

# ANNUAL REPORT



2004



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# TIME OF EUROPE

In 2004 Latvia marked a great achievement – full membership in the European Union. We at Aizkraukles banka, working in the banking business for more than ten years, have been eyewitnesses to and participants in these changes, and have grown along with them. Today it is our conviction that now is the right moment to utilise time as efficiently as possible!

We still remember that on the long road to the European Union along with the rest of the country, we were learning to write appropriate laws and develop a favourable business climate, implement technologies and develop business. In our work we have learned to adopt the best practices from Europe's banks – the majesty and trust of Swiss banks, the precision of German banks and the simplicity and clarity of Scandinavian banks.

We have a specific aim: to add to the bench of best players among Europe's banks a young, universal player – Aizkraukles banka. Our commercial banks have already been noticed in Europe, and four of them were included among the 50 most rapidly growing Eastern European banks, as compiled by British banking journal *The Banker*, in 2004. Aizkraukles banka was ranked 30th on this list.

Europe's common market provides each of its players specific advantages: free movement of goods, capital and labour. A unified currency has been introduced, the euro, and Latvia will too join the European monetary union in a few years and replace the lat with the euro. It is important to us that joint cooperation among European countries has managed to secure stability and well-being in Europe for half a century.

Today it appears self-evident to utilise those opportunities that being in the EU provides in business and in everyday life. We are able to maintain closer relations with Europe's financial environment; study more freely; and adopt and implement new, quality services long accessible in other Old World countries, services we have not yet provided our clients with. For example, Aizkraukles banka plans to develop its *Private Banking* services, intended for foreign clients, thus expanding our position in the international market.

We wish to offer our existing and future clients the opportunities that a modern European bank can provide, one capable of speaking the same language with clients in Latvia, as well as clients to the East and West of us.



08:25



# TIME FOR BANKING

What do we do in the morning? We hurry to our jobs with pleasure. We save our clients' time. It's important to us! Aizkraukles banka functions with precision, like a timepiece. We are its parts and together we provide you with time efficiency. Aizkraukles banka's mission is to work so as to take full advantage of Latvia's location in Europe – it is a unique opportunity simultaneously to work energetically in Latvia, Russia, as well as in other CIS countries.

In Latvia we said it loudly and clearly: we want to become the most attractive lender for clients in the country's largest credit market – Riga and Jurmala. In turn, in the international market we continue to provide banking services and technologies of a European standard, which is greatly complemented by excellent knowledge of the business environment in Russia and other CIS states. We are also starting to apply the lending experience acquired in the local market to the international arena.

We maintain high standards of service and always speak a language the client understands. It is no coincidence that our motto is "We will understand each other!". In developing financial products, we observe basic principles: all of our services must be easily utilisable and secure, and they all must satisfy the needs of the specific client and save the client time. Thorough knowledge of the market and business environment, modern technology and our employees' highly professional skills permit us to offer an appropriate, often unique financial solution for each client's needs.

We are rapidly and purposefully expanding our activities. The correctness of our chosen strategy is affirmed by the fruits of our labour – 2004 was a year of very rapid growth for Aizkraukles banka, and according to the main financial indicators we are the fifth largest commercial bank in Latvia. In 2004 our assets increased by 76% to LVL 444.5 million, and our net profits increased by 32% to LVL 8.11 million. It is important that in our work we choose a sensible risk and gain a corresponding profit. According to financial results, the bank's ROE (return on equity) reached 30.74%, while ROA (return on assets) was 2.26%.



We have been able to attain such growth thanks to our employees, each one of whom is a professional in his or her field – precise, competent and very trustworthy. We allow our employees to grow, and support the free flow of ideas. For this reason at the bank we have developed an internal portal that provides all employees with the chance to express their suggestions regarding any bank-related issue.

We are all very different, but what unites us is our sense of mission and our faith in our abilities. We are proud of our fighting spirit, which manifests itself both at work and in our employee teams' accomplishments in the *Latvian Amateur Football League* (1st place), *Independent Amateur Hockey League* (3rd place in the 2nd Division), in battles for the *Bank Cup* in basketball, and, of course, the Aizkraukles banka summer games.

Our unified team functions precisely, like a watch's mechanism. We see the bank's future and accomplish the goals we set by functioning effectively in various market segments, but most importantly we are happy to come to work.





# TIME TO LIVE

It's time to build your home, your hearth, your clock on the fireplace mantle. We know that is what you want. We also know well that time is money, especially in matters of construction. Aizkraukles banka is a specialised lender – we know how to make beautiful dreams come true. If you want to build your future, we'll help. We will understand each other!

Aizkraukles banka's strategy in the Latvian market is to be a specialised lending bank, offering clients convenient and diverse lending services. In 2004, just as in previous years, the bank continued to expand its offering of housing loans and issued mortgages in the total amount of LVL 84.3 million.

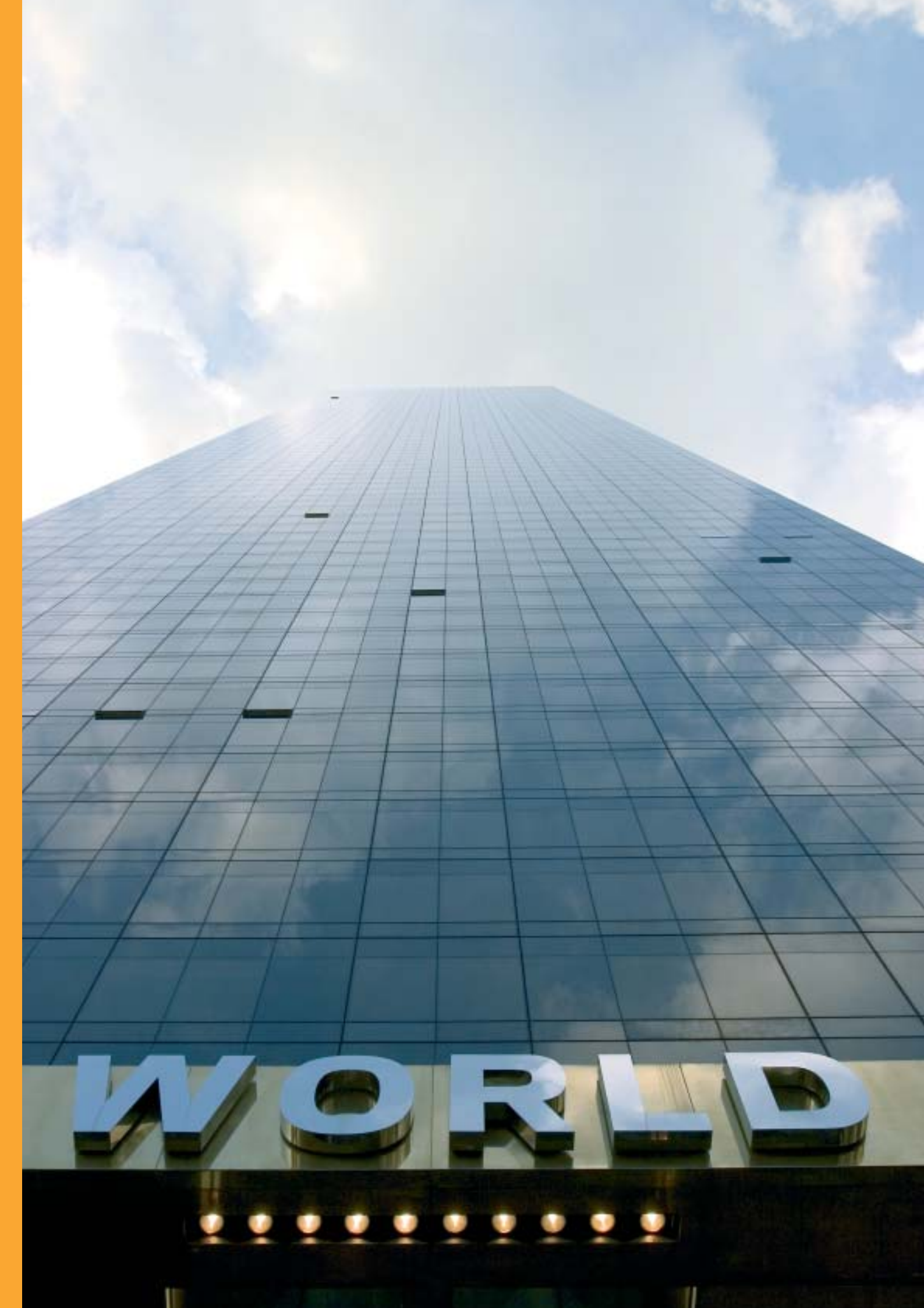
Aizkraukles banka offers high-quality services in line with client needs. In 2004 we developed and implemented three new credit programmes, and at the moment the bank is offering a total of ten different mortgage programmes. A loan for the first-time homeowner, a loan for home renovation, various loans secured by pledge of the home – these are only some of the credit programmes demanded most by our clients.

