding loans against the collateral of securities in the 3rd quarter was LVL 9.4 million that is slightly below the respective figure for the 2nd quarter but above year 2004 end level. The fact that the average value of the Bank's loan portfolio did not increase significantly in the 3rd quarter is explained by less active use of their credit lines, that make up a significant share of the loan portfolio, by some of the Bank's customers. At the moment, the Bank actively works at new prospective loan projects with an emphasis on increasing the proportion of loans over credit lines that is expected to result in a substantial increase of the loan portfolio in the 4th quarter.

Furthermore, the results of the Bank in the financial markets were good as well as the Bank notably increased its commission income, including commissions from lending activities.

On the balance, these factors allowed the Bank to maintain profitability and return on equity ratios it achieved in the 1st half of the year. The consolidated after-tax profit of the Group as on September 30 was LVL 523 thousand, exceeding the corresponding figure for the respective period of 2004 almost 2 times. Return on equity during 9 months of 2005 was 12.2%.

Total assets of the Bank as on September 30, 2005 slightly decreased comparing to June 30, 2005 due to fluctuations of customer accounts and amounted to LVL 39 million at the end of the 3rd quarter.

We are also satisfied with the performance of the Bank's subsidiaries. Funds managed by Investment JCS "Baltikums Asset Management" achieved good results. In the first nine months of 2005 annual return of the open investment fund "Baltic Index fonds" was 20.05%, annual return of the open investment fund "Valsts obligāciju fonds" was 6.58% and annual return of the open investment fund "Internacionālo Akciju fondu fonds" was 9.63%.

Investment JCS "Baltikums Asset Management" also manages two state funded pension plans. The annual return of the state funded pension plan "Baltikums Konservatīvais ieguldījumu plāns" in the first nine months of 2005 was 2.84% and the annual return of the state funded pension plan "Baltikums Universālais ieguldījumu plāns" was 16.79%.

The profit of "Baltikums Līzings" in the first nine months of 2005 was LVL 11.3 thousand. The amount of extended loans on September 30, 2005 was LVL 214 thousand.

As the most important tasks of the nearest future we see increasing of the loan portfolio in the 4th quarter of 2005, developing further our co-operation with other

banks in syndicated lending as well as broadening our offering of corporate financing products.

Chairman of the Board

Aldis Reims

November 25, 2005

Consolidated and Bank's Income Statement

Pozīcijas nosaukums	30.09.2005 LVL`000	30.09.2004 LVL`000	30.09.2005 EUR`000	30.09.2004 EUR`000
Interest income	1237	1068	1760	1520
Interest expense	-400	-294	-569	-418
Securities income	0	5	0	7
Fees and commission income	512	426	729	606
Fees and commission expense	-128	-87	-182	-124
Trading income from financial instruments and foreign exchange	346	120	492	171
Other operating income	28	44	40	63
Administrative expenses	-948	-877	-1349	-1248
Depreciation and amortisation	-73	-65	-104	-92
Other operating expenses	-18	-34	-26	-48
Provisions for impairment losses	-8	0	-11	0
Income from decrease of provisions	38	0	54	0
Operating income/loss	586	306	834	437
Extraordinary income	0	0	0	0
Extraordinary expenses	0	0	0	0
Income before corporate income tax	586	306	834	437
Income tax	-63	0	-90	0
Net income	523	306	744	437

The exchange rate of the Bank of Latvia was 1 EUR=0.702804 LVL on September 30, 2005.

