AS “Akciju komercbanka “Baltikums”” Financial Statement as of 31 March, 2006

Contents

Report of Management

The 1st quarter of 2006 was a challenging quarter for JSC "Akciju komercbanka "Baltikums" (hereinafter – the Bank) and its daughter companies. Despite of positive development of the main positions of the Bank's balance sheet, in the first three months of 2006 profit of JSC "Akciju komercbanka "Baltikums" group companies was lower than in the respective period of 2005.

During the quarter the Bank continued to implement the tasks set forth at the time of issue of its bonds – increased its loan portfolio and developed further its market position in the chosen market niches – trade finance and ship finance.

In the 1st quarter of 2006 the Bank increased substantially its total loan portfolio as well as the loan portfolio excluding the loans against the collateral of securities that reached LVL 17.2 million and LVL 12.8 million respectively at the end of the quarter. However, the average loan portfolio in the 1st quarter was LVL 10.7 million that is slightly below the corresponding figure for the 4th quarter of 2005, although substantially above the average for the 1st quarter of 2005. Growth in the average loan portfolio was adversely affected by the relatively poor usage of their credit lines by the Bank's customers due to the cold winter that limited shipping activity in the Baltic Sea. This was one of the most crucial factors that negatively affected the Bank's profit in the 1st quarter. As a positive aspect it can be mentioned that the Bank carried out active work in the 1st quarter to improve the usage of credit lines that resulted in a substantial increase of the loan portfolio in the beginning of the 2nd quarter and we believe that lending indicators for the whole year 2006 will be significantly better than in the previous years.

It should be also mentioned that situation in the financial markets was not favourable for the Bank in the 1st quarter as interest rates rose in all three major currencies for the Bank – LVL, EUR and USD. This factor negatively affected the Bank's result from operations in the financial markets as well as put an upwards pressure on the cost of customer funds for the Bank. At the same time, the Bank's commission income was roughly equal to that achieved in the preceding quarters.

In the 1st quarter of 2006 the Bank also made some investments oriented at development that increased its administrative expenses. As the most notable expenses position, expenses related to implementation of the chip cards project can be mentioned.

Together these factors did not allow the Bank in the 1st quarter of 2006 to maintain the level of profit that the Bank had in the 1st quarter of 2005. Thus, consolidated profit of the Group for the 1st quarter of 2006 was LVL 46 thousand. Nevertheless, the Bank continues to develop dynamically and we believe that the results for the whole year 2006 will be better then for the previous years.

Total assets of the Bank as of March 31, 2006 were LVL 38 million and customer deposits amounted to LVL 22 million that we consider a good level, especially, taking into account that the average customer deposits were at their all time high in the 1st quarter of 2006.

In the 2nd quarter of 2006 the Bank, in cooperation with JSC “Parex Banka”, successfully placed its second issue of bonds attracting EUR 5 million for the term of 3 years. As the most important tasks of the nearest future we see optimum investment of these funds by further increasing the Bank’s loan portfolio that is being successfully carried out now. We are also developing cooperation with other banks in the field of syndicated lending as well as expanding the spectrum of corporate lending products.

Chairman of the Board Aldis Reims

May 18, 2006

Consolidated and Bank's Income Statement*

Position	31.03.2006 LVL`000	31.03.2005 LVL`000	31.03.2006 EUR`000	31.03.2005 EUR`000
Interest income	475	364	676	518
Interest expense	-162	-119	-231	-169
Fees and commission income	176	165	250	235
Fees and commission expense	-38	-40	-54	-57
Trading income from financial instruments and foreign exchange	-8	94	-11	134
Other operating income	7	26	10	37
Administrative expenses	-370	-299	-526	-425
Depreciation and amortisation	-21	-22	-30	-31
Other operating expenses	-8	-4	-11	-6
Income from decrease of provisions	0	11	0	16
Operating income/loss	51	176	73	252
Extraordinary income	0	0	0	0
Extraordinary expenses	0	0	0	0
Income before corporate income tax	**51**	**176**	**73**	**252**
Income tax	-5	-21	-7	-30
Net income	**46**	**155**	**66**	**222**
Earnings per share	0.009	0.030	0.013	0.044

* 31 March, 2006 – Consolidated Group's data
31 March, 2005 –Bank's data (no Group's data)

The exchange rate of the Bank of Latvia was 1 EUR=0.702804 LVL on March 31, 2006.

