



It is difficult to overestimate the importance of a home. Too much in life depends on where and how we live. A home is not just a roof over our heads, it is a whole world to which we can freely let in whom we choose, where we can arrange everything the way we like it to be. That is why sooner or later everyone starts thinking of having his or her own home. To make this dream come true and build a home to be exactly as we have always wanted means great happiness. Almost nothing else gives us such a sense of wellbeing and stability as a comfortable home and a deal well done.

That is why we love our work. We are glad to help customers to make their dreams come true: to build their homes and to start and then grow their businesses. We are proud of the fact that already so many people mention Aizkraukles Banka when speaking of their successes, and we hope that in the future there will be many more such people.

We take care to see that our own home is comfortable and welcoming, so that visiting us should be a pleasure. The restoration of the bank's headquarters is complete and it is now even more spacious and comfortable, for customers and staff alike. While bearing in mind the maximum in comfort and introducing the latest technology, we have not forgotten tradition: we have painstakingly preserved the architectural heritage represented by the building, and we place great value on the experience gained over many years of banking.

It is hard, we admit, to live up from year to year to the trust placed in us by our customers, without deviating a single inch from our principles and not losing sight of the details in the bigger picture. None the less, after ten years in business, we have shown that where there's a will there's a way. Every day we strive for the best, and in doing so we derive not only professional but also moral satisfaction.



House



Image is important in all types of business, but especially in banking: people are very particular about whom they entrust with their finances. Just as people judge the income and status of the owner by the frontage of his home, so the image of a bank conveys an impression of its reliability and position in the market place. The irreproachable reputation of a bank, just like the highly respectable frontage of a home, inspires respect and confidence and is the best guarantee of its stability.

Aizkraukles Banka is an all-purpose bank, offering a full portfolio of banking services for the local and international markets. After ten years in business, the bank now takes a leading position in Latvia's financial services industry. It is now one of the five top Latvian banks in terms of its assets and profits, and is constantly rising in the ratings as a mortgage lender. We know that such success is largely due to our principles – efficiency, reliability and an individual approach to every customer.

Just as it has been for hundreds of years, the main feature of a quality banking business is reliability, on which customer loyalty directly depends. Customer confidence continues to grow thanks to the stable operations of Aizkraukles Banka, our guarantee of confidentiality and our efficient introduction of cutting-edge technology, which allows us to reduce transaction times to the minimum.

Today we can offer our customers the latest account management software, an effective system for fund transfers, a developed network of correspondent accounts, favourable deposit terms, variety of payment cards, legal advice and many other services.

Aizkraukles Banka's unique system of customer service provides the maximum convenience and efficiency plus a complete understanding of our customers' individual needs. Meeting the client half-way is our principal attitude. The bank's motto is "Understanding Each Other" and this is not an empty promise, as our years of utmost good faith in business dealings and our constantly growing customer base can testify.



The Facade

The facade of a bank's headquarters must be presentable and ceremonial, accentuating the traditions of banking and demonstrating the status of the bank. Nothing better achieves these aims than the art nouveau style of architecture, which is so widely encountered in Latvia. The aesthetic of art nouveau (or Jugendstil – the German name for the modernist style which it was given in Latvia) gave birth to unusual, exaggeratedly individualised buildings with fantastic facades, all elements of which are subordinated to a single artistic concept. The building facades of this epoch are distinguished by the rounded contours of their embrasures, the colonnades and capitals of their pediments, decorative metalwork, masks and mouldings.

Decorative Metalwork

Many types of decorative applied art have arisen and developed alongside architecture. This is particularly characteristic of artistic castings and cast-iron mouldings. Thanks to the long history of this form of craft, it has discovered a unity of style with architecture, and has become an integral part of this synthesis. In art nouveau this can be seen particularly clearly in decorative metalwork, in which plant motifs, such as stems, leaves and buds, have been utilised.

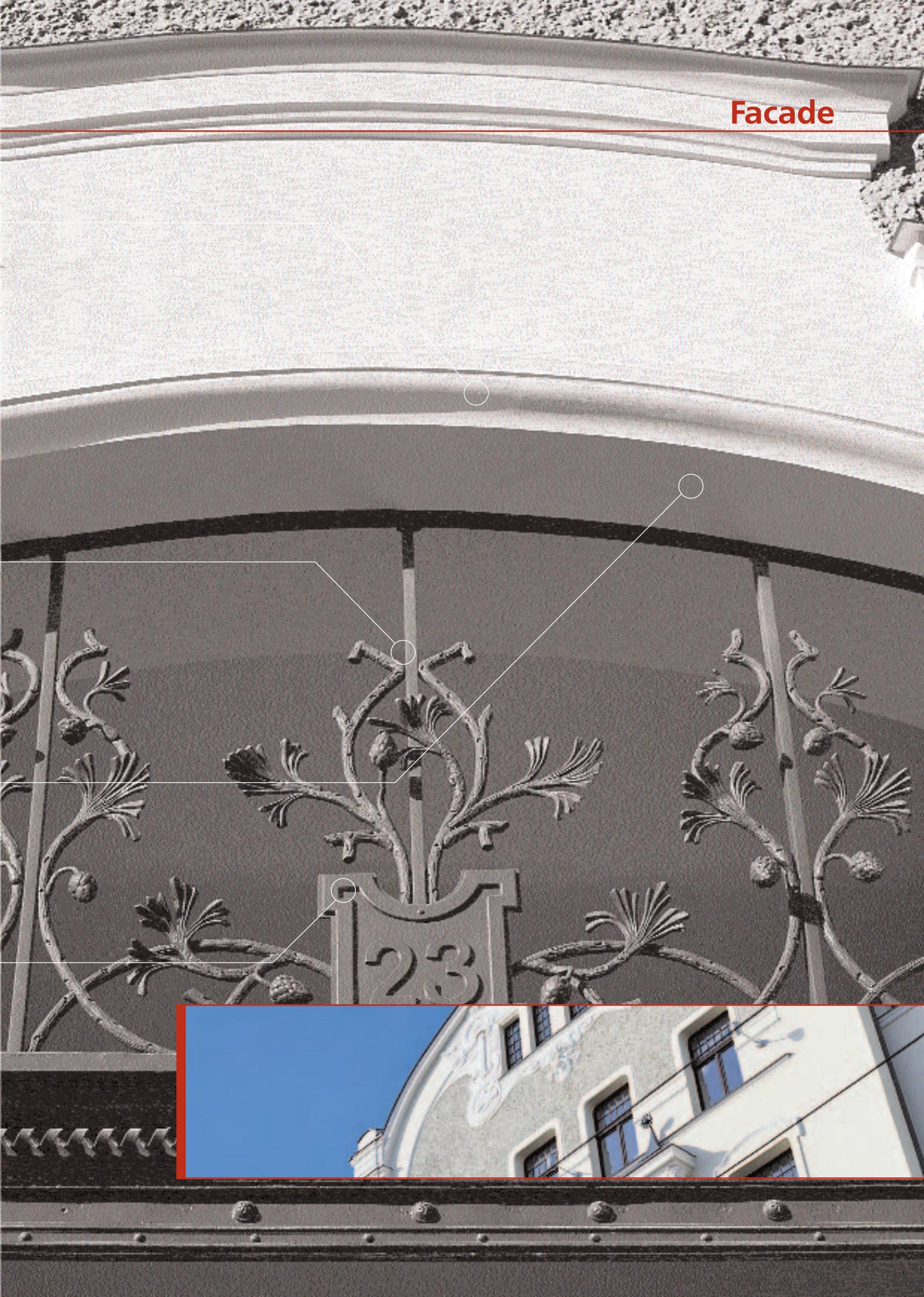
The Arch

Besides their expressive ornamentation, art nouveau buildings are noted for their practical ground plan. Many houses have large front entrances to the courtyard. The arches above these entrances are decorated with flower motifs and decorative finishes – ledges, cast-iron grilles, and a combination of smooth and textured stucco.

The Number of the House

Number 23 Elizabetes iela (Elizabeth Street) was built in 1903. Its first owner was Johann A Savickis, hence its name "the Savickis apartment house". For its time, the house was considered to be the epitome of comfort – it was provided with running water, mains sewage and central heating. In the Soviet period, it housed the headquarters of the Ministry of Construction of the Latvian (Soviet Socialist) Republic. In recent years, it has been in the ownership of Aizkraukles Banka.

Facade



How we greet a person reveals our real attitude towards him or her, and a bank is no exception in this case. Even the sound of the door bell can let customers know here they are expected, here we are pleased to see them. The first impression is always the truest – what we feel on entering is what awaits us further in.

While basing our work on advanced information technology, we do not forget the value of personal contact. When customers cross the threshold of Aizkraukles Banka, they instantly find themselves in a friendly and comfortable atmosphere. We consider it really important that working with us should be not only effective but also convenient. That is why, besides efficiency, accurate financial solutions and security, we offer our customers a unique system of individual service – a private bankers' and personal credit managers' institute, through which every customer is attended to by a single highly professional team of employees. This is our competitive advantage, strengthening emotional ties with the customer and raising the level of the customer's confidence in the bank.

The ideal condition for the work of Aizkraukles Banka is the fact that its owners share the top management positions in the bank. This inspires confidence in customers that all transactions will be carried out in time and faultlessly. We are convinced that the true qualities of the company come to the fore in critical situations, where we can demonstrate true class – there is no single question, complaint or wish that a customer may have that will be overlooked. We understand that customers are our most valuable asset, and we do everything to preserve and enlarge this asset. Nothing better demonstrates this than our splendid workforce. The staff of Aizkraukles Banka are young, energetic and loyal professionals, each of whom commands all the fine points of his or her competence to perfection, and takes pleasure in working towards a common goal. Our employees are justly proud of the bank as they have complete confidence in the quality of its products, technology and services.



The Entrance

The entrance forms a logical extension of the facade and therefore maintains the same style. On the one hand, the classic art nouveau entrance (moulded finishes, a mask, an original door) emphasises the importance of a financial institution and the seriousness of its approach to business; and on the other, speaks of its respect for its customers and the hospitality of the staff of Aizkraukles Banka.

The Door Handle

In accordance with the rules of the style, in designing the building all the finest details, down to even the 'last nail', were taken care of. What distinguishes art nouveau is the particular expressiveness of line, an original pulsating rhythm, giving the appearance of a living plant. Fluidity, dynamism, smooth transitions – these are the defining characteristics of modernism, the forms of which seem to flow out of one another.

The Door

Connoisseurs prize art nouveau for the purity and clarity of its artistic conception, in which functionality lives side by side with the decorative context. Nowadays, like a hundred years ago, the modernist style is considered to be the sign of prosperity and good taste. No other style can achieve a better synergy with the image of the bank, emphasising as it does the bank's irreproachable reputation. For an accurate reproduction of the style use was made of the handicraft of experienced masters, precious species of timber, details specially cast from precious metals, glazing of unusual form – all this was done on order in unique copies.

Transom, Glazing

The basis of the modernist style was stylisation, in which special stress was laid not on new forms and motifs but on the combination of traditional construction and unifying decoration. In the shaping of the doors use was made of a specific design of the transom: the glazing that fills it is reminiscent of the times when it was not yet possible to shape large glass surfaces. Nowadays, this is no longer a functional necessity but an element of style, which accentuates individuality and the wish to preserve our heritage, which is so highly prized by the bank.

Entrance



The interior of a house can say so much about the tastes of its owner, his or her habits and way of life. Our essence is revealed in every trifle and detail – we only need to know where to look. As a rule, the interior changes together with the individual, reflecting his or her preferences and ways of thinking. Creating an interior is a painstaking but fascinating process. As a matter of fact, it lasts a lifetime.

We are convinced that the real satisfaction from work comes only when there is something other than profits, something just as important. For our bank, the word “mission” is not an empty phrase. We came on the scene at a time when the need to offer services at a new level of quality in the Latvian market was becoming urgent – the market was greatly in need of a dynamic, reliable bank, working on an individual basis with every customer. Aizkraukles Banka set out on the path of uniting East and West, attracting and investing funds to and in the economy of Latvia by developing lending, while at the same time offering customers from the East services on the Western model.

Aware that the most important thing in relationships is reputation and respect, we have always talked freely with customers and kept our promises. Thanks to our status as an independent private bank, we have been able to avoid any conflict of interest and to guarantee the necessary confidentiality of information and operational efficiency.

In ten years, the bank has grown and our customers have grown with us. But to this very day our goals and principles remain unchanged. We work so that our customers may prosper and, what is more, with a clear aim in mind. As our customers' expectations grow ever greater, so we try to ensure that they will still need us tomorrow, and we are already taking specific steps in this direction. By analysing our customers' business, we can better understand the needs of differing customer groups, and we are developing those directions and services that are really essential to them.

The Interior

Any businessperson prefers an interior constructed rationally and comfortably in equal measures. The minimalism typical of today, with its chief characteristics of laconic brevity and functionalism, offers a mass of ideas for planning work-spaces. Since financial operations require heightened concentration, there is nothing in the interior of Aizkraukles Banka that could distract the attention – instead we have the optimum atmosphere, successfully accentuated by designer solutions.