Consolidated and Bank's Sheet

Position

	30.09.2005 LVL`000	30.09.2004 LVL`000	30.09.2005 EUR`000	30.09.2004 EUR`000
Cash and deposits with the Bank of Latvia	2 632	1 350	3 745	1 921
Claims on domestic credit institutions	13 666	12 476	19 445	17 752
Loans	15 406	13 425	21 921	19 102
Fixed income securities (bonds)	6 471	7 284	9 207	10 364
Shares and other non-fixed income securities	18	13	26	18
Derivatives	12	0	17	0
Investments in associated entities and in subsidiaries	0	9	0	13
Intangible assets	77	85	110	121
Fixed assets	79	1 111	112	1 581
Other assets	337	196	480	279
Prepayments and accrued income	241	249	343	354
Total assets	38 939	36 198	55 406	51 505
Liabilities to credit institutions and to foreign Central banks	10 991	18 527	15 639	26 362
Deposits	19 325	11 904	27 497	16 938
Notes payable	2 710	0	3 856	0
Other liabilities	208	315	297	448
Shareholders' equity	5 705	5 452	8 117	7 757
Share capital	5 100	5 100	7 257	7 257
Reserve capital and other reserves	17	17	24	24
Retained earnings	65	29	92	41
Profit of the year	523	306	744	435
Total liabilities and shareholders' equity	38 939	36 198	55 406	51 505
Contingent liabilities	2	88	3	125
Financial commitments	3 071	4 681	4 370	6 660
Assets / Liabilities under management	3 265	4 376	5 730	6 226

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Consolidated Statement of Changes in Shareholders Equity

	Share capital, LVL'000	Reserve capital and other reserves, LVL'000	Retained earnings, LVL'000	Total, LVL'000
Balance as at 31 December 2003	5 100	17	334	5 451
Profit for the year	-	-	431	431
Dividends paid	-	-	-300	-300
Balance as at 31 December 2004	5 100	17	465	5 582
Profit for the year	-	-	523	523
Dividends paid	-	0	-400	-400
Balance as at 30 September 2005	5 100	17	588	5 705

	Share capital, EUR`000	Reserve capital and other reserves, EUR`000	Retained earnings, EUR`000	Total, EUR`000
Balance as at 31 December 2003	7 257	24	475	7 756
Profit for the year	-	-	613	613
Dividends paid	-	-	-427	-427
Balance as at 31 December 2004	7 257	24	661	7 942
Profit for the year	-	-	744	744
Dividends paid	-	-	-569	-569
Balance as at 30 September 2005	7 257	24	836	8 117

Consolidated and Bank's Cash Flows Statement

	30.09.2005 LVL`000	30.09.2004 LVL`000	30.09.2005 EUR`000	30.09.2004 EUR`000
Cash flow from operating activities				
Income before income tax	586	306	834	435
Depreciation and amortisation	69	64	98	91
Impairment losses	-31	0	-44	0
Loss on foreign exchange revaluation	278	173	396	246
Increase in cash and cash equivalents from operating activities before changes in assets and liabilities	902	543	1 284	772
Increase in deferred income and accrued expense	61	-4	87	-6
Decrease/(increase) in prepayments and accrued income	-8	15	-11	21
Decrease/(increase) in other assets	-111	81	-158	115
Increase /(decrease) in other liabilities and provisions	-32	-125	-46	-178
Decrease/(increase) in investments in securities and derivatives	-1 804	-606	-2 567	-862
Decrease in balances due from credit institutions	0	-7	0	-10
(Increase)/decrease in loans to customers	-4 908	1 681	-6 983	2 392
Increase /(decrease) in balances due to credit institutions	-220	14	-313	20
Decrease in Deposits from the public	1 292	-381	1 838	-542
Net cash from operating activities before income tax	-4 828	1 211	-6 869	1 722
Income taxes paid	-55	-7	-78	-10
Increase in cash and cash equivalents from operating activities	-4 883	1 204	-6 947	1 712
Cash flow from investing activities				
Acquisition of fixed and intangible assets	-40	-27	-58	-38
Proceeds from disposals of fixed and intangible assets	995	0	1 416	0
Acquisition of investments in subsidiaries, net of cash acquired	-20	0	-28	0
Cash and cash equivalents used in investing activities	935	-27	1 330	-38
Cash flow from financing activities				
Proceeds from issue of debt securities	0	0	0	0
Dividends paid	-400	-300	-569	-427
Cash and cash equivalents provided by financing activities	-400	-300	-569	-427
Net increase in cash and cash	-4 348	877	-6 186	1 247

equivalents

Cash and cash equivalents at the beginning of the year	11 926	-3 110	16 969	-4 425
Loss from foreign exchange revaluation	-278	-173	-396	-246
Cash and cash equivalents at the end of the year	7 300	-2 406	10 387	-3 424

The exchange rate of the Bank of Latvia was 1 EUR=0.702804 LVL on September 30, 2005.