We are constantly expanding our credit products. We are developing our credit programme on the basis of two understandable basic principles: new credit programmes must be suited to meeting a client's particular need and must comply with the given market situation. The most successful lending programme undertaken in 2004 was *105% Loan*. This loan or, more precisely, two-loan packet permits homebuyers also to receive a loan for home renovation. Aizkraukles banka was the first bank to offer financing exceeding the value of the security.

In line with market developments, we are paying increasingly close attention to new projects. For this reason we have formed *Real Estate Financing Department*. The bank offers financing for construction of homes and communities, and thus we are able to offer clients particularly good terms for the purchase of newly constructed homes, including a simplified lending procedure.

In order to make our services more readily accessible, both to individuals and Latvian companies, we have expanded our client service and credit centre network. In 2004 we opened six such centres, as well as a 24-hour bank: "Diennakts banka AB.24", providing continuous access to remote and cash-machine services. For Latvia's businesses we are a universal bank, offering a wide range of financial services.





WORLD

# TIME OF OPPORTUNITIES

Aizkraukles banka enjoys a reputation as a reliable and trustworthy bank. We are convincingly with the times, stable and open, and react quickly to market changes. Operating in the international market, we offer clients utilisation of the advantages provided by the orderly business environment and liberal commercial banking legislation of Latvia and Europe.

Times change. Aizkraukles banka has a growing circle of foreign clients, including in the Russian Federation and other CIS states. For these clients our bank offers all services related to making payments and financing of business activity. We see the potential for growth in this market and are prepared for the challenges that the times dictate. Our advantage is a policy of openness and honour. We are loyal to clients, and for this reason we require of them adequate openness and honour; we consider this to be the cornerstone of successful cooperation.

We have not forgotten the basic principles of our bank: reliability, effectiveness, and confidentiality. These are crucial for lasting cooperation with clients, because our bank works with each client individually. Working for the good of each client is AB.LV management team that possesses the language skills necessary for communication, capable of adopting the necessary decisions effectively and soundly, fulfilling the client's instructions with precision.

In 2004, alongside our payment system and payment service, we began to expand Aizkraukles banka's strategic position in the international market, i.e. financing of client business operations. Researching the nuances of our clients' businesses, we provided them with effective and balanced financial solutions. Total credit issued to foreign clients reached LVL 14.7 million in a year's time. We anticipate that this amount will increase rapidly, which is supported by our clients' interest in developing open, long-term relations.

In August 2004 we took a big step toward meeting the needs of our foreign clients by opening in Moscow an accredited representative office of Aizkraukles banka. Our goal in the development of this new structure is to draw nearer to the client and establish lasting contacts in business circles in the Russian capital. The representative office's aim is to provide information and assist our new clients in understanding our banking services more clearly and to enable us to get to know our existing clients better. In the near future Aizkraukles banka plans to open representative offices in St. Petersburg, as well as in the capitals of other CIS states.

We are convinced that Aizkraukles banka's open model for cooperation is a success. This is confirmed by the good fortune of our client business. Assets our foreign customers had entrusted us increased by 73% in 2004 and reached LVL 382.6 million by year end.





# TIME OF RESPONSIBILITY

Aizkraukles banka is owned by Latvian capital. We are proud of this fact and we believe that this brings with it the responsibility and obligation to get involved and support endeavours in Latvia that are of significance. For this reason we have decided to support future-oriented projects to develop an active, healthy society and to help improve the environment for our children.

Children – our greatest resource, our future and our joy. The time that we devote to our children is our most important investment in the future. We support family values and the strengthening of family spirit in Latvian society in any manner possible for a bank, by donating both money and time, because it is our conviction that only this can serve as a foundation for the development of a stable country.

It is important to again draw people's attention to such values as devotion, compassion, altruism and belief in good, in the manner of the newspaper *Diena* and TV station *TV3* in the greatly emotional project *Pride of Latvia*, which honoured persons who for years had provided help or hope or have fulfilled a quiet dream. It is important to us that the support of Aizkraukles banka helped introduce these persons to the general public.

We have also undertaken a long-term charity project for the support of the Children's Clinical Hospital. In the first segment of the project we donated LVL 5000 to the hospital's ear, nose and throat ward as part of the charity drive *Sunny days for our children*. In conjunction with this donation we also opened an account for donations to the Children's Clinical Hospital, and we call upon each and every one of you to give to the Hospital to make possible its needed repairs.

With our financial support the National Opera of Latvia was able to stage two theatre performances for children, *Noah's Ark* and *Snow White and the Seven Dwarfs*.

An active and athletic way of life – is a second important area that we support. Healthy competition makes us more competitive, and this is not just talk. For this reason we, professionals in the financial market, engage in sports ourselves and support both professional athletes, as well as enthusiastic amateurs. Aizkraukles banka is the general sponsor of the *Latvian Handball Federation*, and we also regularly support the handball club *ASK/AB.LV*. In addition, the bank's employee teams actively participate in the *Independent Amateur Hockey League* and *Amateur Football League's* tournaments. We also support the *Media Games*, where workers in Latvia's media sector compete in a friendly atmosphere.

These are the most significant projects that we support, and we are downright proud of the fact that in 2004 Aizkraukles banka was one of the largest private sponsors in Latvia.





# YOUR TIME

In a philosophical sense, people's dreams attest to their freedom and unlimited possibilities. There are as many seconds as there are grains of sand on the beach, but their number is nevertheless finite. It is your time, so take advantage of your freedom today! We will be proud and pleased by the very fact that we will be able to help in the fulfilment of your dreams.

Freedom of choice – we provide it as part of our daily work – granting loans, processing payments, and providing consultations for optimal financial solutions. We believe that it is also our duty to inform and educate our clients, so that they feel free and secure in their selection.

Responsibility for the future – utilising a bank's services, for example, taking out a mortgage to improve one's living space, provides the client with new opportunities, but also imposes a greater responsibility. When applying for a loan, it is important to make sensible decisions. We believe it is our responsibility to inform people across Latvia of the terms the bank sets out for issuing of a loan, as well as of the possibilities for planning family finances better. With this aim in mind, Aizkraukles banka, in cooperation with the Consumer Interest Protection Association of Latvia, has developed the *Borrower's Education Programme*, further described on the internet web page [www.kasirkredits.lv](http://www.kasirkredits.lv). The site offers multifunctional calculators to assist in the calculation of what credit terms are best for the family, as well as projected repayment schedules.

Like-minded fellows, comrades-in-arms – that's us. In our work we strive to develop personal relationships with clients, and it is our conviction that we have to know each other well, so as to enable us to handle your financial matters better. We organise various events that help clients get to know the bank better both in terms of services, as well as on a personal level. With client seminars, loyalty programmes and shared social activities, such as our golf tournament for our best clients in Latvia and summer events for foreign clients in Jurmala, we seek to convey our stance on client contact and to bring the motto of Aizkraukles banka to life.