The Core

Minimalism is universal and harmonious. The piercing purity and clarity of line and the balanced interior present an alternative to the senseless tempo of contemporary life, when we so badly want to extend the boundaries of our own world. Mobility and the capacity for transformation are the distinguishing features of minimalism. Everything about it is extremely clear-cut, and at the same time it reflects unceasing exploration and development.

Empty Space

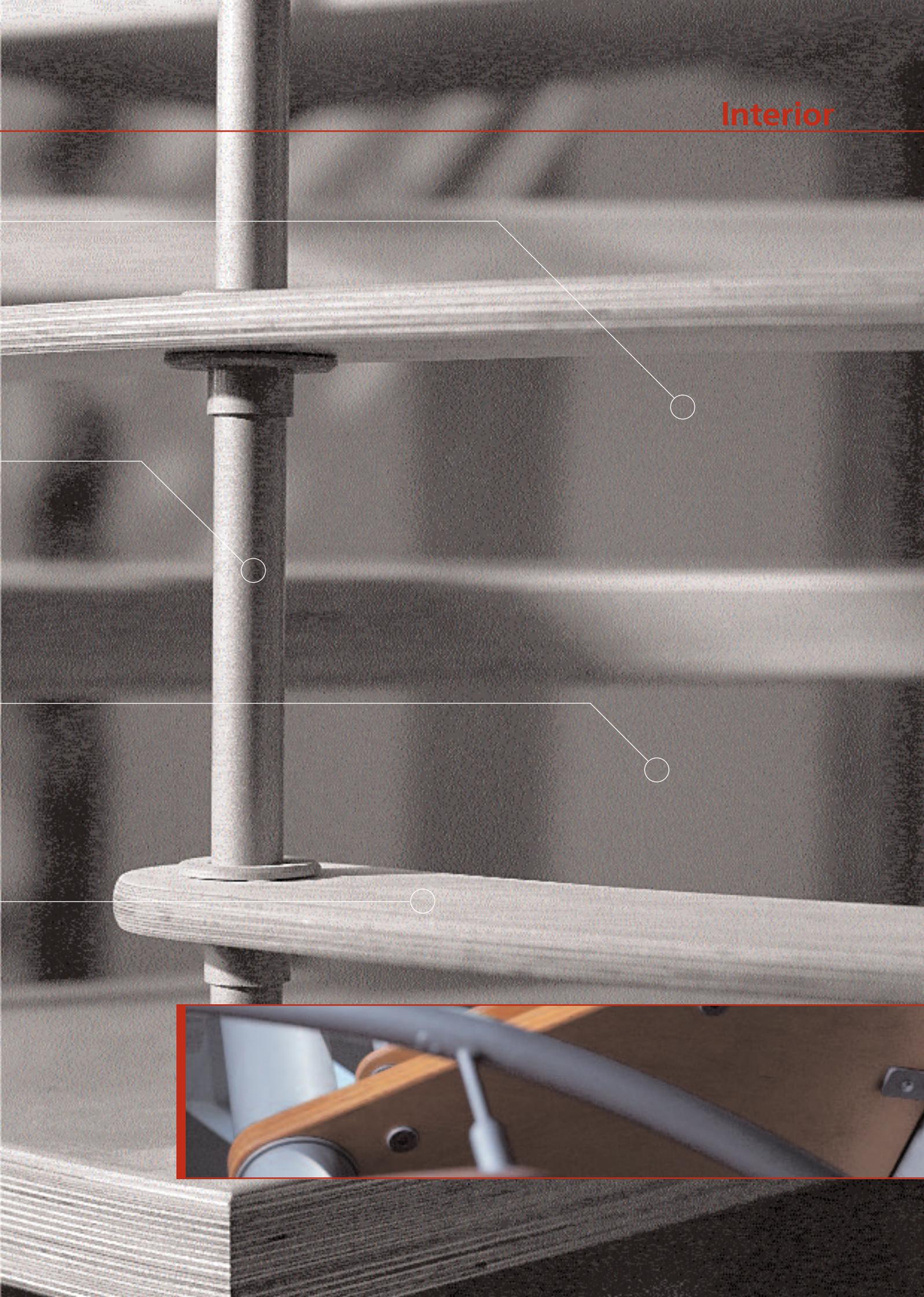
In creating interiors of this kind, the greatest importance attaches to competently planned space, allowing for a great amount of dispersed and calming light and air. The accommodation is free of internal partitions, which not only creates a sensation of spaciousness but also on a subconscious level unites people, forming a team psychology.

Planes and Light

Minimalism is not merely a style, it is also a whole philosophy of life, a genuine art of space and light, rectilinear form and horizontal planes. It is characterised by ascetic design and utmost rationality, an important clarity of composition, monochromy and an emphasis on aesthetic textures. The quantity of objects and colour combinations is strictly limited. As a rule, design is based on one or two colours only.



Interior



Like good-quality brickwork, where every little brick is tucked in smoothly next to another, all processes in a smoothly running banking system are interlinked. Aizkraukles Banka offers its customers a whole set of services, each of which is a logical extension of the previous one, while the whole existing gamut provides a secure platform for the development of new products and purposeful activity.

As a recognised expert in the sphere of lending, Aizkraukles Banka offers the widest possible choice of credit products, speedy issuing and excellent servicing of loans, and competitive interest rates. So that we can be of assistance with various projects (acquisition or renovation of apartments, house building, land purchases), the bank has developed specialised mortgage-lending programmes, which closely match the aims of every customer. The policy of Aizkraukles Banka is to provide a constantly expanding portfolio and optimal terms and conditions of mortgage lending that guarantees that all our loans are advantageous and accessible.

The efficiency and quality of Aizkraukles Banka's services allow it to compete successfully with other Baltic banks. Our payment services are our professional "hobby-horse" on the international market. Our customers can open a single multi-currency account, and regardless of where the customer may live, we ensure that managing the account is simple and convenient. We are one of the first companies in Latvia to introduce a new system of managing the risks associated with payment cards, which has significantly improved their security. Currently, we are preparing an improved line of deposit products for customers, with different terms, amounts and interest rates, but all equally advantageous.

Aizkraukles Banka is an active player in the sphere of documentary business, and is striving to provide customers with the best means of financing trading activities and carrying out export-import operations. The bank's specialists can help with the choice of types of settlement, with preparing the necessary documentation and with drawing up letters of guarantee. A thorough analysis of our customers' business allows us to offer financial consulting services. This is a profitable direction that we plan to develop, so that we can offer yet more efficient financial solutions.

Structures

The personnel of Aizkraukles Banka have plenty of room but, none the less, try to make use of all the interior space, occasionally setting up work stations in the most unexpected places. In this way they demonstrate a professional custom that has developed over the years – to make maximum use of any opportunity that they are afforded.

The Wooden Beam

Alongside hi-tech inventions, much use is made in contemporary supporting structures of naturally occurring, often unprocessed and coarse-textured materials, such as brick, concrete and wood. Faced with the severity of such designer discoveries, we cannot deny their visual effect. Besides, they are extremely functional – they create an impression of cosiness and peacefulness, incline one to harmony at work, and encourage the bank's staff to be natural and enhance their concentration.

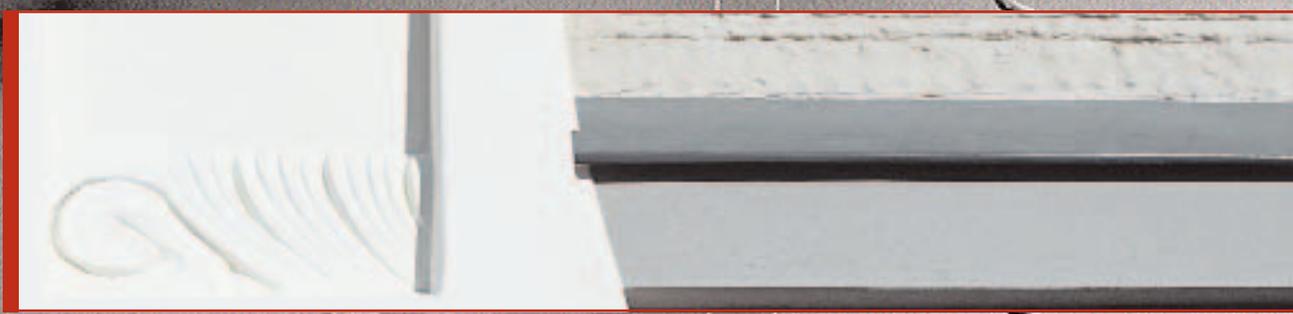
The Angle

Ultra-contemporary structures remind us of drawings – a laconic, even severe genre, which demands a faultless sense of scale, with no allowance for fussiness or error. A bright palette of colours, based on the play of half-tones, accentuated by angles – a splendid foundation that favourably sets off each line, making it distinct and contrasting. In this case, a wall not only forms an element of construction, static by definition, but also acquires its own unique plasticity and even mobility, which allows it to harmonise superbly with all the attributes of the contemporary office.

The Lamp

The functionality and comfort of premises depend directly on their lighting, which is why all elements connected with light are key. Contemporary light sources take many forms and lighting solutions making use of many diverse types of materials. The lamps in such light sources shine with the greatest brilliance, command great working resources, and ensure a pleasant light that is gentle on the eyes and organises the workspace to the maximum extent.

Walls



Step by step, rung by rung, we move towards our dream. But as we progress, it is important to know our ultimate destination. This is especially true of a bank, whose strategy and operations, being forward-looking, provide customers with the conditions they need for further growth. We understand that customers' confidence is built upon their faith in the reliability of the bank. Today, Aizkraukles Banka is well known for its leading indicators of profitability, optimal evaluation of risk, and some of the best prices in the field. But our principal advantage is our high-class team of employees and our long-standing customers, thanks to whom all opportunities are open to us.

In 2004, the bank plans to begin operations in consumer lending, and by 2007 to have achieved an eightfold increase in its mortgage-loan portfolio and a greater than sevenfold increase in the amount of its banking assets. We shall shortly be expanding the range of services we offer to foreign customers, largely on account of new deposit products, and already by the end of 2007 we shall have increased our market share of non-resident investment to 18%.

We recognise that in today's market environment, not many businesses can operate successfully without making use of credit. That is why we are developing our services in the financing of our customers' business operations. We are preparing in the near future to offer our foreign customers a new service – private banking – a way of managing their assets on the basis of individually prepared financial planning.

One of our priority tasks is to provide access to all our banking services by electronic channels of communication. We are working with the aim in mind that any customer from any country in the world should be able at any time to go to a virtual branch of Aizkraukles Banka and find an effective answer to his or her financial questions.

We have no shortage of professional ambitions, and time will show which of them will come to fruition. In 2003 Aizkraukles Banka could look back on ten years of existence, but this is only the beginning of our history. Ahead of us lie many anniversaries and achievements, but the first ten years provide an excellent excuse for looking back. Examining the way we have come, we set ourselves new goals. The most important thing that we have come to understand in these years is that we grow together with our customers and that we owe our growth to them. And, after all, from now on also we shall be assisting them to succeed.



The Staircase

Any premises provided with a staircase appear before the eyes in a completely different light. A staircase is like a bridge – it unites spaces, while at the same time it leaves them their autonomy. It is the most dynamic element of an interior, and is always associated with ascent and growth.

Beams, Banisters and Ornament

The central staircase at Aizkraukles Banka has survived from the time the building was constructed and is in the classic art nouveau style with all its immutable attributes – precious species of wood, stylised natural ornamentation, fine contrasting beams. The process of ascending such a staircase connotes not merely physical travel from floor to floor but also a real ascent to new frontiers.