Notes

1. GENERAL INFORMATION

The Bank was established on 22nd June 2001, when it was incorporated in the Republic of Latvia as a joint stock company. The address of the Bank is Maza Pils Street 13, Riga, LV 1050. The Bank is a commercial bank specialising in the servicing of export and import operations, trade finance and investment management. The Bank operates in accordance with Latvian legislation and the licence issued by the Bank of Latvia.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(1) Basis for preparation of the financial statements

The Bank maintains its accounting records in accordance with the legislation of the Republic of Latvia. The Bank's financial year corresponds to the calendar year.

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and Financial and Capital Market Commission regulations. The financial statements are based on the accounting records prepared in accordance with the cost accounting principle or fair value, as appropriate. The financial statements are prepared on a fair value basis for derivative financial instruments, financial assets and liabilities held for trading and available-for-sale assets except those for which a reliable measure of fair value is not available. Other financial assets and liabilities and non-financial assets and liabilities are stated at amortised cost or historical cost.

The accounting policies used in the preparation of the financial statements are consistent with those used in the financial statements for the year ending 30 September 2004.

(2) Foreign currency translation

The currency of the Republic of Latvia – lat (LVL) – is used in the financial statements. All assets and liabilities and off-balance sheet claims and liabilities in foreign currencies are revalued in lats using the end of period exchange rates determined by the Bank of Latvia. Gains and losses arising from revaluation are included in the profit and loss statement for the period.

The foreign currency exchange rates for the principal currencies that were used as of the end of the period were as follows:

	As of 30 September 2005	As of 30 September 2004
EUR	0.702804	0.671000
GBP	1.031000	0.986000
LTL	0.204000	0.194000
RUB	0.020400	0.018600
UAH	0.116000	0.102000
USD	0.583000	0.544000

Transactions in foreign currencies are revalued in lats according to the date of the transaction using exchange rates set by the Bank of Latvia.

(3) Going concern

The consolidated and Bank's financial statements have been prepared on a going concern basis, which contemplates the realisation of assets and the satisfaction of liabilities in the normal course of business.

(4) Basis of consolidation

In 2003 the Bank acquired 100% of the share capital in IPAS "Baltikums Asset Management" and SIA "Baltikums Līzings", in 2005 – AS "Pirmais atklātais pensiju fonds". The consolidated accounts as of 30 September 2005 include the financial statements of the Bank and the three subsidiaries.

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

Intra-group balances and transactions, and any unrealised gains arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

(5) Financial instruments

a) Classification:

Trading instruments are those that the Bank principally holds for the purpose of generating a profit from short-term fluctuations in the price of the instruments.

Originated loans and receivables are loans and receivables that the Bank has created by providing funds to customers other than those created with the intent to be sold immediately or in the short-term. Originated loans and receivables include loans and advances to banks and customers other than purchased loans.

Held-to-maturity assets are financial assets with fixed or determinable payments and fixed maturity that the Bank has the intent and ability to hold to maturity. These include certain debt instruments.

Available-for-sale assets are financial assets that are not held for trading purposes, originated loans and receivables, or held to maturity.

b) Recognition

Financial instruments are recognized in the balance sheet on a settlement date basis. Originated loans and receivables are recognised on the day they are transferred to or originated by the Bank.

c) Measurement

Financial instruments are measured initially at cost, including transaction costs.

Subsequent to initial recognition all trading instruments and all available-for-sale assets are measured at fair value, except for any instrument that does not have a quoted market price in an active market and whose fair value cannot be reliably measured. These are stated at cost, including transaction costs, less impairment losses. The fair value is assessed based on quoted market prices.