We at Aizkraukles banka make our clients' financial concerns our own and strive to let them simply be free and to live – to build homes, develop businesses, conduct financial transactions with ease, and to earn with investments – and to dream of a sunny Sunday afternoon in the pleasant European city of Riga.







AS "Aizkraukles banka"

# CONSOLIDATED REPORT

for the year 2004

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## Report of the Council and the Board

### Dear Shareholders, Customers and Business Partners of Aizkraukles banka!

In 2004, regardless of the tough competition in the market of commercial banks, AS Aizkraukles banka (hereinafter, Aizkraukles banka or the Bank) has succeeded in achieving considerable financial results and proved to be one of the leading banks in the Latvian lending market. Such achievements are the result of careful and precise fulfilment of the strategic plans approved by the Bank, which permitted the Bank to rapidly expand the range of its services, supply customers with highly professional services and open new customer service centres.

According to the strategic goals set by the Bank, in 2004 Aizkraukles banka was intensely focusing on development of lending products in the domestic market and strengthening of its positions in the international market.

### Financial Results

In 2004, Aizkraukles banka has been successful in reaching the planned financial objectives. The Bank has stabilised its position, ranking fifth among Latvian commercial banks in terms of assets and attracted funds. In 2004, the assets of Aizkraukles banka increased by 76%, to LVL 444.5 million, and the Bank's net profit exceeded the result of the preceding year by 32%, having reached LVL 8.11 million. At the end of 2004, the Bank's gross loan portfolio reached LVL 139.7 million, thus exceeding the result of 2003 by 110%.

To be able to successfully implement its objectives, in 2004 the Bank raised subordinated loan capital in the amount of USD 13 million for a five-year term at an average rate of 6.27% per annum.

According to the results of 2004, the Bank's return on equity (ROE) (measured as fiscal year's earnings against average shareholders' equity) reached 30.74%, and the return on assets (ROA) (measured as fiscal year's earnings against average assets per annum) was 2.26%. Earnings per share (EPS) in 2004 amounted to LVL 81.

The Bank's financial achievements were highly appreciated also at international level. For instance, Aizkraukles banka is listed 30th in the European Banks listing issued by British magazine *The Banker*, thus being one of the four Latvian banks included therein. The Board of the Bank will suggest that the general meeting of shareholders pay dividends to shareholders in the amount of LVL 20 per share.

The Bank considers its successful investing business to be one of its greatest achievements in 2004. The annual return on the well-diversified variable-term investment portfolio was 6.11%.

### Domestic Market

In 2004, Aizkraukles banka consolidated its position in the Latvian market of mortgage lending as a customer-friendly bank, which is confirmed by the amount of mortgage loans issued by the Bank: LVL 84.3 million. This is the fifth result among Latvian commercial banks.

During the previous year, the Bank was also specifically focusing on further development and improvement of lending services, along with its well-considered risk policy.

The Bank believes that "105% credits" (*105% Loan*), which has rapidly gained customer confidence and become a highly demanded lending product, is one of the most successful products introduced in the previous year. Aizkraukles banka is the first commercial bank in the Latvian market to offer a lending product exceeding 100% of the security value.

In light of tendencies in the realty market, in 2004 the Bank began offering a lending programme for acquisition and improvement of loan intended for acquisition of apartments in newly erected buildings and a programme for acquisition of summer houses, which had been specifically designed to meet the increased interest of customers in buying summer houses. In general, the Bank was offering ten lending programmes at year-end.

## Report of the Council and the Board

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With the aim of ensuring successful operations in the mortgage lending and realty market, in spring of 2004 Aizkraukles banka established the Realty Financing Division to offer financing of completely new projects and, in cooperation with the Latvian National Association for Consumer Protection, designed the "Kreditņēmēja izglītības programma" (*Borrowers' Educational Programme*).

The greatest pride of Aizkraukles banka is the newly reconstructed central office at Elizabetes Street 23 and the corporate customer service area, permitting our customers to receive the widest range of services in a comfortable and modern environment.

In order to ensure availability of the Bank's services to possibly the largest segment of customers, in 2004 Aizkraukles banka opened six new customer service points, including the Loan Centre opposite *Reval Hotel Latvija*, Customer Service Centres on Rātslaukums in Old Riga, Majori (Jūrmala), Loan Centre *Marija*, as well as "Diennakts banka AB.24" (24-hour bank AB.24). The Bank ensures an equally high-quality level of customer services in all centres, where customers have access to all the Bank's lending services.

### International Market

The summer of 2004 marked a significant step towards strengthening of the Bank's positions in the international market: the Bank's Moscow representative office, duly accredited by the Bank of Russia, commenced its operations on August 1st. This is the first foreign representative office of the Bank. Among its most important activities are establishment of stable contacts between Russian and Latvian business circles and provision of all potential customers and other interested parties with information about services supplied by Aizkraukles banka.

With the Bank strengthening its positions in foreign countries and being aware of its duty to prevent persons engaged in money laundering from achieving their illegal goals, during the previous year the Bank was intensely focusing on its internal procedures and external cooperation with Latvian public institutions and international organisations, as well as other suppliers of financial services.

Aizkraukles banka is fully aware that the Bank should not cooperate with customers of dubious reputation or those posing high risks. Consequently, the Bank is constantly improving its policies and procedures for control of operations that meet or even exceed legislative requirements. Aizkraukles banka believes that the control policy implemented by the Bank is one of the best policies in the sector of financial services.

The management's duty to supervise the Bank's anti-money laundering policy, practice and procedures is assigned to a top managing officer.

The Bank has implemented the know-your-customer programme, whereunder the Bank thoroughly verifies customers with whom business relationships are being established.

As at the end of 2004, the amount of funds attracted by the Bank reached LVL 382.6 million, thus exceeding the result of 2003 by 73%, whereas the amount of loans issued to non-residents in 2004 reached LVL 14.7 million, thus having become three times the amount of loans issued during the previous year.

### Staff

In 2004, the Bank improved its human resource policy, as one of the cornerstones of customer service is development of confident and professional relationships between the Bank and its customers. During the previous year, 123 employees changed their positions within the Bank as a result of staff rotation, both commencing their careers in newly established positions and being promoted up the career ladder. 125 new employees were hired by Aizkraukles banka during 2004, whereas as at the end of the year the total number of the Bank's employees was 457.

The employees of Aizkraukles banka are the best specialists in their respective areas. The majority of the Bank's staff (62%) has already obtained a higher education, whereas most other employees are currently studying toward a higher education. The Bank's staff is young: the average age of employees is 30 years.

## Report of the Council and the Board

### Aizkraukles Banka to the Community

In 2004, Aizkraukles banka donated funds totalling LVL 322,000.00 to various sponsorship and charity purposes.

In the autumn of 2004, the Bank became an economic partner to *Latvijas lepnums (The Pride of Latvia)*, a large-scale project implemented jointly by newspaper *Diena* and television company TV3. The mission of this project, which is highly appreciated by the public, is to encourage compassion, responsiveness and mutual support in our society. The final transmission of *Latvijas lepnums* was seen by an estimated 566,000 viewers.

Having supported the project *Saulainas dienas mūsu bērniem (Sunny Days for our Children)* for two years, the Bank has become one of the largest donors financing renovation of the Children's Hospital. Further, Aizkraukles banka has supported a project implemented by the Children's Hospital for doctors' postgraduate and supplementary training. This project provides children's doctors with an opportunity to undergo in-service training in leading foreign clinics.

As regards culture, the Bank continues supporting children's shows at the Latvian National Opera: the opera *Noah's Ark* and the rock ballet *Snow White and the Seven Dwarfs*.

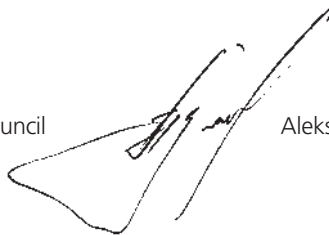
In sports, the support of Aizkraukles banka to the Latvian Handball Federation helped the Latvian men's handball team and the leading club *ASK / AB.LV* to achieve their best results in recent years on the local and international levels.