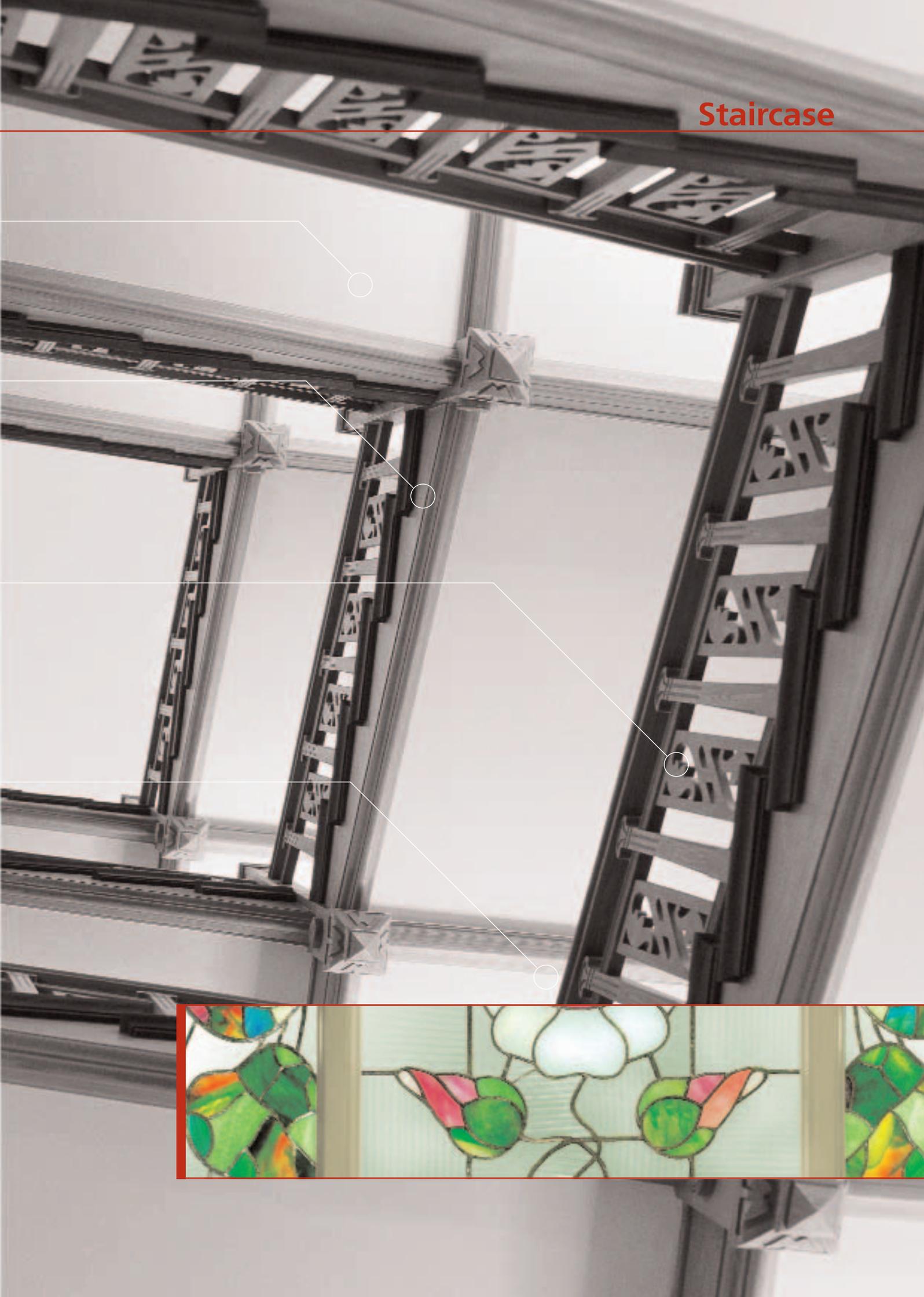
The Modernist Style

Play with the forms of the past does not prevent the modernist style from being ultra-contemporary. This is an amazing style, lightly combining beauty and comfort, tradition and the latest technological inventions. The present-day topicality of the modernist style exactly explains its remarkable ability to reflect the pulse of the times and organically absorb within itself everything new.

The Stained-glass Window

Stained-glass windows have always been considered as a luxury, available to few, and as the quintessence of taste. This is why they have obtained the exclusive currency in the aesthetic of the modernist style. The most diverse range of ornament has been applied in their creation – plant motifs, geometric forms, romanticised shapes, but most often of all it is flowers that appear, as a symbol of harmony and striving for the heights.

Staircase



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Ten Years of Success

The year 2003 has been an important year in the Bank's history: on the 17th of September Aizkraukles Banka celebrated its tenth anniversary. The development and changes in Aizkraukles Banka in a way can be compared to the development of Latvia, therefore it is clear that the Bank has to become a customer-friendly and open bank, striving to benefit its customers through offering advanced and modern technologies-based services.

The whole year was marked by different celebration events and campaigns – mortgage lending campaign "Hit the Jackpot", the campaign "17 Blinks of Spring" whereby the Bank has prepared a present to its customers – on its anniversary, 17th of September, all banking services were rendered free of charge, whereas for a month foreign customers had the opportunity to open an account free of charge. Celebration events included also opening ceremony of the renovated globe in Jurmala city and fountain in Aizkraukle town. Both – the renovation of the globe in Jurmala and the building of the fountain in Aizkraukle were financed by Aizkraukles Banka.

Today Aizkraukles Banka sees its mission in attraction of capital from Russia and other CIS countries for investment into the economy of Latvia, which can be achieved through development of lending services and offering European quality banking services.

Successful Strategy Leads to Good Results

Along with the anniversary celebration events in 2003, Aizkraukles Banka adopted a new strategy for the period until 2007 whereby it defines the new financial service lines that are the priority areas for the Bank, i.e. to become a specialised lending bank in the retail market, to become a comprehensive service provider in corporate banking for small and medium enterprises in Latvia, and finally, to become a highly professional clearing bank capable of providing services of European quality in the international market – especially serving the enterprises operating in the economic area of Russia and CIS countries, as well as private individuals related to those enterprises and credit institutions of the CIS countries.

Pursuant to the Bank's strategy, in 2003 Aizkraukles Banka first and utmost concentrated on the development of lending products in the domestic market, secondly – on the development of payment cards in the international market, and thirdly, on the implementation of new Aizkraukles Banka strategy.

The implementation of the previously adopted strategies has enabled Aizkraukles Banka to reach the planned financial objectives. The amount of funds attracted by the Bank in 2003 has reached LVL 225,2 million, which by 67,8 million or 43% exceeds the same figure for 2002. The Bank's gross loan portfolio compared to the previous year has grown by LVL 24,4 million or 58% reaching LVL 66,3 million. The increase of the Bank's assets amounted to 44% reaching the total amount of LVL 252,3 million, whereas the Bank's net profit totalled to LVL 6,15 million. The Board of the Bank will propose the general meeting of shareholders to distribute dividends to the shareholders in the amount of LVL 18 per share.

In year 2003, the Bank's return on equity (ROE) (measured as fiscal year's earnings against average shareholders' equity during the year) reached 30.05% level, whereas return on assets (ROA) (measured as fiscal year's earnings against average assets) was 3.04%. Earnings per share (EPS) in 2003 amounted to LVL 61,54.

Attractive Loans – Attractive Bank

The Bank's intention is to achieve private individuals perception of Aizkraukles Banka as of a specialised lending bank, therefore special attention during the reporting year was paid to the development of lending products, including the development of a balanced and attractive package of services. First, the Bank introduced certain changes in its lending policy that enabled the Bank to offer lower interest rates, thus enhancing its competitiveness in retail lending sector. Secondly, the Bank launched new lending products, for instance, mortgage loan for construction of home, mortgage loan for purchase of the first home, etc. Still, the major event in the development of retail banking over the year has been the opening of customer service centre "Vairogs" and retail lending centre "DOMINA". This will mark the beginning for the network of new specialised retail lending centres in the economically most active part of Latvia – Riga region. In 2003, following the Bank's strategy aimed at transformation of the existing settlement centres into customer services, the reconstruction of customer service centre "Imanta" was accomplished.

The success of the adopted strategy is proved by the substantial increase in loans to Latvian customers: the retail lending volumes in 2003 have increased by LVL 17,1 million, reaching LVL 34,5 million, whereas the volume of loans granted to corporate customers has grown by LVL 7,3 million in total reaching LVL 31,8 million.

Convenient Settlements and Payments

Another priority of Aizkraukles Banka is to ensure the speed and convenience of modern technologies based services, therefore the Bank introduced a new guideline for the development of payment card services. The new guideline incorporates a unified set of different products, services and events.

In view of the fact that Aizkraukles Banka considers the foreign customers as a target audience for payment cards sector, last year the Bank acquired and launched the risk management system for payment cards, thus contributing to security of payment card transactions. Following the trends in development of Latvian economy, the Bank launched the euro currency accounts for cards settlements. Since the end of January, the Bank offers its clients the Virtual MasterCard for secure payments through Internet. In order to promote payment for purchases by cards the Bank organised the campaign "The Colour of Your Success", whereby the Bank purchased 30 paintings by students of the Latvian Academy of Arts, which were given as presents to customers.

Among the payment services offered by Aizkraukles Banka, three types of money transfer commissions (OUR, SHA, BEN) have to be mentioned. The introduction of this service is another step towards the Bank's goal – rendering the quality financial services which meet the European standards. The structuring of this service ensures convenience to our customers and meanwhile enables the Bank to improve financial asset management.

Western Services to Eastern Customers

In 2003, in pursuance of its strategic goal – providing foreign customers with services of European quality – the Bank established a new unit: International Financing Department. Its duties include offering various financing and loan products to foreign customers – mainly corporate entities based in Russia and other CIS countries.

The establishment of International Financing Department is a logical continuation of the Bank's work with foreign customers, which by now mainly offered payment and fund placement services. The loyalty of this customer group is evidenced by the substantial growth in deposits of foreign customers, which in 2003 was 43% or LVL 63.1 million.

Reliable Personnel – Loyal Customers

Aizkraukles Banka would not have been able to reach its growth, if not for the reliable and professional staff of the Bank. It is especially important in view of the fact that the Bank focuses on building relations between a customer and the Bank. This, inter alia includes offering the most expedient financial services solutions and rendering the required consulting.

The Bank's human resource policy is based on the following principles: social guarantees, career development opportunities, incentive remuneration system and complete transparency of human resource policy.

Aizkraukles Banka takes pride in its competent and highly qualified employees, and makes all the efforts to ensure the professional growth and development of its personnel. For this purpose, in 2003, the Bank reorganised its training centre, thus laying a foundation for wholesome commencement of its operations. Last year, as the result of staff rotation, 92 employees changed their positions within the Bank (including both – those employees who commenced their careers in newly established positions and those who were promoted). With the Bank expanding and upgrading its operations, 94 new employees were hired during the reporting year. At the end of the reporting year the total number of the Bank's employees was 369.

Aizkraukles Banka for Community

In 2003, Aizkraukles Banka donated funds to various sponsorship purposes, including the support to Latvian Children's Fund, Latvian Handball Association and motor sport events. The total amount allocated for sponsorship activities total to LVL 320 thousand.

It is with strong confidence that Aizkraukles Banka faces the year 2004 with the extensive opportunities offered for the development and believes that both – its Latvian and foreign customers will enjoy the Bank's newly-launched and upgraded financial services. The Management of the Bank are grateful to its clients and will continue promoting its development in line with the Bank's strategy and long-term goal to serve the clients.

Riga, 2 March 2004

Chairman of the Council



Aleksandrs Bergmanis

Chairman of the Board



Ernests Bernis

Management of the Bank

The Council of the Bank:

Chairman of the Council
Aleksandrs Bergmanis

Deputy Chairman of the Council
Jānis Krēgers

Member of the Council
Vladimirs Kutovojs

The Board of the Bank:

Chairman of the Board
Ernests Bernis

Deputy Chairman of the Board
Oļegs Fiļs

Member of the Board
Pāvels Šnejersons

Riga, 2 March 2004

Chairman of the Council



Aleksandrs Bergmanis

Chairman of the Board



Ernests Bernis

Statement of the Responsibility of the Management

The Management of the Bank are responsible for the preparation of the financial statements of the Bank. The financial statements are prepared in compliance with the requirements of the Republic of Latvia Law On Credit Institutions, the regulations of the Financial and Capital Market Commission and other legislation of the Republic of Latvia applicable to credit institutions.

The financial statements set out on pages 8 to 42 are prepared in accordance with the supporting documentation and present fairly the financial position of the Bank as at 31 December 2003 and 2002, and the results of the Bank's operations, changes in shareholders' equity and reserves and cash flows for the years then ended.

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

The Management of the Bank 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. The Management of the Bank are also responsible for operating the Bank in compliance with the Law On Credit Institutions, the regulations of the Financial and Capital Market Commission and other legislation of the Republic of Latvia applicable to credit institutions.

Riga, 2 March 2004

Chairman of the Council



Aleksandrs Bergmanis

Chairman of the Board



Ernests Bernis

Statements of Income for the Years Ended 31 December 2003 and 2002

	Notes	2003	2002
Interest income	4	8,943,895	7,726,254
Interest expense	4	(1,768,280)	(1,761,082)
Net interest income		7,175,615	5,965,172
Income from securities		259	318
Commission and fee income	5	5,477,411	4,387,238
Commission and fee expense	5	(1,070,601)	(836,561)
Net commission and fee income		4,406,810	3,550,677
Profit on trading with financial instruments	6	3,193,694	1,603,139
Other operating income	7	286,308	159,167
Operating income		15,062,686	11,278,473
Administrative expense	8	(6,420,526)	(5,149,303)
Amortisation/depreciation and value adjustments of fixed assets	19	(901,493)	(629,853)
Other operating expense	9	(4,652)	(409,107)
Provision expense for possible credit losses	10	(642,377)	(559,873)
Release of previously established provisions	10	262,399	307,384
Loss from revaluation of long-term investments	10	–	(295,528)
Operating profit		7,356,037	4,542,193
Extraordinary expense		–	(14,674)
Profit before corporate income tax		7,356,037	4,527,519
Corporate income tax	11	(1,203,642)	(778,992)
Net profit for the year		6,152,395	3,748,527

Riga, 2 March 2004

Chairman of the Council



Aleksandrs Bergmanis

Chairman of the Board



Ernests Bernis

The accompanying notes form an integral part of these financial statements.