All non-trading financial assets and liabilities, originated loans and receivables and held-to-maturity assets are measured at amortised cost using the effective

interest rate method. All such financial instruments are subject to revaluation for impairment.

(d) Fair value measurement principles

The fair value of financial instruments is based on their quoted market price at the balance sheet date without any deduction for transaction costs. If a quoted market price is not available, the fair value of the instrument is estimated using pricing models or discounted cash flow techniques.

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

The fair value of derivatives that are not exchange-traded is estimated at the amount that the Bank/(Group) would receive or pay to terminate the contract at the balance sheet date taking into account current market conditions and the current creditworthiness of the counterparties.

(e) Gains and losses on subsequent measurement

Gains and losses arising from a change in the fair value of all trading instruments and available-for-sale securities are recognised in the income statement. The Bank does not apply hedge accounting.

(f) Derecognition

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

Available-for-sale assets, assets held for trading, held-to-maturity instruments and originated loans and receivables are derecognised on the day they are transferred by the Bank.

(6) Interest income and expenses

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

Recognition of interest income is discontinued when there is uncertainty regarding the repayment of interest or principal.

(7) Fee and commission income

Fee and commission income is recognised when the corresponding service is provided.

(8) Investments

Investments in associates

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

(9) Loans

Loans and advances are classified as originated loans and receivables. Loans are recognized in the balance sheet at the amount of the outstanding value, less impairment for doubtful debts.

The Bank mainly grants commercial and industrial loans to customers.

(10) Impairment

The carrying amounts of the Bank's assets, other than deferred tax assets, are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the assets' recoverable amounts are estimated.

Calculation of recoverable amount

The recoverable amount of the Bank's loans and receivables is calculated as the present value of expected future cash flows, discounted at the original effective interest rate inherent in the asset. The recoverable amount of the Bank's available-for-sale investments is their fair value.

Reversals of impairment

An impairment loss in respect of loans and receivables is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

(11) Interest bearing borrowings

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

(12) Depreciation and amortisation of fixed and intangible assets

Fixed assets and intangible assets are recorded at cost, less accumulated depreciation. Depreciation is calculated on a straight-line basis. Based on the useful lives of fixed assets, the following rates are applied:

Intangible assets	20%
Furniture and equipment	20%
Computers	25%
Other	20%

Gains and losses on disposals of fixed assets are recognised in the profit and loss statement in the period of disposal.

(13) Cash and cash equivalents

Cash and cash equivalents are composed of cash and amounts due from the Bank of Latvia and other credit institutions on demand, and deposits in other credit institutions with a maturity of 3 months or less, less balances due to other credit institutions with a maturity of 3 months or less.

(14) Off-balance-sheet items

Off-balance-sheet items include guarantees, letters of credit and unused credit lines provided to customers.

(15) Corporate income tax

Corporate income tax at the rate of 15% is calculated by the Bank in accordance with the Latvian tax regulations.

(16) Provisions

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

(17) Assets under management

Assets managed by the Bank on behalf of customers are not treated as assets of the Bank. The Bank assumes no risk on the assets.

(18) Repo transactions

Repo transactions are recognized as financing transactions.

When the Bank is the seller of securities, securities are continued to be recognized on the balance sheet. Proceeds from the sale are recognized as a liability to the purchaser of the securities.

When the Bank is the purchaser of securities, the purchased securities are not recognized on the balance sheet. The amount paid for securities is recognized as

a loan provided to the seller. The Bank is involved in two types of such transactions – classic *repo* and buy/sell back transactions.

The result of *repo* and buy/sellback transactions is recognized in the profit and loss statement as interest income or expense according to the accrual principle.

3. RISK MANAGEMENT

The Bank pays significant attention to risk identification and management. The most significant risks to which the Bank is exposed to are credit risk, interest rate risk, liquidity risk, foreign exchange risk, operational and reputational risk.