Finally, Aizkraukles banka donated the tangible fixed assets of SIA *Sabiles kombināts* owned by the Bank to Sabile Municipal Council. These assets, which included also Sabile water treatment plants, were necessary for improvement of the town's infrastructure.

The management of Aizkraukles banka expresses its gratitude for your trust and loyalty to the Bank and believes that in 2005 the Bank's development will be as successful as in 2004. The Bank commits to further caring for its customers by supplying them with highly professional and beneficial services.

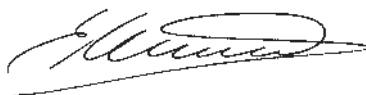
Riga, 24 February 2005

Chairman of the Council



Aleksandrs Bergmanis

Chairman of the Board



Ernests Bernis

## The Council and the Board

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The Council of the Bank

Chairman of the Council:

**Aleksandrs Bergmanis**

Deputy Chairman of the Council:

**Jānis Krīgers**

Member of the Council:

**Vladimirs Kutovojš**

The Board of the Bank

Chairman of the Board:

**Ernests Bernis**

Member of the Board:

**Oļegs Fiļš**

**Pāvels Šnejersons**

**Aleksandrs Pāže**

On 19 March 2004, the general meeting of the Bank's shareholders elected Aleksandrs Pāže as member of the Board.

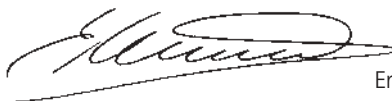
Riga, 24 February 2005

Chairman of the Council



Aleksandrs Bergmanis

Chairman of the Board



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## Statement of Responsibility of the Council and the Board

The Council and the Board of a/s Aizkraukles banka (hereinafter – the Management) are responsible for the preparation of the financial statements of the Bank as well as for preparation of the consolidated financial statements of the Bank and its subsidiary (hereinafter – the Group). 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 laws of the Republic of Latvia applicable to credit institutions.

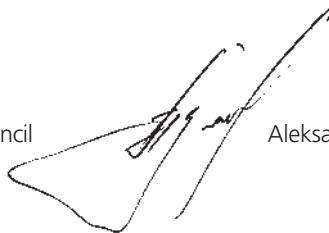
The financial statements set out on pages 21 to 51 are prepared in accordance with the source documents and present fairly the financial position of the Bank and the Group as at 31 December 2004 and 2003, and the results of its operations, changes in shareholders' equity and cash flows for the years then ended.

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

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

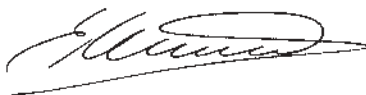
Riga, 24 February 2005

Chairman of the Council



Aleksandrs Bergmanis

Chairman of the Board



Ernests Bernis

## Income Statements for the years ended 31 December 2004 and 2003

	Notes	Group	Bank	Bank
		2004	2004	2003
		LVL '000	LVL '000	LVL '000
Interest income	4	13,891	13,891	8,944
Interest expense	4	(2,760)	(2,760)	(1,768)
<b>Net interest income</b>		<b>11,131</b>	<b>11,131</b>	<b>7,176</b>
<b>Income from securities</b>		<b>1</b>	<b>1</b>	<b>-</b>
Commission and fee income	5	6,328	6,328	5,477
Commission and fee expense	5	(1,068)	(1,068)	(1,071)
<b>Net commission and fee income</b>		<b>5,260</b>	<b>5,260</b>	<b>4,406</b>
Profit on trading with financial instruments	6	3,473	3,473	3,194
Other operating income	7	474	474	286
<b>Operating income</b>		<b>20,339</b>	<b>20,339</b>	<b>15,062</b>
Administrative expense	8	(8,922)	(8,921)	(6,226)
Depreciation and value adjustments of fixed assets	20	(1,274)	(1,274)	(901)
Other operating expense	9	(447)	(447)	(199)
Allowances for possible credit losses	10	(765)	(765)	(642)
Release of previously established allowances	10	414	414	262
Loss from revaluation of investments in subsidiaries according to equity method		-	(1)	-
<b>Profit before corporate income tax</b>		<b>9,345</b>	<b>9,345</b>	<b>7,356</b>
Corporate income tax	11	(1,234)	(1,234)	(1,204)
<b>Net profit for the year</b>		<b>8,111</b>	<b>8,111</b>	<b>6,152</b>

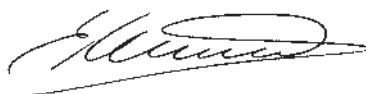
Riga, 24 February 2005

Chairman of the Council



Aleksandrs Bergmanis

Chairman of the Board



Ernests Bernis

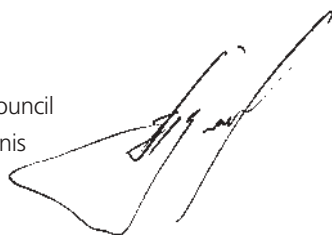
The accompanying notes form an integral part of these financial statements.

## Balance Sheets and Memorandum Items as at 31 December 2004 and 2003

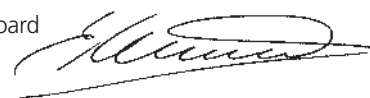
	Notes	Group	Bank	Bank
		31/12/2004	31/12/2004	31/12/2003
		LVL '000	LVL '000	LVL '000
<b>Assets</b>				
Cash and demand deposits with central banks	12	18,870	18,870	9,678
Balances due from credit institutions	13	164,273	164,273	63,991
Demand deposits		97,612	97,612	50,747
Other balances due from credit institutions		66,661	66,661	13,244
Loans and advances to customers	14	137,967	137,967	64,710
Debt securities and other fixed income securities	15	98,821	98,821	102,749
Shares and other non-fixed income securities	16	762	762	60
Derivatives	17	258	258	39
Investments in associated entities	18	12	12	12
Investments in subsidiaries	19	–	706	–
Intangible fixed assets	20	789	789	510
Tangible fixed assets	20	19,980	19,280	8,694
Prepaid expense and accrued income	21	1,726	1,726	1,681
Other assets	22	1,034	1,034	213
<b>Total assets</b>		<b>444,492</b>	<b>444,498</b>	<b>252,337</b>
<b>Liabilities and shareholders' equity</b>				
Balances due to credit institutions and central banks	23	8,191	8,191	3,830
Demand deposits		8,191	8,191	1,380
Term deposits		–	–	2,450
Deposits from customers	24	382,563	382,569	221,336
Demand deposits		313,291	313,297	196,739
Term deposits		69,272	69,272	24,597
Derivatives	17	1,308	1,308	67
Deferred income and accrued expense	25	1,015	1,015	636
Provisions for liabilities and charges		458	458	600
Deferred income tax	11	458	458	600
Other liabilities	26	14,399	14,399	977
Subordinated liabilities	28	6,708	6,708	–
Shareholders' equity	29	29,850	29,850	24,891
<b>Total liabilities and shareholders' equity</b>		<b>444,492</b>	<b>444,498</b>	<b>252,337</b>
<b>Memorandum items</b>				
Funds under trust management	27	6,685	6,685	4,138
Contingent liabilities	27	5,110	5,110	1,798
Guarantees		3,297	3,297	1,237
Other contingent liabilities		1,813	1,813	561
Financial commitments	27	23,779	23,779	21,866