Balance Sheets and Memorandum Items as at 31 Desember 2003 and 2002

	Notes	31.12.2003	31.12.2002
Assets			
Cash and deposits with central banks	12	9,678,335	9,453,911
Balances due from credit institutions	13	63,991,223	66,615,138
Demand deposits		50,747,513	57,632,054
Other balances due from credit institutions		13,243,710	8,983,084
Loans and advances to customers	14	64,710,006	40,581,359
Debt securities and other fixed income securities	15	102,748,679	52,946,169
Government debt securities		34,623,211	24,023,428
Other debt securities and fixed income securities		68,125,468	28,922,741
Shares and other non-fixed income securities	16	59,931	50,281
Derivatives	17	38,815	34,941
Investments in associated entities	18	12,000	12,000
Intangible fixed assets	19	509,500	309,650
Tangible fixed assets	19	8,694,108	3,670,400
Prepaid expense and accrued income	20	1,681,576	889,565
Other assets	21	212,917	660,696
Total assets		252,337,090	175,224,110
Liabilities and shareholders' equity			
Balances due to credit institutions and central banks	22	3,829,602	862,897
Demand deposits		1,379,602	344,397
Term deposits		2,450,000	518,500
Deposits from the public	23	221,336,872	156,517,163
Demand deposits		196,739,457	130,467,062
Term deposits		24,597,415	26,050,101
Derivatives	17	66,913	58,976
Deferred income and accrued expense	24	477,028	367,979
Provisions for liabilities and charges	25	759,270	316,739
Other liabilities	26	976,677	288,592
Shareholders' equity		24,890,728	16,811,764
Paid-in share capital	28	10,000,000	10,000,000
Share premium		254,676	254,676
Own shares		(3,000)	(3,000)
Legal and other reserves		1,250,000	1,250,000
Fair value revaluation reserve		2,926,269	-
Retained earnings		4,310,388	1,561,561
Current year unappropriated profit		6,152,395	3,748,527
Total liabilities and shareholders' equity		252,337,090	175,224,110
Memorandum items			
Funds under trust management	27	4,137,529	-
Contingent liabilities	27	1,798,339	1,452,755
Guarantees		1,237,470	1,036,679
Other contingent liabilities		560,869	416,076
Financial commitments	27	21,865,626	18,023,059

Chairman of the Council
Aleksandrs Bergmanis



Chairman of the Board
Ernestis Bernis



Riga, 2 March 2004

The accompanying notes form an integral part of these financial statements.

Statements of Changes in Shareholders' Equity for the Years Ended 31 December 2003 and 2002

	Paid-in	Share	Own	Legal	Fair value	Retained	Total
	share capital	premium	shares	and other	revaluation	earnings	shareholders'
				reserves	reserve		equity
As at 1 January 2002	5,000,000	254,676	-	1,250,000	-	7,061,561	13,566,237
Dividends paid	-	-	-	-	-	(500,000)	(500,000)
Increase in paid-in share capital	5,000,000	-	-	-	-	(5,000,000)	-
Acquisition of own shares	-	-	(3,000)	-	-	-	(3,000)
Net profit for the year 2002	-	-	-	-	-	3,748,527	3,748,527
As at 31 December 2002	10,000,000	254,676	(3,000)	1,250,000	-	5,310,088	16,811,764
Dividends paid	-	-	-	-	-	(999,700)	(999,700)
Fair value revaluation of available-for-sale investments	-	-	-	-	4,222,173	-	4,222,173
Charged in statement of income as a result of sale	-	-	-	-	(779,503)	-	(779,503)
Changes in deferred corporate income tax	-	-	-	-	(516,401)	-	(516,401)
Net profit for the year 2003	-	-	-	-	-	6,152,395	6,152,395
As at 31 December 2003	10,000,000	254,676	(3,000)	1,250,000	2,926,269	10,462,783	24,890,728

In 2003, the Bank has reviewed its policies for classification of investments and according to the changes in these policies transferred all its investment portfolio securities to available for sale category. As a result of these changes, the transferred securities were valued at their fair value and the resulting revaluation has been included under a specific equity caption "fair value revaluation reserve". As at 31 December 2003, the fair value revaluation reserve relating to the transferred securities before deduction of related deferred corporate income tax amounted to LVL 3,219,755.

Statements of Cash Flows for the Years Ended 31 Desember 2003 and 2002

	2003	2002
Cash inflow/(outflow) from operating activities		
Profit before corporate income tax	7,356,037	4,527,519
Amortization/depreciation and value adjustments of fixed assets	901,493	629,853
Increase in provisions for possible credit losses	40,394	476,163
Increase in provisions for liabilities and charges	24,130	35,120
(Profit)/loss from revaluation of foreign currency positions	(180,124)	3,354
(Profit)/loss on disposal of fixed assets	(7,770)	373,202
Increase in cash and cash equivalents before changes in assets and liabilities, as a result of operating activities	8,134,160	6,045,211
Increase/(decrease) in deferred income and accrued expense	109,049	(49,475)
(Increase)/decrease in prepaid expense and accrued income	(791,653)	44,769
(Increase)/decrease in other assets	(55,068)	3,336
Increase in other liabilities	176,265	5,473
(Increase) in short-term investments	(46,029,906)	(15,661,250)
Decrease/(increase) in balances due from credit institutions	156,238	(1,014,200)
(Increase) in loans and advances to customers	(24,467,588)	(11,885,167)
(Decrease) in balances due to credit institutions and central banks	-	(6,061)
Increase in deposits from the public	64,819,709	49,985,144
Increase in cash and cash equivalents from operating activities before corporate income tax	2,051,206	27,467,780
(Corporate income tax paid)	(335,373)	(1,853,342)
Net cash inflow from operating activities	1,715,833	25,614,438
Cash flow inflow/(outflow) from investing activities		
(Purchase) of fixed assets	(6,129,217)	(1,854,638)
(Purchase) of equity investments in other entities and other long-term investments	-	(2,699,184)
Income from sale of fixed assets	26,937	54,430
Cash (outflow) from investment activities	(6,102,280)	(4,499,392)
Cash (outflow) from financing activities		
Dividends (paid)	(1,001,925)	(499,280)
(Acquisition) of own shares	-	(3,000)
Cash (outflow) from financing activities	(1,001,925)	(502,280)
(Decrease)/increase in cash and cash equivalents, net	(5,388,372)	20,612,766
Cash and cash equivalents at the beginning of the period	73,497,393	52,887,981
Profit/(loss) from revaluation of foreign currency positions	180,124	(3,354)
Cash and cash equivalents at the end of the period	68,289,145	73,497,393

Notes to the Financial Statements

Note 1 General Information

(Figures in parenthesis in text represent figures as at 31 December 2002 or for the year ended 31 December 2002, unless otherwise stated.)

A/s Aizkraukles banka (hereinafter – the Bank) was registered in Aizkraukle, the Republic of Latvia, on 17 September 1993, as a joint stock company. In 2000, the legal address of the Bank was changed from Skolas Street 8, Aizkraukle to Elizabetes Street 23, Riga.

Due to the reconstruction and expansion of the main office building from May 2002, the Bank leases premises for its administration at Mednieku Street 4a, Riga. After the accomplishment of the reconstruction, the Bank's administration will continue its work at the registered office – Elizabetes Street 23, Riga.

The Bank operates a branch in Aizkraukle, five customer service centres, one settlement centre and one retail lending centre in Riga. Its main scope of activity is lending, fund transfers, foreign currency exchange and financial funds management. The Bank operates in accordance with the legislation of the Republic of Latvia and the licence issued by the Bank of Latvia that allows all the financial services specified under the Law On Credit Institutions.

Note 2 Information on Principal Accounting Policies

A summary of the principal accounting policies, all of which have been applied consistently (unless otherwise stated) throughout the years ended 31 December 2003 and 2002, is set out below.

a) Reporting Currency

The financial statements are reported in lats (LVL), unless otherwise stated.

b) Basis of Accounting

These financial statements are based on the accounting records prepared in accordance with the legislative requirements. These records are maintained under the historical cost convention, modified for revaluation as disclosed below, with adjustments and reclassifications for the purpose of fair presentation in accordance with International Financial Reporting Standards (IFRS) and the regulations of the Financial and Capital Market Commission.

c) Basis of Preparation

The financial statements are prepared in accordance with IFRS and the Financial and Capital Market Commission's regulations on the Banks Financial Statements. For comparison purposes, the Bank has performed a reclassification of certain items of the balance sheet as at 31 December 2002 and statement of income for the year then ended.

d) Income and Expense Recognition

Interest income and expense items are recognised on an accrual basis. No interest income is recognised on non-performing loans and advances (see paragraph "j"). Recognition of interest income is suspended at the time when the recoverability of principal or interest of a particular loan becomes uncertain. The accrued interest receivable is provided at the moment when the interest recognition is suspended.

Commission and fee income and expense are included in the statement of income as they are earned, unless considered as an integral part of effective yield.

e) Provision for Employee Holiday Pay

The provision for employee holiday pay is estimated for the Bank's personnel based on the total number of holidays earned but not taken, multiplied by the average daily remuneration expense pursuant to the Latvian Labour Law and added the related statutory social insurance contributions payable by the employer.

Notes to the Financial Statements

f) Foreign Currency Translation

Transactions denominated in foreign currencies are recorded in lats at exchange rates set forth by the Bank of Latvia at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into lats at exchange rates set forth by the Bank of Latvia at the end of the year. Any gain or loss resulting from a change in exchange rates subsequent to the date of transaction is included in the statement of income as a profit or loss from revaluation of foreign currency positions.

The principal rates of exchange (LVL for one foreign currency unit) set forth by the Bank of Latvia and used in the preparation of the Bank's balance sheet were as follows:

Reporting date	USD	EUR	RUB
31 December 2003	0,541	0,674	0,0184
31 December 2002	0,594	0,610	0,0187

g) Corporate Income Tax

Corporate income tax is calculated in accordance with Latvian tax regulations at the rate of 19% (22%) and is based on the taxable income reported for the taxation period.

Deferred taxation arising from temporary differences in the timing of the recognition of items in the tax returns and these financial statements is calculated using the liability method. Deferred taxation relates to the future tax consequences of all events that have been recognised in the Bank's financial statements or tax returns. The deferred taxation liability is determined based on the tax rates that are expected to apply when the timing differences reverse. The principal timing differences arise from differing rates and methods of accounting and tax depreciation on fixed assets, general provision for possible credit losses, provision for employee holiday pay, and the revaluation of balance sheet items, including securities revaluation and fair value revaluation reserve.

h) Loans and Advances to Customers

Loans and advances to customers represent the outstanding principal balance less provision for possible credit losses (impairment) as presented in Note 10.

For the purposes of these financial statements, financial lease receivables are classified as loans and advances to customers.

i) Leases

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

Rentals under operating lease are charged to the statement of income on a straight-line basis over the lease term.

j) Provision for Possible Credit Losses

Non-performing loans and advances to customers including banking institutions are defined as loans and other credit balances in which contractually due principal is 30 days or more overdue, contractually due interest is 90 days or more overdue, or the Management otherwise believe that the contractual interest or principal due will not be collected.

The Bank issues commercial and consumer loans to customers throughout its market area. The Management of the Bank have considered both specific and general (portfolio) risks in determining the balance of provision for possible credit losses (impairment). The specific provision is determined after individually reviewing all credits for potentially uncollectable amounts and is based on the customer's financial position, value of collateral, fulfilment of loan agreement and compliance with the credit exposure limits determined by the Finance and Capital Market Commission. The general element of the provision relates to the potential losses, which experience indicates are present in the Bank's portfolio of loans and advances to customers.

Notes to the Financial Statements

When a loan or advance has been classified as non-performing or of high risk, a provision for possible credit losses is established for that specific loan or advance for the amount of the outstanding balance, which is deemed impaired. The level of the provision is based on present value of expected future cash flows considering relevant factors including, but not limited to, the Bank's past loan loss experience, known and inherent risks in the portfolio of loans and advances, adverse situations that may affect the borrowers' ability to repay, the collateral's value and current economic conditions as well as other relevant factors affecting loan and advance collectability and collateral values. Ultimate losses may vary from the current estimates.

The value of collateral held in connection with loans and advances is based on the estimated realisable value of the asset and is taken into account when determining expected cash flows and accordingly the required provision.

The above estimates are reviewed periodically, and, as adjustments become necessary, they are reported in the statement of income in the reporting period in which they become known. The Management of the Bank have made their best estimates of losses and believe the estimates presented in the financial statements to be reasonable in light of the available information.

When loans and advances cannot be recovered, they are written off to off-balance sheet accounts and charged against provision for possible credit losses. They are not written off until all the necessary legal procedures have been completed and the ultimate amount of the loss is determined.

k) Debt Securities and Other Fixed Income Securities

Trading Portfolio

Fixed income securities are included in trading portfolio if they have been acquired for the purpose of generating a profit from short-term fluctuations of price or interest rate. The financial assets and liabilities to be included in the trading portfolio are defined by the Bank's trading portfolio policy.

Securities held for trading purposes are initially stated at cost and further marked-to-market on a basis of market prices quoted by Bloomberg. Any gain or loss resulting from marking-to-market the trading portfolio, as well as any gain or loss resulting from disposal of the above securities is included in the statement of income under "Profit on trading with financial instruments".

Investment Portfolio

Investment portfolio is comprised of debt securities and other fixed income securities intended to be held to maturity.

The securities included in the investment portfolio are stated at cost and adjusted for amortised discount/premium calculated on a basis of effective interest rate method, less provision for possible credit losses (impairment).

Provision for fixed income securities is established where, in the opinion of the Bank's Management, the carrying amount of an investment exceeds the present value of the recoverable amount of the investment. The provision is established to the extent the carrying value of investment exceeds the present value of the recoverable amount. The present value of the recoverable amount of the investment is determined as the discounted value of all recoverable amounts in the future, by applying a discount rate, which equals to the original effective interest rate.