Risk management principles are set forth in the Bank's risk management policies which are approved by the Council. Financial Analysis and Risk Management Department, the Asset and Liability committee, Credit committee, Financial Analysis and Risk Management Department and Anti Money Laundering committee are responsible for ensuring the implementation of the risk management policies.

(1) Credit risk

Credit risk is the risk of potential losses resulting from non-fulfilment of contractual obligations by the Bank's debtor or counterparty.

Credit risk is managed in accordance with the Credit risk management policy approved by the Council. This policy details the basic principles of credit risk management, identification, assessment, restriction and control.

The management of risks related to ordinary loans involves assessment of the potential borrower's credit standing that is performed by the Financial Analysis and Risk Management Department. Decisions on granting loans are made by the Credit Committee based on the above analysis and evaluation of collateral. Subsequent to loan granting, the Financial Analysis and Risk Management Department performs a regular analysis of the borrower's financial position, which enables the Bank to take prompt action in the case of deterioration of the borrower's financial position.

Credit risk that is related to inter-bank operations (or operations with financial institutions), including the credit risk related to inter-bank settlements, is controlled by the Asset and Liability Committee that sets limits for transactions with each counter party.

The Bank monitors the concentration of significant balance sheet and off balance items' credit risk by geographical regions (i.e., countries, groups of countries, specific regions within the countries etc), client groups (i.e., central governments, local authorities, state enterprises, private enterprises, private individuals, etc) and industries.

(2) Foreign exchange risk

Foreign exchange risk is the risk of potential losses as a result of the revaluation of balance sheet and off-balance sheet items denominated in foreign currencies.

The Bank continuously monitors the open positions of foreign currencies and regularly assesses the structure of assets and liabilities by currency. In order to improve the currency structure of its balance sheet, the Bank issued bonds in EUR currency, taking into account the increasing share of EUR denominated assets.

The Asset and Liability Committee sets limits for the open position in each currency providing an acceptable overall level of foreign currency risk.

(3) Interest rate risk

Interest rate risk is the risk of potential losses the Bank may incur as a result of interest rate fluctuations.

For the purpose of controlling the interest rate risk, the Asset and Liability Committee performs regular analysis of assets and liabilities by maturity and type of interest.

(4) Liquidity risk

Liquidity risk is the risk of potential losses as a result of sales of assets or acquisition of resources at unfavourable prices in order for the Bank to fulfil its liabilities to creditors.

Liquidity risk management is based on the analysis of the structure of assets and liabilities performed by the Bank's Financial Analysis and Risk Management Department. That includes the analysis of dynamics in customer funds by customer group and assessment of the possibilities of external borrowing. Based on this information, the Asset and Liability Committee monitors the Bank's ability to fulfil all its commitments. Operating short-term liquidity management, i.e. attraction and placement of resources, in the Bank is performed by the Resources Department of the Bank based on the short-term liquidity forecast.

(5) Country risk

Country risk is the risk of potential losses arising from transactions with residents of foreign countries (or their securities) due to changes in the economic, political, and legal environment of the respective countries.

Before entering into transactions with the residents of foreign countries, the Bank performs an assessment of the influence of economic, social, political and legal circumstances on the residents' ability to fulfil their obligations.

(6) Operational risks

The Bank's organizational structure, precise job specifications, clear division of responsibilities as well as control procedures allow the Bank to monitor operational risks. The Bank has also developed an action plan for various crisis situations.

The Bank has set up an independent "Internal audit service" (IAS) with its main functions to ensure that the Bank's activities comply with existing legislation, approved plans, policies and other internal Bank documents and to monitor the compliance of the Bank's department activities with internal control procedures.

(7) Reputational risk

The Bank recognizes the importance of preventing of money laundering and preventing of terrorism financing. Reputation risk management department was set up in the Bank to implement an internal control system, which monitors the timely control of clients and their business partners. IAS regularly monitors execution of money laundering and terrorism financing prevention policy and procedures.

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