Riga, 24 February 2005

Chairman of the Council  
Aleksandrs Bergmanis



Chairman of the Board  
Ernestis Bernis



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



## Statements of Changes in Shareholders' Equity for the years ended 31 December 2004 and 2003

	Paid-in share capital	Share premium	Own shares	Reserve capital	Fair value reva- luation reserves	Retained earnings	Total share- holders' equity
	LVL '000	LVL '000	LVL '000	LVL '000	LVL '000	LVL '000	LVL '000
<b>As at 1 January 2003</b>	<b>10,000</b>	<b>255</b>	<b>(3)</b>	<b>1,250</b>	<b>–</b>	<b>5,310</b>	<b>16,812</b>
Dividends paid	–	–	–	–	–	(1,000)	(1,000)
Change in fair value revaluation reserve of available-for-sale investments	–	–	–	–	4,222	–	4,222
Charge to income statement as a result of sale	–	–	–	–	(779)	–	(779)
Change in deferred corporate income tax	–	–	–	–	(516)	–	(516)
Net profit for the year 2003	–	–	–	–	–	6,152	6,152
<b>As at 31 December 2003</b>	<b>10,000</b>	<b>255</b>	<b>(3)</b>	<b>1,250</b>	<b>2,927</b>	<b>10,462</b>	<b>24,891</b>
Dividends paid	–	–	–	–	–	(1,800)	(1,800)
Transfer to paid-in share capital*	5,000	–	–	–	–	(5,000)	–
Transfer to reserve capital*	–	–	–	250	–	(250)	–
Sale of own shares	–	–	3	–	–	–	3
Change in fair value revaluation reserve for available-for-sale investments	–	–	–	–	177	–	177
Charge to income statement as a result of sale of securities	–	–	–	–	(1,771)	–	(1,771)
Change in deferred corporate income tax	–	–	–	–	239	–	239
Net profit for the year 2004	–	–	–	–	–	8,111	8,111
<b>As at 31 December 2004</b>	<b>15,000</b>	<b>255</b>	<b>–</b>	<b>1,500</b>	<b>1,572</b>	<b>11,523</b>	<b>29,850</b>

\* The Bank's shareholders at the general meeting of shareholders on 19 March 2004 resolved to increase the share capital by LVL 5 million from the retained earnings of the previous years, to increase the par value of one share to LVL 150 (100), and to increase the reserve capital by LVL 0.25 million through respective appropriation of the retained earnings.

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

## Cash Flow Statements for the years ended 31 December 2004 and 2003

	<b>Group</b>	<b>Bank</b>	<b>Bank</b>
	<b>2004</b>	<b>2004</b>	<b>2003</b>
	<b>LVL '000</b>	<b>LVL '000</b>	<b>LVL '000</b>
<b>Cash inflow/ (outflow) from operating activities</b>			
Profit before corporate income tax	9,345	9,345	7,356
Depreciation and value adjustments of fixed assets	1,274	1,274	901
Decrease in provisions for possible credit losses	347	347	40
Loss/ (profit) from revaluation of foreign currency positions	190	190	(180)
Loss from revaluation of investments in subsidiaries according to equity method	–	1	–
<b>Increase in cash and cash equivalents before changes in assets and liabilities, as a result of operating activities</b>	<b>11,156</b>	<b>11,157</b>	<b>8,117</b>
Increase in deferred income and accrued expense	378	378	133
(Increase) in prepaid expense and accrued income	(45)	(45)	(792)
(Increase) in other assets	(634)	(634)	(55)
Increase in other liabilities	15,184	15,184	176
Decrease/ (increase) in short-term investments*	1,632	1,632	(46,030)
(Increase)/ decrease in balances due from credit institutions	(14,665)	(14,665)	156
(Increase) in loans and advances to customers	(73,710)	(73,710)	(24,467)
Increase in deposits from customers	161,227	161,233	64,820
<b>Increase in cash and cash equivalents from operating activities before corporate income tax</b>	<b>100,523</b>	<b>100,530</b>	<b>2,058</b>
(Corporate income tax paid)	(1,883)	(1,883)	(335)
<b>Increase in cash and cash equivalents from operating activities</b>	<b>98,640</b>	<b>98,647</b>	<b>1,723</b>
<b>Cash inflow/ (outflow) from investing activities</b>			
(Purchase) of fixed assets	(13,049)	(12,349)	(6,129)
(Purchase) of equity investments in other entities and other long-term investments	–	(707)	–
Sale of fixed assets	30	30	20
<b>(Decrease) in cash and cash equivalents from investing activities</b>	<b>(13,019)</b>	<b>(13,026)</b>	<b>(6,109)</b>
<b>Cash (outflow) from financing activities</b>			
Subordinated loans received	6,708	6,708	–
Dividends (paid)	(1,799)	(1,799)	(1,002)
Sale of own shares	3	3	–
<b>Increase/ (decrease) in cash and cash equivalents from financing activities</b>	<b>4,912</b>	<b>4,912</b>	<b>(1,002)</b>
<b>Increase/ (decrease) in cash and cash equivalents, net</b>	<b>90,533</b>	<b>90,533</b>	<b>(5,388)</b>
<b>Cash and cash equivalents at the beginning of the period</b>	<b>68,289</b>	<b>68,289</b>	<b>73,497</b>
(Loss)/ profit from revaluation of foreign currency positions	(190)	(190)	180
<b>Cash and cash equivalents at the end of the period**</b>	<b>158,632</b>	<b>158,632</b>	<b>68,289</b>

\* Short term investments comprise fixed income securities and shares included in trading and available-for-sale portfolios.

\*\* See the components of cash and cash equivalents in Note 31.

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

## Notes to the Financial Statements

### 1. General information

A/s Aizkraukles banka (hereinafter – the Bank) was registered in Aizkraukle, Republic of Latvia, on 17 September 1993, as a joint stock company. At present, the legal address of the Bank is Elizabetes Street 23, Riga.

The Bank operates seven customer service centres, one settlement centre, two lending centres and two lending offices in Riga and Jūrmala. 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 the Bank to render all the financial services specified in the Law on Credit Institutions.

Information given herein in brackets represents comparative figures for the year ended 31 December 2003, unless otherwise stated.

### 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 2004 and 2003, is set out below.

#### a) Reporting Currency

The financial statements are reported in thousands of lats (LVL'000), unless otherwise stated.

#### b) Basis of Accounting

These financial statements are based on the accounting records prepared in accordance with 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 the 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 Bank Financial Statements. For comparison purposes, the Bank has performed a reclassification of certain items of the balance sheet as at 31 December 2003, namely, income statement and cash flow statement 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) Accrual for Employee Vacation Pay

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

#### f) Foreign Currency Calculation

Transactions denominated in foreign currencies are recorded in lats at exchange rates set 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 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 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 2004	0.516	0.703	0.0186
31 December 2003	0.541	0.674	0.0184

#### g) Corporate Income Tax

Corporate income tax is calculated in accordance with Latvian tax regulations at the rate of 15% (19%) 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. 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 (portfolio) allowance for possible credit losses, accrual 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 allowance 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.

Loans and advances to customers are included in the balance sheet as they are transferred to the customer's current account.

## **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) Allowance 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 mortgage, 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 allowance for possible credit losses (impairment). The specific allowance 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 allowance relates to the potential losses, which experience indicates are present in the Bank's portfolio of loans and advances to customers.

When a loan or advance has been classified as non-performing, an allowance 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 allowance 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 allowance.

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 allowances 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**

Fixed income securities are divided into two principal portfolios:

- trading portfolio;
- available-for-sale portfolio:
  - liquidity portfolio;
  - investments held for undefined period portfolio.

Appropriate division of fixed income securities into portfolios is determined by the Bank at the moment of their acquisition. All kinds of sale and purchase of fixed income securities are charged to the balance sheet on the date of settlement.

### *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 the 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".

### *Available-for-sale portfolio*

The Bank's available-for-sale portfolio is comprised of liquidity portfolio and investments held for undefined period portfolio.

### *Liquidity portfolio*

The liquidity portfolio is aimed at forming the Bank's liquidity reserve with a minimum interest rate risk and credit risk. The liquidity portfolio is comprised of high-rating debt securities with high liquidity in the market and variable interest rate, or the interest rate fixed for no more than one year.