Available-for-Sale Portfolio

During the reporting period, the Bank has reviewed its policies for classification of investments and determined that its investment portfolio of securities previously classified as held-to-maturity investments should be classified as available for sale investments. According to provisions of IAS 39, since there has been a large transfer out of held-to-maturity portfolio, the Bank will not classify any new acquisitions as held-to-maturity investments for the two-year period ending 31 December 2004. The Management of the Bank also determined that the available-for-sale investments are marked to market price using bid price provided by Bloomberg information system's database and that the fair value revaluation result should be charged to the specific caption of shareholders' equity "Fair value revaluation reserve" until those investments are sold or otherwise disposed off.

Notes to the Financial Statements

l) Shares and Other Non-Fixed Income Securities

Investments in listed shares held for trading purposes are marked-to-market.

Any unrealised gain or loss resulting from marking-to-market the listed shares, as well as any gain or loss resulting from disposal of the above securities is included in the statement of income under "Profit on trading with financial instruments".

If the market price of investments cannot be determined, the shares are stated in the balance sheet at cost, less provision established based on the recoverability of the investment.

Shares and other non-fixed income securities, which are not acquired for trading purposes, are included in available-for-sale portfolio.

m) Investments in Associated Entities

Investments in associated companies, in which the Bank directly or indirectly holds more than 20% but less than 50% of the shares and voting rights, are valued using the equity method.

n) Intangible Assets

Intangible assets comprise the purchased software that does not constitute an integral part of hardware and licences. Amortisation is provided using the straight-line method over the period of acquired rights or, if it is not determined, over 5 years.

o) Tangible Fixed Assets

Fixed assets are recorded at cost less accumulated depreciation. Depreciation is provided using the straight-line method over the estimated useful life of the asset. Fixed assets, including leasehold improvements, under the course of construction and preparation are not depreciated. Land is not subject to depreciation.

In 2003, the Bank has reviewed its depreciation rates and applied the following rates:

Category	Annual rate	
	2003	2002
Buildings and property improvements	5%	5%
Transport vehicles	20%	20%
EDP equipment and software	16-33%	20-25%
Office equipment	10-33%	10-33%

The Management of the Bank have determined that the effect of changes in depreciation rates on the Bank's financial statements is not material.

Costs of maintenance and repair, not resulting in increasing capacity or prolongation of useful life, are charged to the statement of income as incurred.

In 2003, the Bank continued the reconstruction of its main building and during the reconstruction the Bank has suspended the calculation of the building depreciation.

Leasehold improvements are capitalised and amortised over the remaining period of lease contracts on a straight-line basis.

p) Investment Property

During the reporting period, the Bank has acquired real estate with the main purpose to earn rentals, as well as gain on value appreciation. Such investments are classified as investment property and are accounted for using the cost model accounting for investment properties. Under the cost model accounting, investment properties are accounted for as fixed assets.

Notes to the Financial Statements

q) Derivatives and Other Off-balance Sheet Instruments

Derivatives

In the ordinary course of business, the Bank is a party to currency swaps, futures and forward foreign exchange rate contracts.

Derivative financial instruments are carried at their mark-to-market value and presented in a separate balance sheet caption "Derivatives" under assets and liabilities, respectively. Any gain or loss resulting from revaluation of derivatives is recognised in the statement of income as "Profit on trading with financial instruments".

Other Off-balance Sheet Instruments

In the ordinary course of business, the Bank has been involved in off-balance sheet financial instruments comprising loan commitments, financial guarantees and commercial letters of credit. Such financial instruments do not involve outflow of the Bank's economic benefits, thus they are not recorded as the Bank's liabilities. These financial instruments are presented in the financial statements off-balance sheet upon the conclusion of the respective agreements. The methodology for provisioning against off-balance sheet instruments is consistent with that adopted for loans and advances to customers as described in paragraph j) above.

r) Funds under Trust Management

Funds under trust management are funds managed by the Bank on behalf of its customers. These funds are not regarded as assets of the Bank and, therefore, they are not included in the balance sheet.

s) Fair Value of Financial Assets and Liabilities

Fair value represents the amount at which an asset could be exchanged or a liability settled on an arm's length basis. Where, in the opinion of the Management, the fair values of financial assets and liabilities differ materially from their carrying values, such fair values are separately disclosed in the notes to the financial statements.

t) Cash and Cash Equivalents

Cash and cash equivalents represent the amounts comprising cash and balances due from the Bank of Latvia and other credit institutions with original maturity of 3 months or less, short-term government bonds with an original maturity of 3 months or less, less balances due to credit institutions with the original maturity of 3 months or less, see Note 30.

Note 3 Risk Management

Risk management is one of the Bank's strategic values. During its course of operations, the Bank is exposed to various financial risks, the most significant of which are credit risk, liquidity risk and market risks arising from changes in interest and foreign exchange rates and other factors. The Bank's risk management policies are approved by the Council of the Bank and carried out by the Bank's structural units operating in the respective areas. The implementation of the Bank's risk management policies is monitored by the Bank's Risk Management Division.

Risk management involves the identification, assessment, control and management of the potential risks. The Risk Management Division is an independent entity and its functions are strictly segregated from the functions of business structural units. To assess the potential impact of extraordinary circumstances on the Bank, the exposure to risks is being evaluated by stress tests.

The risk management systems undergo a constant improvement process to follow the Bank's operational and financial markets' development, and the improvement process is controlled by the Bank's Internal Audit Department on a regular basis.

Notes to the Financial Statements

a) Credit Risk

Credit risk is exposure to potential losses in case the Bank's counterparty or debtor will be unable to pay the contractual obligations to the Bank

To ensure proper evaluation of the credit risk before entering into any cooperation with the clients, the Bank performs a comprehensive review of the client's solvency and collateral. The financial position of borrowers are reviewed at least on an annual basis. For purposes of lending to private entities, the Bank has developed an internal rating system applied when taking a decision on granting a loan. Currently, the Bank is working on a similar system for corporate customers.

The Bank manages its credit risk by placing limits on the amount of risk accepted in relation to one borrower and geographical or industry segments. The exposure to any single borrower, including banks and brokers, is further restricted by sub-limits.

For effective credit risk management, the Bank's Assets Evaluation Committee performs a regular analysis of assets and off-balance sheet liabilities, i.e., their recoverability. Depending on the results of such analysis, the amount of general and specific provision is determined.

The Bank believes that its exposure to credit risk arises mainly from loans and advances to customers, investments in fixed income securities and balances due from credit institutions.

The following table provides an analysis of geographical concentrations of the Bank's assets and off-balance sheet items

(thous. of lats).	Latvia	USA	European Union member states	Other countries in OECD area	Other countries	Total
Assets						
Cash and demand deposits						
with central banks	8,320	941	386	27	4	9,678
Balances due from credit institutions	4,580	19,774	27,701	6,517	5,419	63,991
Loans and advances to customers	61,339	615	142	3	2,611	64,710
Debt securities and other fixed income securities	8,677	–	22,875	12,990	58,207	102,749
Other assets	9,882	27	115	106	1,079	11,209
Total assets	92,798	21,357	51,219	19,643	67,320	252,337
Off-balance sheet items	15,885	882	239	13	6,645	23,664
Total geographical concentrations of assets and off-balance sheet items	108,683	22,239	51,458	19,656	73,965	276,001

The issuers incorporated in a country only for the purpose of attraction of funds are disclosed as attributable to the country or region where the guarantors of the issue are located.

b) Liquidity Risk

Liquidity is the Bank's ability to maintain or ensure sufficient cash and cash equivalents to meet the expected (everyday) or sudden (critical) legally justified claims of its creditors. This means the Bank's ability to turn its assets into cash with minimal loss or ensure reasonably priced credit facilities. Based on the Bank's liability structure, the Council of the Bank has approved a liquidity management policy incorporating a requirement on maintaining a high level of liquidity.

The liquidity of the Bank is ensured by the Financial Markets Division, while the Risk Management Division organises and monitors compliance with the liquidity risk management requirements.

For liquidity risk management purposes the Bank applies the following indices: balanced position of assets and liabilities according to maturity grouping by all currencies in total and by each separate currency, as well as liquidity ratios. Upon evaluation of the Bank's liquidity, the major deposits of clients (group of related clients) are taken into account.

To ensure liquidity, the Bank in 2003 established a securities liquidity portfolio which includes the securities that comply with the following requirements: high market liquidity, high credit ratings, floating (variable) interest rate or fixed interest rates for the period not exceeding one year.

Notes to the Financial Statements

The table below analyses assets, liabilities and memorandum items of the Bank into relevant maturity bands based on the remaining period, as at balance sheet date, to the contractual maturity date.

(thous. of lats)	Overdue	On demand	Up to 1 month	1–6 months	6–12 months	1–5 years	More than 5 years	Undated	Pledged assets	Total
Assets										
Cash and demand deposits with central banks	–	9,678	–	–	–	–	–	–	–	9,678
Balances due from credit institutions	–	56,159	6,176	–	1,353	–	–	303	–	63,99
Loans and advances to customers	228	1,399	849	7,855	11,863	27,057	15,459	–	–	64,710
Debt securities and other fixed income securities	–	98,000	–	–	–	–	–	–	4,749	102,749
Shares and other non-fixed income securities	–	–	–	–	–	–	–	60	–	60
Derivatives	–	39	–	–	–	–	–	–	–	39
Investment in associated entities	–	–	–	–	–	–	–	12	–	12
Intangible fixed assets	–	–	–	–	–	–	–	510	–	510
Tangible fixed assets	–	–	–	–	–	–	–	8,694	–	8,694
Prepayments and accrued income	3	69	594	964	51	–	–	–	–	1,681
Other assets	–	82	–	–	–	–	–	131	–	213
Total assets	231	165,426	7,619	8,819	13,267	27,057	15,459	9,710	4,749	252,337
Liabilities										
Balances due to credit institutions and central banks	–	1,380	–	–	–	–	–	–	2,450	3,830
Deposits from the public	–	196,792	4,429	8,879	6,217	5,017	3	–	–	221,337
Derivatives	–	67	–	–	–	–	–	–	–	67
Deferred income and accrued expense	–	388	40	–	49	–	–	–	–	477
Provisions for liabilities and charges	–	–	–	–	–	–	–	759	–	759
Other liabilities	–	976	–	–	–	–	–	–	–	976
Shareholders' equity	–	–	–	–	–	–	–	24,891	–	24,891
Total liabilities and shareholders' equity	–	199,603	4,469	8,879	6,266	5,017	3	25,650	2,450	252,337
Memorandum items										
Guarantees	–	206	17	153	68	484	–	–	–	928
Letters of credit	–	40	216	257	48	–	–	–	–	561
Unutilised credit lines	–	9,798	–	–	–	–	–	–	–	9,798
Undrawn credit facilities on settlement cards	–	1,868	–	–	–	–	–	–	–	1,868
Loan commitments	–	8,736	–	–	–	–	–	–	–	8,736
Capital expenditure commitments	–	159	1,273	32	–	–	–	–	–	1,464
Total memorandum items	–	20,807	1,506	442	116	484	–	–	–	23,355
Net liquidity position		(54,984)	1,644	(502)	6,885	21,556	15,456	(15,940)		
Total liquidity position		(54,984)	(53,340)	(53,842)	(46,957)	(25,401)	(9,945)	(25,885)		

The maturity profile of assets, liabilities and memorandum items is determined on the basis of the following criteria:

- assets are stated at their remaining period to repayment or potential disposal;
- assets invested with option to be received them on demand are classified under the category “on demand”;
- assets overdue for more than 14 days, are stated as overdue;
- assets as well as all debit balances on settlement cards and current account overdrafts overdue less than 14 days are presented under caption “On demand”;
- securities within the Bank’s trading portfolio that are highly liquid securities which, if necessary, can be sold at minimum loss, therefore in the maturity profile they are presented under the caption “On demand”;
- assets without fixed maturity are assets for which, according to the substance of the transactions, maturity is not defined or assets the maturity of which cannot be precisely determined;
- liabilities and memorandum items are stated at the remaining period to their settlement;
- liabilities without any defined maturity and commitments are presented under caption “Undated”.

The assets, which have been specifically provided for, are stated net of provisions.

The Financial and Capital Market Commission stipulates that the Bank should maintain sufficient amount of liquid assets to meet its contractual liabilities, but no less than 30% of the Bank’s total current liabilities. As at 31 December 2003, the Bank’s liquidity ratio calculated in accordance with the Financial and Capital Market Commission’s requirements was 76% (80%).

c) Currency Risk

The Bank is exposed to effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The exposure to currency risk is calculated for each separate currency and includes assets and liabilities denominated in foreign currencies, as well as cash flows arising from derivatives.

The Bank’s currency risk management policy is to match the cash flows in each currency arising from the assets and liabilities denominated in the currency, and hedge the exposure to mismatched assets and liabilities by means of forward currency exchange contracts. The Bank’s currency risk management policy defines limits on the levels of currency risk and acceptable currency exposures.