Consolidated and Bank's Balance Sheet*

Position	31.03.2006 LVL`000	31.03.2005 LVL`000	31.03.2006 EUR`000	31.03.2005 EUR`000
Cash and deposits with the Bank of Latvia	741	2 146	1 054	3 053
Claims on domestic credit institutions	9 735	16 332	13 852	23 238
Loans	**17 198**	**13 847**	**24 471**	**19 703**
Fixed income securities (bonds)	9 063	4 808	12 895	6 841
Shares and other non-fixed income securities	18	1	26	1
Derivatives	0	15	0	21
Investments in associated entities and in subsidiaries	0	508	0	723
Intangible assets	94	84	134	120
Fixed assets	58	91	83	129
Other assets	323	134	460	191
Prepayments and accrued income	337	188	480	267
Total assets	**37 567**	**38 154**	**53 455**	**54 287**
Liabilities to credit institutions and to foreign Central banks	7 250	9 009	10 316	12 819
Deposits	**22 171**	**20 891**	**31 546**	**29 725**
Notes payable	2 710	2 710	3 856	3 856
Other liabilities	182	195	262	275
Total liabilities	**33 313**	**32 805**	**45 980**	**46 675**
Shareholders' equity				
Share capital	5 100	5 100	7 257	7 257
Reserve capital and other reserves	17	17	24	24
Retained earnings	91	77	129	110
Profit of the year	46	155	65	221
Shareholders' equity	**5 254**	**5 349**	**7 475**	**7 612**
Total liabilities and shareholders' equity	**37 567**	**38 154**	**53 455**	**54 287**
Off-balance sheet				
Contingent liabilities	15	50	21	71
Financial commitments	3 719	3 013	5 292	4 287
Assets/Liabilities under management	**2 720**	**393**	**3 870**	**559**

* 31 March, 2006 – Consolidated Group's data
31 March, 2005 –Bank's data (no Group's data)

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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 2004	**5 100**	**17**	**472**	**5 589**
Profit for the year	-	-	524	524
Dividends paid	-	-	-400	-400
Balance as at 31 December 2005	**5 100**	**17**	**596**	**5 713**
Profit for the year	-	-	46	46
Dividends paid	-	0	-505	-505
Balance as at 31 March 2006	**5 100**	**17**	**137**	**5 254**

	Share capital, EUR`000	Reserve capital and other reserves, EUR`000	Retained earnings, EUR`000	Total, EUR`000
Balance as at 31 December 2004	**7 257**	**24**	672	7 953
Profit for the year	-	-	746	746
Dividends paid	-	-	-569	-569
Balance as at 31 December 2005	**7 257**	**24**	**849**	**8 130**
Profit for the year	-	-	65	65
Dividends paid	-	-	-719	-719
Balance as at 31 March 2006	**7 257**	**24**	**195**	**7 476**

Consolidated and Bank's Cash Flows Statement*

Position	31.03.2006 LVL`000	31.03.2005 LVL`000	31.03.2006 EUR`000	31.03.2005 EUR`000
Cash flow from operating activities				
Income before income tax	51	176	73	250
Depreciation and amortisation	21	22	30	31
(Gain) from disposal of fixed assets	-2	-24	-3	-34
Impairment losses (decrease)	0	-11	0	-16
Loss on foreign exchange revaluation	132	45	188	64
Increase in cash and cash equivalents from operating activities before changes in assets and liabilities	**202**	**208**	**288**	**295**
Increase in deferred income and accrued expense	75	45	107	64
Decrease/(increase) in prepayments and accrued income	-49	40	-70	57
Decrease in other assets	18	27	26	38
Increase /(decrease) in other liabilities and provisions	25	-2	36	-3
(Increase) in investments in securities and derivatives	-2 652	-228	-3 773	-324
(Increase) in balances due from credit institutions	-29	0	-41	0
(Increase) in loans to customers	-3 272	-3 616	-4 656	-5 145
Increase /(decrease) in balances due to credit institutions	-171	115	-243	164
Decrease in Deposits from the public	1 768	2 735	2 516	3 892
Net cash from operating activities before income tax	**-4 085**	**-676**	**-5 810**	**-962**
Income taxes paid	-95	0	-135	0
(Decrease) in cash and cash equivalents from operating activities	**-4 180**	**-676**	**-5 945**	**-962**
Cash flow from investing activities				
Acquisition of fixed and intangible assets	-39	-25	-57	-36
Proceeds from disposals of fixed and intangible assets	5	1 019	7	1 450
(Decrease)/increase in cash and cash equivalents used in investing activities	**-34**	**994**	**-50**	**1 414**
Cash flow from financing activities				
Dividends paid	-505	-400	-719	-569
Increase/(decrease) in cash and cash equivalents provided by financing activities	**-505**	**-400**	**-719**	**-569**
Net increase /(decrease) in cash and cash equivalents	**-4 719**	**-82**	**-6 714**	**-117**
Cash and cash equivalents at the beginning of the year	10 184	11 924	14 491	16 966
Loss from foreign exchange revaluation	-132	-45	-188	-64
Cash and cash equivalents at the end of the year	**5 333**	**11 797**	**7 589**	**16 785**