### *Investments held for undefined period portfolio*

The objective of the portfolio is to gain maximum profit from long-term investments in financial assets. The portfolio is comprised of debt securities with high credit risk profile and/or fixed interest rate that is fixed for a period exceeding one year, in compliance with the restrictions and limitations set by the Bank and exercising proper management of investment-related risks.

### 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 impairment 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 the 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) Investment in subsidiary

As at 31 December 2004, the Bank had an investment in a subsidiary, where the Bank held 100% of the share capital and voting rights. The investment in the subsidiary is presented in the Bank's financial statements using the equity method. The Bank and its subsidiary's financial statements are consolidated in the Group's financial statements using the full consolidation method, combining on a line-by-line basis the respective assets and liabilities at the period-end, as well as income and expense items for the period after the date of acquisition, i.e. 8 March 2004, and eliminating intercompany balances in the balance sheet and intercompany transactions which took place after the date of acquisition (see Note 19).

The acquisition price of a subsidiary is attributed to the fair value of assets and liabilities of the subsidiary as at the date of acquisition. An acquisition price that exceeds the fair value of the subsidiary's assets and liabilities is recorded as goodwill.

### o) Intangible Assets

Intangible assets comprise 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.

### p) 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. Depreciation of buildings under reconstruction is suspended for the period of the respective reconstruction works. Land is not subject to depreciation.

The Bank has applied the following depreciation rates:

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

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

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

### q) Investment property

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

### r) 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 establishing allowances on loans and advances to customers as described in Paragraph j), above.

### s) 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.

### t) 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.

### u) 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 three months or less and short-term government bonds with an original maturity of three months or less, less balances due to credit institutions with an original maturity of three months or less (see Note 31).

## 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.

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.

### 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 clients, the Bank performs a comprehensive review of the client's solvency and collateral. The financial position of borrowers is 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 (portfolio) and specific allowance 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.

	Latvia	USA	European Union member states	Other countries in OECD area	Other countries	Total
Assets	LVL '000	LVL '000	LVL '000	LVL '000	LVL '000	LVL '000
Cash and demand deposits with central banks	16,688	1,167	975	40	–	18,870
Balances due from credit institutions	5,677	52,356	89,773	7,399	9,068	164,273
Loans and advances to customers	123,306	1,585	1,344	1	11,731	137,967
Debt securities and other fixed income securities	8,611	–	29,632	10,573	50,005	98,821
Other assets	22,202	111	710	39	1,505	24,567
<b>Total assets</b>	<b>176,484</b>	<b>55,219</b>	<b>122,434</b>	<b>18,052</b>	<b>72,309</b>	<b>444,498</b>
Off-balance sheet items	17,997	1,078	2,349	13	7,452	28,889
<b>Total geographical concentration of assets and off-balance sheet items</b>	<b>194,481</b>	<b>56,297</b>	<b>124,783</b>	<b>18,065</b>	<b>79,761</b>	<b>473,387</b>

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 Risk Management Division ensures liquidity risk assessment and monitoring. The Financial Markets Division is responsible for ensuring liquidity and compliance with the set limits.

For ordinary liquidity-risk management purposes the Bank applies the following indices:

- net liquidity positions by all currencies in total and by each separate currency;
- liquidity ratios for different maturity groupings;
- major deposits on demand in relation to liquid assets on demand;
- sum of term deposits of one client (group of related clients).

Certain restrictions are defined with regard to the above indices. For the purposes of assessment of extraordinary circumstances, stress tests are applied.

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 periods not exceeding one year. Liquidity of other securities portfolios is estimated at least on a quarterly basis.

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.

	Overdue	On demand	Up to 1 month	1 – 6 months	6 – 12 months	1 – 5 years	More than 5 years	Undated	Pledged asset	Total
	LVL '000	LVL '000	LVL '000	LVL '000	LVL '000	LVL '000	LVL '000	LVL '000	LVL '000	LVL '000
<b>Assets</b>										
Cash and demand deposits with central banks	–	18,870	–	–	–	–	–	–	–	18,870
Balances due from credit institutions	–	97,611	50,342	2,064	14,256	–	–	–	–	164,273
Loans and advances to customers	158	1,404	2,845	16,539	25,803	42,236	48,982	–	–	137,967
Debt securities and other fixed income securities	–	–	82,627	7,228	7,004	–	–	–	1,962	98,821
Shares and other non-fixed income securities	–	–	–	–	731	–	–	31	–	762
Derivatives	–	258	–	–	–	–	–	–	–	258
Investments in associated entities	–	–	–	–	–	–	–	718	–	718
Intangible fixed assets	–	–	–	–	–	–	–	789	–	789
Tangible fixed assets	–	–	–	–	–	–	–	19,280	–	19,280
Prepayments and accrued income	14	122	527	959	74	–	–	–	30	1,726
Other assets	–	–	262	–	–	–	–	772	–	1,034
<b>Total assets</b>	<b>172</b>	<b>118,265</b>	<b>136,603</b>	<b>26,790</b>	<b>47,868</b>	<b>42,236</b>	<b>48,982</b>	<b>21,590</b>	<b>1,992</b>	<b>444,498</b>
<b>Liabilities</b>										
Balances due to credit institutions and central banks	–	6,211	–	–	–	–	–	–	1,980	8,191
Deposits from customers	–	315,818	30,840	13,587	14,678	7,646	–	–	–	382,569
Derivatives	–	1,308	–	–	–	–	–	–	–	1,308
Deferred income and accrued expense	–	633	131	128	123	–	–	–	–	1,015
Provisions for liabilities and charges	–	–	–	–	–	–	–	458	–	458
Other liabilities	–	931	–	–	13,468	–	–	–	–	14,399
Subordinated liabilities	–	–	–	–	–	6,708	–	–	–	6,708
Shareholders' equity	–	–	–	–	–	–	–	29,850	–	29,850
<b>Total liabilities and shareholders' equity</b>	<b>–</b>	<b>324,901</b>	<b>30,971</b>	<b>13,715</b>	<b>28,269</b>	<b>14,354</b>	<b>–</b>	<b>30,308</b>	<b>1,980</b>	<b>444,498</b>
<b>Memorandum items</b>										
Guarantees	–	61	9	650	842	1,364	–	–	–	2,926
Letters of credit	–	–	476	1,287	50	–	–	–	–	1,813
Unutilised credit lines	–	8,911	–	–	–	–	–	–	–	8,911
Undrawn credit facilities on settlement cards	–	1,963	–	–	–	–	–	–	–	1,963
Loan commitments	–	12,658	–	–	–	–	–	–	–	12,658
Capital expenditure commitments	–	243	3	1	–	–	–	–	–	247
<b>Total memorandum items</b>	<b>–</b>	<b>23,836</b>	<b>488</b>	<b>1,938</b>	<b>892</b>	<b>1,364</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>28,518</b>
<b>Net liquidity position</b>	<b>–</b>	<b>(230,472)</b>	<b>105,144</b>	<b>11,137</b>	<b>18,707</b>	<b>26,518</b>	<b>48,982</b>	<b>(8,718)</b>	<b>–</b>	<b>–</b>
<b>Total liquidity position</b>	<b>–</b>	<b>(230,472)</b>	<b>(125,328)</b>	<b>(114,191)</b>	<b>(95,484)</b>	<b>(68,966)</b>	<b>(19,984)</b>	<b>(28,702)</b>	<b>–</b>	<b>–</b>

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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 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 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;
- all debt securities within the liquidity portfolio are deemed highly liquid securities and presented under the caption "Up to 1 month";
- to assess the period during which debt securities of the trading portfolio and investments held for an undefined period portfolio may be disposed of without material loss, the spread between purchasing and selling prices, as well as the price of respective securities and historical fluctuations thereof, are considered. The division into maturity profiles is based on such assessment;
- liabilities and memorandum items are stated at the remaining period to their settlement;
- liabilities without any defined maturity and commitments are presented under the caption "Undated".