Notes to the Financial Statements

The Bank's currency profile of assets, liabilities, shareholders' equity as well as cash flows arising from derivatives as at 31 December 2003:

(thous. of lats)	LVL	USD	EUR	RUB	Other currencies	Total
Assets						
Cash and demand deposits						
with central banks	8,320	941	364	–	53	9,678
Balances due						
from credit institutions	504	49,283	7,974	4,100	2,130	63,991
Loans and advances						
to customers	13,822	42,890	7,998	–	–	64,710
Debt securities and other						
fixed income securities	5,505	87,921	9,323	–	–	102,749
Shares and other non-fixed						
income securities	30	–	30	–	–	60
Derivatives	39	–	–	–	–	39
Investments						
in associated entities	12	–	–	–	–	12
Intangible fixed assets	510	–	–	–	–	510
Tangible fixed assets	8,411	8	275	–	–	8,694
Prepayments						
and accrued income	148	1,264	263	6	–	1,681
Other assets	196	16	1	–	–	213
Total assets	37,497	182,323	26,228	4,106	2,183	252,337
Liabilities						
Balances due to credit						
institutions and central banks	2,456	1,112	66	–	196	3,830
Deposits from the public	7,674	177,922	30,180	4,001	1,560	221,337
Derivatives	47	14	6	–	–	67
Deferred income and accrued expense	205	232	40	–	–	477
Provisions for liabilities and charges	759	–	–	–	–	759
Other liabilities	851	56	42	23	4	976
Total liabilities	11,992	179,336	30,334	4,024	1,760	227,446
Shareholders' equity	24,891	–	–	–	–	24,891
Total liabilities and shareholders' equity	36,883	179,336	30,334	4,024	1,760	252,337
Net long/(short) position on balance sheet	614	2,987	(4,106)	82	423	–
Off-balance sheet foreign exchange contracts, assets/(liabilities)	(2,780)	(2,790)	5,259	(34)	340	–
Net open long/(short) currency position	(2,166)	197	1,153	48	763	–
Percentage of shareholders' equity, (%)	(9.59)	0.87	5.11	0.21	3.38	–

The Law On Credit Institutions requires that open positions in each foreign currency may not exceed 10% of the Bank's equity and that the total foreign currency open position may not exceed 20% of the equity.

As at 31 December 2003, the Bank was in compliance with the above requirements of the Law On Credit Institutions.

d) Interest Rate Risk

Interest rate risk represents the effect of the market interest rate fluctuations on the Bank's financial position. In its course of operations, the Bank encounters interest rate risk as a result of differences between maturities or interest re-fixing dates of respective interest-sensitive assets and liabilities.

Notes to the Financial Statements

The Bank issues loans both with fixed and floating interest rates. To mitigate the effect of changes in interest rates on the Bank's financial position, the Bank's risk management policies provide for the possibility to enter into interest rate swap contracts. To hedge the interest rate risk on the Bank's investments in fixed income securities, the Bank engages in government bond and interest rate swap futures.

The table below summarises the Bank's assets, liabilities and off-balance sheet items in maturity intervals, categorised by the earlier of repayment, settlement, maturity or next contractual repricing date or by interest rate repricing date:

(thous. of lats)	Up to 1 month	1-3 months	3-6 months	6-12 months	1-5 years	More than 5 years	Non-inte- rest bearing	Total
Assets								
Cash and demand deposits								
with central banks	-	-	-	-	-	-	9,678	9,678
Balances due								
from credit institutions	62,335	-	-	1,353	303	-	-	63,991
Loans and advances								
to customers	2,476	2,641	48,325	8,206	2,753	309	-	64,710
Debt securities and other								
fixed incomes securities	9,935	16,649	4,558	5,902	38,532	27,173	-	102,749
Intangible fixed assets	-	-	-	-	-	-	510	510
Tangible fixed assets	-	-	-	-	-	-	8,694	8,694
Other assets	-	-	-	-	-	-	2,005	2,005
Total assets	74,746	19,290	52,883	15,461	41,588	27,482	20,887	252,337
Liabilities								
Balances due								
to credit institutions								
and central banks	3,830	-	-	-	-	-	-	3,830
Deposits from the public	201,221	6,284	2,595	6,217	5,017	3	-	221,337
Other liabilities	-	-	-	-	-	-	2,279	2,279
Shareholders' equity	-	-	-	-	-	-	24,891	24,891
Total liabilities								
and shareholders' equity	205,051	6,284	2,595	6,217	5,017	3	27,170	252,337
Futures, sold	-	-	-	-	-	(4,162)	-	-
Interest rate repricing								
maturity gaps	(130,305)	13,006	50,288	9,244	36,571	23,317	(6,283)	-

e) Operational Risks

During the course of its operations, the Bank may encounter non-financial risks with exposure to sudden loss. The cause of such risks may be, for instance, clerical errors or fraud, break-downs in information systems, insufficient internal control and procedures, etc. The Bank makes every effort to maintain the lowest possible risk level, meanwhile striving at not exceeding a reasonable level of expense. Internal controls within the Bank's structural units and the control exercised by the Risk Management Division are one of the measures taken to prevent the potential loss.

An important part of operational risk management is the upgrading of automated transaction control system. When developing the accounting and control procedures the Bank specifies the measures for mitigation of operational risks.

Notes to the Financial Statements

Note 4 Interest Income and Expense

Interest income	2003	2002
on balances due from credit institutions	749,757	1,133,455
on loans and advances to customers	3,644,733	3,164,889
on debt securities and other fixed income securities	4,549,309	3,427,368
other interest income	96	542
Total interest income	8,943,895	7,726,254
Interest expense		
on balances due from credit institutions and central banks	35,047	15,941
on deposits from the public	1,391,511	1,678,694
other interest expense	341,722	66,447
Total interest expense	1,768,280	1,761,082

Average annual interest rates of interest bearing assets and liabilities:

	2003			2002		
	Average monthly balance	Interest income/ expense	Average interest rate	Average monthly balance	Interest income/ expense	Average interest rate
Assets						
Cash and demand deposits						
with central banks	9,506	-	-	7,416	-	-
Balances due						
from credit institutions, net	58,117	750	1.29	49,073	1,133	2.31
Loans and advances						
to customers, net	49,509	3,645	7.36	30,807	3,165	10.27
Debt securities and other						
fixed income securities, net	74,161	4,549	6.13	45,696	3,427	7.50
Other assets, net	9,043	-	-	5,243	1	-
Total assets	200,336	8,944	4.46	138,235	7,726	5.59
Liabilities						
Balances due to credit						
institutions and central banks	5,574	35	0.63	4,531	16	0.35
Deposits from the public	168,473	1,392	0.83	116,285	1,679	1.44
demand deposits	140,738	456	0.32	97,824	858	0.88
term deposits	27,735	936	3.38	18,461	821	4.45
Other liabilities	5,839	5	-	2,163	-	-
Total liabilities	179,886	1,432	0.80	122,979	1,695	1.38
Shareholders' equity	20,450	-	-	15,254	-	-
Total equity and shareholders' equity	200,336	1,432	0.71	138,233	1,695	1.23
Gross interest rate margin, %			3.66			4.21
Margin on investments, %			3.75			4.36

Notes to the Financial Statements

Notes 5 Commission and Fee Income and Expense

	2003	2002
Commission and fee income		
commission on payment transfers on behalf of customers	3,388,888	2,791,936
commission on transactions with settlement cards	693,975	537,579
commission on granting loans	575,255	364,929
service fees	419,192	325,074
commission on cash operations	174,099	211,263
other commission and fee income	226,002	156,457
Total commission and fee income	5,477,411	4,387,238
Commission and fee expense		
correspondent bank service charges	616,956	507,584
commission on transactions with settlement cards	409,335	280,043
other commission and fee expense	44,310	48,934
Total commission and fee expense	1,070,601	836,561

Note 6 Profit on Trading with Financial Instruments

	2003	2002
Profit from foreign currency exchange	1,875,931	1,300,181
Profit/(loss) from revaluation of foreign currency positions	180,124	(3,354)
Profit from revaluation of trading portfolio	81,657	562,622
Profit/(loss) from sale of available-for-sale securities	779,503	–
(Loss)/ profit from trade of trading portfolio securities	(41,538)	28,815
(Loss) from trading with other financial instruments	(1,863)	(238,411)
(Loss) from revaluation of other financial instruments	(19,704)	(46,714)
Release of impairment for available-for-sale investments	339,584	–
Total profit on trading with financial instruments	3,193,694	1,603,139

Note 7 Other Operating Income

	2003	2002
Income from penalties	154,159	143,211
Income from rent of premises	104,847	3,627
Income from rent and sales of fixed assets	20,948	7,339
Other operating income	6,354	4,990
Total other operating income	286,308	159,167

Notes to the Financial Statements

Note 8 Administrative Expense

	2003	2002
Remuneration to the Council and the Board	117,781	143,661
Remuneration to personnel	2,532,731	1,993,002
Premises repair and maintenance costs	686,223	566,589
Social security contributions and similar costs	621,709	544,773
Inter-bank and other communication expense	479,133	423,797
Advertising and marketing expense	402,639	508,970
Donations	366,321	190,480
Equipment maintenance expense and stationary	251,807	231,548
Real estate maintenance expense	45,496	–
Other administrative expense	916,686	546,483
Total administrative expense	6,420,526	5,149,303

In 2003, the Bank employed an average of 352 (277) persons.

The following table specifies employees of the Bank by personnel categories:

	31.12.2003	31.12.2002
Management	6	6
Heads of divisions and departments	63	56
Other personnel	300	239
Total	369	301

Note 9 Other Operating Expense

	2003	2002
Loss from sale and disposal of fixed assets	–	358,528
Other operating expense	4,652	50,579
Total other operating expense	4,652	409,107

Notes to the Financial Statements

Note 10

Provision Expense for Possible Credit Losses and Release of Previously Established Provision

	2003	2002
Specific provision at the beginning of the year	1,634,198	1,401,269
General (portfolio) provision at the beginning of the year	524,246	489,038
Total provision at the beginning of the year	2,158,444	1,890,307
Specific provision charged to statement of income	357,583	784,578
General (portfolio) provision charged to statement of income	244,444	59,002
Assets' write-off expenses	40,350	11,821
Total provision charged to statement of income	642,377	855,401
Release of previously established specific provision	(581,657)	(261,835)
Release of previously established general (portfolio) provision	–	(23,794)
Recovery of written-off assets	(20,326)	(9,934)
Total release of previously established provision	(601,983)	(295,563)
Total provision expense, net	40,394	559,838
Assets' write-off expenses	(40,350)	(11,821)
Impairment for available-for-sale investments	15,000	–
Decrease in provision due to currency fluctuations	(72,071)	(71,854)
Reversal of specific provision due to write-offs	(116,861)	(208,026)
Specific provision at the end of the year	1,215,866	1,634,198
General (portfolio) provision at the end of the year	768,690	524,246
Total provision at the end of the year	1,984,556	2,158,444

The release of previously established specific provision charged to the statement of income includes the release of impairment for available-for-sale investments in the amount of LVL 339,584, whereas specific provision charged to the statement of income in 2002 includes the impairment losses in the amount of LVL 295,528.

The following table shows the structure of the total provision established by the Bank for possible credit losses as at 31 December 2003 and 2002:

	31.12.2003		31.12.2002	
	Specific provision	General provision	Specific provision	General provision
Balances due from credit institutions	–	104,649	156	102,785
Loans and advances to customers	886,546	664,041	936,671	421,461
Debt securities and other fixed income securities	236,911	–	615,533	–
Prepayments and accrued income	12,611	–	16,377	–
Other assets	79,798	–	65,461	–
Total	1,215,866	768,690	1,634,198	524,246

Notes to the Financial Statements

Note 11 Taxation

Corporate income tax expense:	2003	2002
Profit before corporate income tax	7,356,037	4,527,519
Increase/(decrease) in taxable income subject to timing differences	680,451	(627,748)
Other increase/(decrease) in taxable income	478,188	(91,487)
Taxable income for the reporting year	8,514,676	3,808,284
Corporate income tax 19% (22%)	1,617,788	837,823
Tax deductions	(323,788)	(188,781)
Corporate income tax expense for the reporting year	1,294,000	649,042
Adjustments to prior year corporate income tax	7,642	(21,050)
(Decrease)/ increase in deferred corporate income tax	(98,000)	151,000
Total corporate income tax expense	1,203,642	778,992

Deferred corporate income tax calculation:

	<u>31.12.2003</u>		<u>31.12.2002</u>	
	Amounts subject to timing differences	Tax rate	Amounts subject to timing differences	Tax rate
Accumulated excess of tax depreciation over accounting depreciation	1,483,702	15%	1,043,174	15%
Fair value revaluation reserve	3,442,670		-	
General and other provisions	(927,291)		(656,430)	
Revaluation of balance sheet items, net	3,590		826,589	
Deferred corporate income tax liability	4,002,671	600,401	1,213,333	182,000

	2003	2002
Deferred corporate income tax as at the beginning of the year	182,000	31,000
(Decrease)/increase charged to statement of income during the year	(98,000)	151,000
Increase related to fair value revaluation reserve under equity	516,401	-
Deferred corporate income tax as at the end of the year	600,401	182,000

The movements in tax accounts can be specified as follows:

	Corporate income tax	Personal income tax	Statutory social insurance contributions	Value added tax	Real estate tax
(Payable) as at 01.01.2002	(781,063)	-	(46,552)	(546)	-
Calculated	(649,042)	(459,544)	(722,475)	(41,066)	(24,490)
Prior year adjustments	21,050	-	-	-	1,299
Paid	1,853,342	459,544	707,743	30,851	23,191
Overpaid/(payable) as at 31.12.2002	444,287	-	(61,284)	(10,761)	-
Calculated	(1,294,000)	(574,963)	(850,713)	(43,237)	(33,807)
Prior year adjustments	(7,642)	-	-	-	729
Paid	335,373	574,699	837,750	50,543	33,078
(Payable) as at 31.12.2003	(521,982)	(264)	(74,247)	(3,455)	-

Notes to the Financial Statements

Note 12 Cash and Demand Deposits with Central Banks

	31.12.2003	31.12.2002
Cash	3,120,570	3,667,800
Deposits with the Bank of Latvia	6,557,765	5,786,111
Total cash and demand deposits with central banks	9,678,335	9,453,911

Deposits with the Bank of Latvia comprise correspondent account balance as at 31 December 2003.