* 31 March, 2006 – Consolidated Group's data
31 March, 2005 –Bank's data (no Group's data)

The exchange rate of the Bank of Latvia was 1 EUR=0.702804 LVL on March 31, 2006.

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 period ending 31 March 2005.

(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 31 March2006	**As of 31 March 2005**
EUR	0,702804	0,702804
GBP	1,013000	1,020000
LTL	0,204000	0,204000
RUB	0,021000	0,019500
UAH	0,115000	0,103000
USD	0,582000	0,543000

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 the Bank acquired 99,24% of the share capital in AS "Pirmais atklātais pensiju fonds". The consolidated accounts as of 31 March 2006 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.
Subsidiaries are consolidated from the date on which effective control is transferred to the Group and are no longer consolidated from the date of disposal. The purchase method of accounting is used to account for the acquisition of subsidiaries. The cost of an acquisition is measured at the fair value of the assets given up, shares issued or liabilities undertaken at the date of acquisition, plus costs directly attributable to the acquisition. The excess of the cost of acquisition over the net fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary acquired is recorded as goodwill. The financial statements of the subsidiaries are consolidated in the Group's financial statements on a line-by-line basis by adding together similar types of assets and liabilities as well as income and expenses.
Intra-group balances and transactions, and any unrealised gains arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.
In cases when the Group and Bank amounts are not materially different, only the Bank amounts are presented in the notes.

(5) Financial instruments

a) Classification:

Financial assets and liabilities at fair value through profit and loss are those that have been designated by the Bank at inception as at fair value through profit and loss and those classified as held for trading. 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 fair value plus transaction costs if the financial instruments are not at fair value through profit and loss account.
Subsequent to initial recognition, all financial assets and liabilities at fair value through profit and loss 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 financial assets and liabilities at fair value through profit and loss are recognised in the income statement. Gains and losses arising from a change in the fair value of available-for-sale securities are recognised directly in equity. 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, financial assets and liabilities at fair value through profit and loss, 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 earned or incurred.

(8) Investments

Subsidiaries
Subsidiaries are entities in which the Group, directly or indirectly, has power to control or exercise control over financial and operating policies.
Investments in subsidiaries are carried at cost in the Bank's financial statements. The Bank recognizes income from the investment only to the extent that the Bank receives distributions from accumulated profits of the subsidiary arising after the date of acquisition. Distributions received in excess of such profits are regarded as a recovery of investment and are recognized as a reduction of the cost of the investment.

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 and carried at amortised cost, where cost is defined as the fair value of cash consideration given to originate those loans. 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 fair value, 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.
Useful lives, residual values and depreciation methods are reviewed annually .

(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 less than 3 months less balances due to other credit institutions with a maturity less than 3 months.

(14) Capital adequacy calculation

According to the requirements of the Financial and Capital Market Commission, the capital adequacy ratio should be maintained at least at 8%. As of 31 March 2006, the Bank was in compliance with the law "On Credit Institutions" and the requirements of the Financial and Capital Market Commission for capital adequacy and minimum equity.

(15) Off-balance-sheet items

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

(16) Corporate income tax

Corporate income tax at the rate of 15% is calculated by the Bank in accordance with the Latvian tax regulations.
Deferred tax is recognized using the balance sheet liability method, taking into account temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax calculated is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates applied or substantially applied at the balance sheet date.
A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. Deferred tax assets are reduced by the amount that is not probable that the related tax benefit will be realized.

(17) 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.

(18) 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.

A significant amount of managed assets are involved in repurchase (repo) transactions with other commercial banks. The Bank discloses on the balance sheet amounts due to credit institutions for cash received in repo transactions and the amounts due from the providers of liabilities under management as loans granted.

(19) 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 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 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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