The average correspondent account balance with the Bank of Latvia calculated based on the Bank of Latvia instructions should exceed the compulsory reserve requirement set at 3% (5%) of attracted deposits. Starting from year 2003 the customer term deposits with the maturity exceeding 2 years, repo transactions and customer demand deposits with the maturity exceeding 2 years (with notice period exceeding 2 years) are excluded from the reserves calculation base. As at 31 December 2003 the Bank was in compliance with this requirement.

Note 13 Balances Due from Credit Institutions

Upon evaluating its exposure in the inter-bank market, the Management of the Bank resolved to continue establishing general (portfolio) provision for the balances due from credit institutions incorporated in countries of non-OECD area, except for the balances due from the credit institutions incorporated in the Baltic countries, in the amount of 2% of average balance during the last month.

	31.12.2003	31.12.2002
Due from credit institutions registered in OECD area	53,992,0856	1,285,034
Due from credit institutions registered in Latvia	4,579,638	1,867,093
Due from credit institutions registered in other countries	5,524,149	3,565,952
Total balances due from credit institutions	64,095,872	66,718,079
Less provision for possible credit losses (see Note 10)	(104,649)	(102,941)
Total balances due from credit institutions, net	63,991,223	66,615,138

As at 31 December 2003, the Bank had established correspondent relationships with 26 (20) credit institutions registered in the OECD area, 4 (2) credit institutions registered in Latvia and 28 (28) financial institutions incorporated in other non-OECD countries.

	Balance due from credit institutions				
	OECD area	Latvia	Other countries	Total 31.12.2003	Total 31.12.2002
Correspondent account balances	29,999,817	395,428	5,432,149	35,827,394	40,320,111
Overnight deposits	11,819,768	3,205,000	–	15,024,768	17,414,884
Collateral deposits	–	302,960	–	302,960	1,811,700
Term deposits	12,172,500	676,250	92,000	12,940,750	7,171,384
Total balances due from credit institutions	53,992,085	4,579,638	5,524,149	64,095,872	66,718,079
Less provision for possible credit losses (see Note 10)	–	–	(104,649)	(104,649)	(102,941)
Total balances due from credit institutions, net	53,992,085	4,579,638	5,419,500	63,991,223	66,615,138

At 31 December 2003, the Bank's inter-bank balances with four credit institutions incorporated in the OECD area comprised 88% (82%) of total balances due from credit institutions incorporated in the OECD area and inter-bank balances with four credit institutions registered in other countries comprised 82% (81%) of all balances due from credit institutions incorporated in other countries.

Notes to the Financial Statements

Note 14 Loans and Advances to Customers

In 2003, the Management of the Bank has preserved the policy to establish general (portfolio) provision for regular loans not secured by deposits. General (portfolio) provision for loans issued to private individuals is established in accordance with the Bank's internal credit rating category within the range of 0.35% to 1% (0.4% to 1%) of the outstanding principal amounts, whereas general provision for loans issued to enterprises and non-secured credit facilities on the settlement cards is at 1.5% (1.5%) and 2% (5%) level, respectively.

General (portfolio) provision for overdrafts is established in accordance with the overdraft programmes, i.e. at 0%–1.5% (1.5%) level of the outstanding principal of the overdraft.

Loans and advances to customers	31.12.2003	31.12.2002
Mortgage loans	30,655,325	12,911,615
Regular loans	22,588,752	16,471,560
Utilised credit lines	10,048,322	9,108,126
Finance leases	1,676,764	1,265,573
Debit balances on payment cards	670,008	734,609
Debit balances on current accounts	401,276	1,223,727
Collateral deposits	220,146	224,281
Total loans and advances to customers	66,260,593	41,939,491
Less provision for potential credit losses (see Note 10)	(1,550,587)	(1,358,132)
Total loans and advances to customers, net	64,710,006	40,581,359

The Latvian banking legislation requires that any credit exposure to a non-related entity or a group of non-related entities may not exceed 25% of a credit institution's equity. The total credit exposure to all related parties may not exceed 15% of equity.

As at 31 December 2003, the Bank was in compliance with the above requirements for the non-zero risk credit exposures to related parties and non-related entities.

The following table provides the distribution of outstanding loans and advances to customers by their interest accrual basis:

Interest accrual basis	31.12.2003	31.12.2002
Accrual basis	65,224,070	40,582,532
Non-accrual basis	1,036,523	1,356,959
Total loans and advances to customers	66,260,593	41,939,491
Less provision for possible credit losses (see Note 10)	(1,550,587)	(1,358,132)
Total loans and advances to customers, net	64,710,006	40,581,359

The table below specifies the outstanding loans and advances by customer profile:

Customer profile	31.12.2003	31.12.2002
Privately held companies	31,681,338	24,426,437
Municipal enterprises	79,000	81,000
Non-profit institutions serving private individuals	375	53,460
Bank's employees	1,373,546	629,157
Other private individuals	33,126,334	16,749,437
Total loans and advances to customers	66,260,593	41,939,491
Less provision for possible credit losses (see Note 10)	(1,550,587)	(1,358,132)
Total loans and advances to customers, net	64,710,006	40,581,359

Notes to the Financial Statements

The industry analysis of loans and advances granted to corporate customers is provided below:

Industry profile	31.12.2003	31.12.2002
Trade	9,191,112	9,345,339
Real estate management	8,124,874	2,729,008
Construction	3,343,160	1,182,456
Manufacturing	3,163,814	2,444,169
Transport and communication	1,728,841	1,089,075
Financial intermediaries	1,719,039	1,165,097
Other service industries	767,365	731,115
Agriculture and forestry	192,826	230,622
Other industries	3,529,307	5,590,556
Gross loans and advances to corporate customers	31,760,338	24,507,437

The industry profile of loans with initial maturity of up to 1 year is determined by the Bank based on the industry, where the borrower operates, while for loans with initial maturity exceeding 1 year – based on the purpose of the loan granted (by the industry for the development of which the loan has been issued).

Finance lease receivables:

Gross investment in finance lease	31.12.2003	31.12.2002
– within one year	21,093	11,425
– from 1 to 5 years	1,791,702	1,385,069
Total gross investment in finance lease	1,812,795	1,396,494
Less unrealised interest income	(136,031)	(130,921)
Finance lease receivables, gross	1,676,764	1,265,573
Less provision for possible credit losses	(769)	(400)
Total finance lease receivables, net	1,675,995	1,265,173

All assets financed by the Bank under finance lease arrangements are transport vehicles.

Note 15 Debt Securities and Other Fixed Income Securities

	31.12.2003	31.12.2002
Debt securities issued by credit institutions	46,235,590	23,651,448
Government debt securities	33,139,742	24,638,961
Debt securities issued by privately held companies	21,171,761	3,632,774
Debt securities issued by municipalities	1,720,380	–
Debt securities issued by financial institutions	718,117	1,638,519
Total debt securities and other fixed income securities	102,985,590	53,561,702
Less provision for possible credit losses (see Note 10)	(236,911)	(615,533)
Total debt securities and other fixed income securities, net	102,748,679	52,946,169

Notes to the Financial Statements

The Bank's investments in fixed income debt securities are classified by the type of investment as follows:

	31.12.2003		31.12.2002	
	Investment portfolio	Trading portfolio	Investment portfolio	Trading portfolio
Latvian government debt securities	8,676,612	–	–	9,070,916
Debt securities issued in OECD area				
Government debt securities	7,618,679	–	2,484,683	796,792
Issued by credit institutions	25,144,839	1,621,664	–	22,503,634
Issued by financial institutions	–	–	–	1,638,519
Issued by privately held companies	1,479,042	–	–	3,632,774
Debt securities issued in other countries				
Government debt securities	16,435,856	408,595	9,360,655	2,925,915
Issued by municipalities	1,663,034	57,346	–	–
Issued by credit institutions	18,653,150	815,937	–	1,147,814
Issued by financial institutions	718,117	–	–	–
Issued by privately held companies	18,650,023	1,042,696	–	–
Total debt securities and other fixed income securities	99,039,352	3,946,238	11,845,338	41,716,364
Less provision for possible credit losses (see Note 10)	(236,911)	–	(615,533)	–
Total debt securities and other fixed income securities, net	98,802,441	3,946,238	11,229,805	41,716,364

As a result of evaluating the risk associated with the Bank's investment portfolio, as at 31 December 2003 the Bank has established impairment provision for Argentinean government bonds in the amount of LVL 236,911 (as at 31 December 2002 for Argentinean and Brazilian government bonds in the amount of LVL 615,533).

As at 31 December 2003, the Bank had pledged Latvian government debt securities with the carrying amount of LVL 2,872 thousand and LVL 1,877 (1,969) thousand as a collateral for repo transactions and currency swap transactions, respectively.

As at 31 December 2003, all debt securities and other fixed income securities held by the Bank, except debt securities issued by one privately held company in the amount of LVL 322,671 (350,029), were listed on stock exchanges.

Note 16 Shares and Other Non-fixed Income Securities

	31.12.2003	31.12.2002
Equity shares in Latvian corporate entities	30,375	37,806
Equity shares in foreign corporate entities	29,556	12,475
Total shares and other non-fixed income securities	59,931	50,281

Notes to the Financial Statements

The Bank's investments in non-fixed income securities are classified by the type of investment as follows:

	31.12.2003		31.12.2002	
	Available for sale portfolio	Trading portfolio	Investment portfolio	Trading portfolio
Corporate entities registered in OECD area	29,556	–	12,475	–
Latvian companies	30,375	–	30,375	7,431
Total shares and other non-fixed income securities	59,931	–	42,850	7,431

As at 31 December 2003 and 2002, all shares held by the Bank, except the shares of Latvian companies included in the trading portfolio, were not listed on stock exchanges.

Note 17 Derivatives

The table below presents the notional amounts of foreign currency exchange contracts and other derivative financial instruments and their fair values. The notional value of foreign currency exchange contracts is the amount receivable. The notional value of other derivative financial instruments is the value of the underlying assets of these instruments.

	Notional value		Assets		Fair value	
	31.12.2003	31.12.2002	31.12.2003	31.12.2002	31.12.2003	31.12.2002
Foreign currency exchange contracts						
Spots	5,077,800	7,151,429	9,444	27,831	9,792	–
Derivatives						
Forwards	2,574,536	651,020	32,841	12,466	–	2,544
Swaps	2,032,891	2,201,767	5,974	22,475	47,209	10,599
Total foreign currency exchange contracts	9,685,227	10,004,216	48,259	62,772	57,001	13,143
Interest rate derivatives						
Futures, sold	4,141,769	2,453,568	–	–	19,704	45,833
Total interest rate derivatives	4,141,769	2,453,568	–	–	19,704	45,833

The result of foreign exchange spots is included in the balance sheet captions "Other assets" and "Other liabilities".

Notes to the Financial Statements

Note 18 Investments in Associated Entities

The following table presents the Bank's investments in associated entities at the end of the reporting year:

Business profile	Cost value		Equity share (%)		
	31.12.2003	31.12.2002	31.12.2003	31.12.2002	
Investments in associated entities					
A/s AB Konsultācijas	Consulting	12,000	30%	12,000	30%
Total investments in associated companies		12,000		12,000	

Note 19 Intangible and Tangible Fixed Assets

	31.12.2003	31.12.2002
Intangible fixed assets	403,684	308,614
Prepayments for intangible fixed assets	105,816	1,036
Total intangible fixed assets	509,500	309,650
Land	261,232	103,792
Buildings and property improvements	6,081,329	1,498,947
Leasehold improvements	154,851	577,442
Transport vehicles	223,610	194,077
Office equipment		
EDP equipment	720,968	502,985
Other tangible fixed assets	793,081	741,036
Prepayments for tangible fixed assets	459,037	52,121
Total tangible fixed assets	8,694,108	3,670,400
Total net book value of fixed assets	9,203,608	3,980,050

Prepayments on purchase of land amounting to LVL 277,174 have been included under caption "Prepayments for tangible fixed assets".

Notes to the Financial Statements

The following table demonstrates movements in the Bank's intangible and tangible fixed assets:

	Intangible fixed assets	Land	Buildings and property impro- vements	Leasehold impro- vements	Transport vehicles	Office equipment	Total fixes assets exclu- ding pre- payments
As at 1 January 2003	531,199	103,792	1,604,212	655,756	306,566	2,637,408	5,838,933
Additions	188,693	157,440	4,278,217	112,987	105,096	775,088	5,617,521
Disposals	(28,963)	–	–	–	(41,961)	(217,631)	(288,555)
Transfers	33,288	–	444,003	(474,015)	–	(3,276)	–
As at 31 December 2003	724,217	261,232	6,326,432	294,728	369,701	3,191,589	11,167,899
As at 1 January 2003	222,585	–	105,265	78,314	112,489	1,393,387	1,912,040
Charge for the year	111,811	–	82,042	119,359	65,955	507,325	886,492
Transfers	14,723	–	57,796	(57,796)	–	(14,723)	–
Reversal due to disposals	(28,586)	–	–	–	(32,353)	(208,449)	(269,388)
As at 31 December 2003	320,533	–	245,103	139,877	146,091	1,677,540	2,529,144
As at 1 January 2003	308,614	103,792	1,498,947	577,442	194,077	1,244,021	3,926,893
As at 31 December 2003	403,684	261,232	6,081,329	154,851	223,610	1,514,049	8,638,755
Depreciation rate (straight-line method)	20%	–	5%	10–57%	20%	10–33%	

Buildings and property improvements include costs of construction in progress related to the reconstruction of the building in the amount of LVL 2,933,559 (491,632).

Fixed assets include real estate investment, which was acquired with the main purpose to earn on rentals and gain on value appreciation. As at 31 December 2003, the net book value of this real estate property was LVL 2,148,418. In a view of the fact that the investments were made in 2003, it is deemed that the fair value of the above investments does not differ significantly from their net book value as at 31 December 2003.

Rental income from investment property in 2003 comprised LVL 103,889, whereas maintenance costs amounted to LVL 45,796.

Note 20 Prepayments and Accrued Income

	31.12.2003	31.12.2002
Accrued interest income	1,646,639	815,794
Prepayments	47,548	39,479
Accrued income from sale of associated entity	–	26,080
Other accrued income	–	24,589
Total prepayments and accrued income	1,694,187	905,942
Less provision for possible credit losses (see Note 10)	(12,611)	(16,377)
Total prepayments and accrued income, net	1,681,576	889,565

Accrued interest income is mainly comprised of accrued interest income on debt securities and other fixed income securities, which as at 31 December 2003 constituted LVL 1,411,877 (619,385).

Notes to the Financial Statements

Note 21 Other Assets

	31.12.2003	31.12.2002
Property for sale, net	81,994	102,744
Clearing balances related to credit cards	69,216	65,793
Result of foreign exchange spots	9,444	27,831
Overpaid corporate income tax	–	444,287
Other current assets, net	52,263	20,041
Other assets, net	212,917	660,696

Note 22 Balances Due to Credit Institutions and Central Banks

The following table provides an analysis of balances due to credit institutions and central banks by their place of incorporation:

	31.12.2003	31.12.2002
Balances due to the Bank of Latvia	2,450,000	–
Balances due to credit institution incorporated in the Republic of Latvia	967,936	822,576
Balances due to credit institution incorporated in other countries	411,666	37,644
Balances due to credit institution incorporated in OECD countries	–	2,677
Total balances due to credit institutions and central banks	3,829,602	862,897

The following table provides an analysis of balances due to credit institutions and central banks by their maturity:

	31.12.2003	31.12.2002
Balances repayable on demand	1,187,602	344,397
Repo transaction	2,450,000	–
Overnight deposits	192,000	518,500
Total balances due to credit institutions and central banks	3,829,602	862,897

Note 23 Deposits from the Public

Sector profile	31.12.2003	31.12.2002
Privately held companies	194,894,798	129,391,835
Private individuals	25,495,204	24,033,236
Municipalities	635,555	609,855
Financial institutions	174,564	120,556
State enterprises	78,771	2,282,398
Non-profit institutions serving private individuals	57,980	75,230
Central governments	–	4,053
Total deposits from the public	221,336,872	156,517,163
Geographical profile of customers' residence	31.12.2003	31.12.2002
Residents	11,641,220	9,955,542
Non-residents	209,695,652	146,561,621
Total deposits from the public	221,336,872	156,517,163

Notes to the Financial Statements

Note 24 Deferred Income and Accrued Expense

	31.12.2003	31.12.2002
Accrued interest expense	182,940	207,190
Other accrued expense	294,088	160,789
Total deferred income and accrued expense	477,028	367,979

Note 25 Provisions for Liabilities and Charges

	31.12.2003	31.12.2002
Provision for employee holiday pay	158,869	134,739
Deferred corporate income tax	600,401	182,000
Total provisions for liabilities and charges	759,270	316,739

Note 26 Other Liabilities

	31.12.2003	31.12.2002
Tax liabilities	599,948	72,045
Cash in transit	148,689	–
Suspense amounts	86,779	72,929
Dividends payable	525	2,750
Other liabilities	140,736	140,868
Total other liabilities	976,677	288,592

Suspense amounts comprise of outstanding incoming transfers where the payment details are not specified to the extent that the Bank has reasonable assurance to place these balances on the respective customer accounts.

Note 27 Memorandum Items

Contingent liabilities	31.12.2003	31.12.2002
Outstanding guarantees	1,237,470	1,036,679
Letters of credit	560,869	416,076
Total contingent liabilities	1,798,339	1,452,755

Financial commitments		
Unutilised credit lines	9,728,230	12,545,429
Loan commitments	8,805,587	1,367,669
Undrawn credit facilities on settlement cards	1,867,804	1,890,628
Contractual commitments on real estate purchase	1,219,913	–
Contractual commitments on purchase of other fixed assets	136,455	–
Contractual commitments on reconstruction of the building	107,637	2,219,333
Total financial commitments	21,865,626	18,023,059

Funds under trust management in the amount of LVL 4,137,529 represent loans issued from the funds specifically assigned by customers to the Bank. The related credit risk and all other risks remain fully with the customer, who provided these funds to the Bank.

Notes to the Financial Statements

Note 28 Paid-in Share Capital

As at 31 December 2003, the issued and registered share capital of the Bank amounted to LVL 10,000,000 (10,000,000). The share capital consists of ordinary shares only. All the shares have a par value of LVL 100 (100) each.

As at 31 December 2003, the Bank had 149 (151) shareholders, including 30 (32) legal entities and 119 (119) private individuals holding the total of 100,000 shares, including 60 shares assigned to the Board of the Bank without voting rights. The members of the Board directly hold 90.72% (90.72%) of the share capital, while the members of the Council – 4.35% (4.70%) of the share capital.

The major shareholders of the Bank and the groups of related shareholders are as follows:

	31.12.2003		31.12.2002	
	Paid-in share capital	% of the total paid-in share capital	Paid-in share capital	% of the total paid-in share capital
Olegs Fijs	4,581,400	45.81	4,581,400	45.81
Group of related shareholders				
Ernests Bernis	4,478,300	44.78	4,478,100	44.78
Nika Berne	103,000	1.03	103,000	1.03
Total group of related shareholders	4,581,300	45.81	4,581,100	45.81
Total	9,162,700	91.62	9,162,500	91.62

As at 31 December 2003, the Bank owned 30 (30) shares without voting rights assigned to the Board with par value of LVL 3,000.

Note 29 Related Parties

Related parties are defined as shareholders who have significant influence over the Bank, members of the Council and Board, key Management personnel, their close relatives and companies in which they have a controlling interest as well as associated entities of the Bank.

(thous. of lats)	31.12.2003		31.12.2002	
	Amount	Terms	Amount	Terms
Loans issued to related parties				
Management	539	4%-10%	201	4%-10%
Related legal entities	1,672	4%-9%	155	8%
Other related private individuals	68	4%-10%	92	4%-10%
Total loans issued to related parties	2,279		448	
Loan commitments	117	4%-10%	49	10%
Less provisions for potential credit losses	(156)		(3)	
Net loans and loan commitments	2,240		494	
Percentage of shareholders' equity, % (see Note 31)	9.92		3.19	

Notes to the Financial Statements

Interest income and expense on transactions with related parties:

	2003	2002
Interest income on receivables from related parties	42,588	31,665
Interest expense on payables to related parties	3,882	5,181

The Bank has also issued guarantees to related parties totalling LVL 10,820 (11,880) for American Express credit cards.

All related party deposits bear standard interest rates offered by the Bank. As at 31 December 2003, total deposits placed with the Bank by related parties amounted to LVL 231,309 (188,966).

Note 30 Cash and Cash Equivalents

	31.12.2003	31.12.2002
Cash and demand deposits with the Bank of Latvia	9,678,335	9,453,911
Balances due from credit institutions	62,440,412	64,906,379
Balances due to credit institutions and central banks	(3,829,602)	(862,897)
Total cash and cash equivalents	68,289,145	73,497,393

Note 31 Capital Adequacy

The capital adequacy ratio of the Bank is calculated in accordance with the Financial and Capital Market Commission's requirements.

(thous. of lats)

	31.12.2003	31.12.2002
Tier 1		
– paid-in share capital	10,000	10,000
– share premium	255	255
– legal and other reserves	1,250	1,250
– retained earnings	4,310	1,562
– own shares	(3)	(3)
– intangible fixed assets	(510)	(310)
– current year audited profit (not subject to distribution of dividends)	4,352	2,748
Total tier 1	19,654	15,502
Tier 2		
– fair value revaluation reserve	2,926	–
Total tier 2	2,926	–
Total shareholders' equity	22,580	15,502
Capital charge for credit risk	16,532	7,125
Capital charge for foreign currency risk	233	85
Capital charge for position risk	409	1,107
Capital charge for counter party risk	13	34
Total capital charge for market risks	655	1,226
Total capital charge	17,187	8,351
Capital adequacy ratio (%)	13.14	18.56
Minimum capital adequacy ratio (%)	10.00	10.00

Notes to the Financial Statements

The credit risk capital charge is calculated as follows:

(thous. of lats)	Financial and Capital Market Commission requirements		
Assets	31.12.2003	Risk weighting (%)	Weighted assets 31.12.2003
Cash and demand deposits with central banks	9,678	0	
Balances due from:			
– credit institutions incorporated in other countries	53,993	20	10,799
– credit institutions incorporated in other countries	5,419	100	5,419
– on demand from Latvian credit institutions	3,600	20	720
– from Latvian credit institutions (except on demand)	979	50	490
Loans and advances to customers			
– secured by term deposits with credit institution	556	0	0
– fully secured by a mortgage of residential property registered with Land Register	5,286	50	2,643
– other loans	58,766	100	58,766
– trading portfolio assets	102	*	
Available-for-sale debt securities:			
– Latvian government debt securities	8,677	0	0
– debt securities issued by OECD area governments	5,478	0	0
– debt securities issued by governments and municipalities of other countries	20,002	100	20,002
– debt securities issued by OECD area credit institutions	25,145	20	5,029
– debt securities issued by credit institutions of other countries	18,654	100	18,654
– debt securities issued by privately held companies and financial institutions	20,847	100	20,847
Debt securities of trading portfolio	3,946	*	
Prepayments	47	50	24
Accrued income:			
Accrued income, 0% risk weighted	207	0	0
Accrued income, 20% risk weighted	56	20	11
Accrued income, 50% risk weighted	21	50	11
Accrued income, 100% risk weighted	1,314	100	1,314
Accrued interest income of trading portfolio	36	*	
Derivatives	39	*	
Intangible fixed assets	510	**	
Fixed assets, investments in associated entities, shares and other assets	8,979	100	8,979
Total assets	252,337		153,708

Notes to the Financial Statements

Memorandum items

Memorandum items with 100% credit equivalent

Guarantees secured by deposits	309	0	0
Other guarantees	928	100	928
Irrevocable stand-by letters of credit secured by deposits	48	0	0
Other stand-by letters of credit	41	100	41
Capital expenditure commitments	1,464	100	1,464

Memorandum items with 50% credit equivalent

Documentary letters of credit secured by deposits	199	0	0
Other documentary letters of credit	79	100	40

Financial commitments with 50% credit equivalent

0% risk weighted	1,835	0	0
50% risk weighted	927	50	232
100% risk weighted	17,640	100	8,820

Memorandum items with 20% credit equivalent

Documentary letters of credit secured by deposits	112	0	0
Other documentary letters of credit provided against bills of landing or shipment documents	82	100	16

Total memorandum items **23,664** **11,541**

Foreign currency exchange contracts (1%-1.5%)

20% risk weighted	7	20	1
50% risk weighted	5	50	3
100% risk weighted	71	100	71

Total foreign currency exchange contracts **83** **75**

Interest rate derivatives (2%) **83** *****

Total **276,167** **165,324**

Total credit risk capital charge 16,532

* The capital charge for assets and derivatives included in the Bank's trading portfolio is calculated as part of the capital charge calculations for position risk and counterparty risk.

** Deducted from equity.



Auditors' report

To the shareholders
of a/s Aizkraukles banka

We have audited the accompanying financial statements of a/s Aizkraukles banka (hereinafter – the Bank) for the year ended 31 December 2003, set out on pages 21 through 51, 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 a/s Aizkraukles banka as at 31 December 2003, and of the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board.

Ernst & Young Baltic SIA
License No. 17

Per Møller
Personal ID code: 060567-14676
Member of the Board

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

Riga, 2 March 2004

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