Assets, that have been impaired are stated net of allowances.

The Financial and Capital Market Commission stipulates that the Bank must maintain a 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 2004, the Bank's liquidity ratio calculated in accordance with the Financial and Capital Market Commission's requirements was 66.7% (76%).

### **c) Currency risk**

The Bank is exposed to the 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 defines limits for each dealer, each currency and total currency exposure, which is subject to regular control.



The Bank's currency profile of assets, liabilities, shareholders' equity as well as cash flows arising from derivatives as at 31 December 2004:

	LVL	USD	EUR	RUB	Other currencies	Total
	LVL '000	LVL '000	LVL '000	LVL '000	LVL '000	LVL '000
<b>Assets</b>						
Cash and demand deposits						
with central banks	16,688	1,167	944	–	71	18,870
Balances due from credit institutions	254	127,536	13,270	6,555	16,658	164,273
Loans and advances to customers	17,301	76,743	43,922	–	1	137,967
Debt securities and other						
fixed income securities	3,014	85,521	10,286	–	–	98,821
Shares and other non-fixed						
income securities	–	94	31	637	–	762
Derivatives	219	39	–	–	–	258
Investments in associated entities						
and subsidiaries	718	–	–	–	–	718
Intangible fixed assets	783	6	–	–	–	789
Tangible fixed assets	19,280	–	–	–	–	19,280
Prepayments and accrued income	152	1,184	333	2	55	1,726
Other assets	850	169	15	–	–	1,034
<b>Total assets</b>	<b>59,259</b>	<b>292,459</b>	<b>68,801</b>	<b>7,194</b>	<b>16,785</b>	<b>444,498</b>
<b>Liabilities</b>						
Balances due to credit institutions						
and central banks	2,205	5,782	200	–	4	8,191
Deposits from customers	17,182	302,280	51,647	9,485	1,975	382,569
Derivatives	1,274	–	34	–	–	1,308
Deferred income and accrued expense	614	324	77	–	–	1,015
Provisions for liabilities and charges	458	–	–	–	–	458
Subordinate liabilities	–	6,708	–	–	–	6,708
Other liabilities	185	687	27	24	13,476	14,399
<b>Total liabilities</b>	<b>21,918</b>	<b>315,781</b>	<b>51,985</b>	<b>9,509</b>	<b>15,455</b>	<b>414,648</b>
Shareholders' equity	29,850	–	–	–	–	29,850
<b>Total liabilities and shareholders' equity</b>	<b>51,768</b>	<b>315,781</b>	<b>51,985</b>	<b>9,509</b>	<b>15,455</b>	<b>444,498</b>
<b>Net long/ (short) position on balance sheet</b>	<b>7,491</b>	<b>(23,322)</b>	<b>16,816</b>	<b>(2,315)</b>	<b>1,330</b>	<b>–</b>
Off-balance-sheet foreign exchange contracts, assets/ (liabilities)	(8,616)	22,303	(17,476)	2,684	47	
<b>Net open long/ (short) currency position</b>	<b>(1,125)</b>	<b>(1,019)</b>	<b>(660)</b>	<b>369</b>	<b>1,377</b>	
<b>Percentage of shareholders' equity, (%)</b>	<b>(3.5%)</b>	<b>(3.2%)</b>	<b>(2.1%)</b>	<b>1.2%</b>	<b>4.3%</b>	

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 2004, the Bank was in compliance with the above requirements of the Law on Credit Institutions.

#### d) Interest rate risk

Interest rate risk represents the adverse effect of market interest rate fluctuations on the Bank's financial position. The Risk Management Division ensures interest rate risk management and assessment. The Financial Markets Division is responsible for maintaining interest rate risk within specific limits.

Assessment of interest rate risk is conducted in such manner so as to permit the fullest possible presentation of all parts of interest rate risk – rate repricing risk, income curve risk, basis risk and option risk.

Interest rate risk is assessed both in terms of income and economic value. The term economic value means the equity's *economic value*, which is the difference between the economic value of assets and that of liabilities. For the purposes of assessment of extraordinary circumstances, stress tests are applied.

For the purposes of limitation of interest rate risk, the limits of acceptable reduction in *economic value* and modified duration of the investments held for undefined period portfolios are fixed. In addition, special derivative financial instruments are utilised to limit interest rate risk.

The table below summarises the Bank's assets, liabilities and off-balance sheet items in maturity intervals categorised as follows:

- by the earlier of repayment/settlement/maturity – financial instruments with a fixed interest rate;
- next contractual repricing date or by interest rate repricing date – financial instruments with a variable interest rate.

Division of current account balances by maturity profile is based on the Bank's historical experience with current account balance sensitivity to changes in interest rates. Derivatives are represented in two entries: the first entry describes the notional value of the underlying assets, whereas the other one is a compensatory entry showing the opposite value.

	Up to 1 month	1 – 3 months	3 – 6 months	6 – 12 months	1 – 5 years	More than 5 years	Non-interest bearing	Total
	LVL '000	LVL '000	LVL '000	LVL '000	LVL '000	LVL '000	LVL '000	LVL '000
<b>Assets</b>								
Cash and demand deposits with central banks	15,096	–	–	–	–	–	3,774	18,870
Balances due from credit institutions	161,568	103	1,795	807	–	–	–	164,273
Loans and advances to customers	108,836	5,165	6,343	13,608	3,762	140	113	137,967
Debt securities and other fixed income securities	11,896	6,017	18,838	4,018	31,910	26,142	–	98,821
Intangible fixed assets	–	–	–	–	–	–	789	789
Tangible fixed assets	–	–	–	–	–	–	19,280	19,280
Other assets	–	–	–	–	–	–	4,498	4,498
<b>Total assets</b>	<b>297,396</b>	<b>11,285</b>	<b>26,976</b>	<b>18,433</b>	<b>35,672</b>	<b>26,282</b>	<b>28,454</b>	<b>444,498</b>
<b>Liabilities</b>								
Balances due to credit institutions and central banks	8,191	–	–	–	–	–	–	8,191
Deposits from customers	50,426	269,336	5,335	14,677	42,766	–	29	382,569
Other liabilities	–	–	–	–	–	–	17,180	17,180
Subordinated liabilities	–	–	–	–	6,708	–	–	6,708
Shareholders' equity	–	–	–	–	–	–	29,850	29,850
<b>Total liabilities and shareholders' equity</b>	<b>58,617</b>	<b>269,336</b>	<b>5,335</b>	<b>14,677</b>	<b>49,474</b>	<b>–</b>	<b>47,059</b>	<b>444,498</b>
Futures, sold	–	16,292	–	–	–	(16,287)	–	5
<b>Interest rate repricing maturity gaps</b>	<b>238,779</b>	<b>(258,051)</b>	<b>21,641</b>	<b>3,756</b>	<b>(13,802)</b>	<b>9,995</b>	<b>(18,605)</b>	

### 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 potential loss.

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

#### 4. Interest income and expense

	<b>Group/Bank</b>	<b>Bank</b>
	<b>2004</b>	<b>2003</b>
	<b>LVL '000</b>	<b>LV '000</b>
<b>Interest income</b>		
on balances due from the Bank of Latvia	72	–
on balances due from credit institutions and central banks	1,625	750
on loans and advances to customers	6,768	3,645
on debt securities and other fixed income securities	5,426	4,549
<b>Total interest income</b>	<b>13,891</b>	<b>8,944</b>
<b>Interest expense</b>		
on balances due to credit institutions and central banks	74	35
on deposits from customers	1,985	1,391
on subordinated liabilities	123	–
other interest expense	578	342
<b>Total interest expense</b>	<b>2,760</b>	<b>1,768</b>

Average annual interest rates of interest bearing assets and liabilities:

	<b>2004</b>			<b>2003</b>		
	<b>Average monthly balance</b>	<b>Interest income/ expense</b>	<b>Average interest rate</b>	<b>Average monthly balance</b>	<b>Interest income/ expense</b>	<b>Average interest rate</b>
	<b>LVL '000</b>	<b>LVL '000</b>		<b>LVL '000</b>	<b>LVL '000</b>	
<b>Assets</b>						
Cash and demand deposits with the Bank of Latvia	14,082	72	0.51	9,506	–	–
Balances due from credit institutions, net	95,546	1,625	1.70	58,117	750	1.29
Loans and advances to customers, net	101,477	6,768	6.67	49,509	3,645	7.36
Debt securities	105,739	5,426	5.13	74,161	4,549	6.13
Other assets, net	21,284	–	–	9,043	–	–
<b>Total assets</b>	<b>338,128</b>	<b>13,891</b>	<b>4.11</b>	<b>200,336</b>	<b>8,944</b>	<b>4.46</b>
<b>Liabilities</b>						
Balances due to credit institutions and central banks	5,145	74	1.44	5,574	35	0.63
Deposits from customers	291,664	1,985	0.68	168,473	1,391	0.83
demand deposits	234,258	561	0.24	140,738	455	0.32
term deposits	57,406	1,424	2.48	27,735	936	3.37
Subordinated liabilities	2,040	123	6.03	–	–	–
Other liabilities	13,353	–	–	5,839	5	–
<b>Total liabilities</b>	<b>312,202</b>	<b>2,182</b>	<b>0.70</b>	<b>179,886</b>	<b>1,431</b>	<b>0.80</b>
Shareholders' equity	25,926	–	–	20,450	–	–
<b>Total equity and shareholders' equity</b>	<b>338,128</b>	<b>2,182</b>	<b>0.65</b>	<b>200,336</b>	<b>1,431</b>	<b>0.71</b>
Gross interest rate margin, %			3.41			3.66
Margin on investments, %			3.46			3.75

## 5. Commission and fee income and expense

	Group/Bank	
	2004	Bank 2003
	LVL '000	LVL '000
<b>Commission and fee income</b>		
commission on payment transfers on behalf of customers	3,621	3,389
commission on granting loans	983	575
commission on transactions with settlement cards	738	694
service fees	499	419
commission on cash operations	211	174
other commission and fee income	276	226
<b>Total commission and fee income</b>	<b>6,328</b>	<b>5,477</b>
<b>Commission and fee expense</b>		
correspondent bank service charges	556	617
commission on transactions with settlement cards	466	410
other commission and fee expense	46	44
<b>Total commission and fee expense</b>	<b>1,068</b>	<b>1,071</b>

## 6. Profit on trading with financial instruments

	Group/Bank	
	2004	Bank 2003
	LVL '000	LVL '000
Profit from foreign currency exchange	3,005	1,876
(Loss)/ profit from revaluation of foreign currency positions	(190)	180
<b>Total</b>	<b>2,815</b>	<b>2,056</b>
Profit from sale of available-for-sale securities	1,771	779
(Loss) from sale of trading portfolio securities	(37)	(41)
Profit from revaluation of trading portfolio	55	82
<b>Total</b>	<b>1,789</b>	<b>820</b>
(Loss) from trading with other financial instruments	(1,136)	(2)
Profit/ (loss) from revaluation of other financial instruments	5	(20)
<b>Total</b>	<b>(1,131)</b>	<b>(22)</b>
Release of impairment provision for available-for-sale investments	–	340
<b>Total profit on trading with financial instruments</b>	<b>3,473</b>	<b>3,194</b>

## 7. Other operating income

	Group/Bank	
	2004	Bank 2003
	LVL '000	LVL '000
Income from penalties	183	154
Income from sale of foreclosed collaterals	135	3
Income from rent of premises	128	105
Income from rent and sale of fixed assets	24	21
Other operating income	4	3
<b>Total other operating income</b>	<b>474</b>	<b>286</b>

## 8. Administrative expense

	<b>Group</b>	<b>Bank</b>	<b>Bank</b>
	<b>2004</b>	<b>2004</b>	<b>2003</b>
	<b>LVL '000</b>	<b>LVL '000</b>	<b>LVL '000</b>
Remuneration to the Council and the Board	132	132	118
Remuneration to personnel	3,883	3,882	2,533
Social security contributions and similar costs	951	951	622
Rent of premises, repair and maintenance costs	913	913	686
Advertising and marketing expense	735	735	403
Inter-bank and other communication expense	512	512	479
Equipment maintenance expense and stationary	437	437	252
Donations	322	322	366
Training expense	151	151	102
Investment property maintenance costs	129	129	45
Other administrative expense	757	757	620
<b>Total administrative expense</b>	<b>8,922</b>	<b>8,921</b>	<b>6,226</b>

In 2004, the Bank employed an average of 439 (352) persons.

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

	<b>31/12/2004</b>	<b>31/12/2003</b>
Management	7	6
Heads of divisions and departments	62	63
Other personnel	388	300
<b>Total</b>	<b>457</b>	<b>369</b>

## 9. Other operating expense

	<b>Group/Bank</b>	<b>Bank</b>
	<b>2004</b>	<b>2003</b>
	<b>LVL '000</b>	<b>LVL '000</b>
Intermediary services	413	194
Other operating expense	34	5
<b>Total other operating expense</b>	<b>447</b>	<b>199</b>

## 10. Allowances for possible credit losses

	<b>Group/Bank</b>	<b>Bank</b>
	<b>2004</b>	<b>2003</b>
	<b>LVL '000</b>	<b>LVL '000</b>
Specific allowances at the beginning of the period	1,216	1,634
General (portfolio) allowance at the beginning of the period	769	524
<b>Total allowances at the beginning of the period</b>	<b>1,985</b>	<b>2,158</b>
Specific allowances charged to income statement	394	358
General (portfolio) allowance charged to income statement	362	245
Assets' write-off expenses	9	40
<b>Total allowances charged to income statement</b>	<b>765</b>	<b>643</b>
Release of previously established specific allowances	(302)	(582)
Release of previously established general (portfolio) allowance	(105)	–
Recovery of written-off assets	(7)	(20)
<b>Total release of previously established allowances</b>	<b>(414)</b>	<b>(602)</b>
<b>Total allowance expense, net</b>	<b>351</b>	<b>41</b>
Assets' write-off expenses	(2)	(40)
Release of impairment provision for available-for-sale investments	–	15
Decrease in allowance due to currency fluctuations	(31)	(72)
Reversal of specific allowances due to write-offs	(367)	(117)
<b>Total change in allowances for the period</b>	<b>(49)</b>	<b>(173)</b>
Specific allowances at the end of the period	910	1,216
General (portfolio) allowance at the end of the period	1,026	769
<b>Total allowances at the end of the period</b>	<b>1,936</b>	<b>1,985</b>

In 2003, the release of previously established specific allowances charged to the statement of income includes the release of impairment for available-for-sale investments in the amount of LVL 340 thousand.

The structure of the allowances established by the Bank is as follows:

	<b>Group/Bank</b>		<b>Bank</b>	
	<b>31/12/2004</b>		<b>31/12/2003</b>	
	<b>Specific allowances</b>	<b>General allowances</b>	<b>Specific allowances</b>	<b>General allowances</b>
	<b>LVL '000</b>	<b>LVL '000</b>	<b>LVL '000</b>	<b>LVL '000</b>
Balances due from credit institutions	–	–	–	105
Loans and advances to customers	668	1,026	886	664
Debt securities and other fixed income securities	226	–	237	–
Accrued income	9	–	13	–
Other assets	7	–	80	–
<b>Total</b>	<b>910</b>	<b>1,026</b>	<b>1,216</b>	<b>769</b>

## 11. Taxation

	Group/Bank	Bank
	2004	2003
	LVL '000	LVL '000
Profit before corporate income tax	9,345	7,356
<b>Theoretical corporate income tax</b>	<b>1,402</b>	<b>1,398</b>
Permanent differences	86	91
Change in tax rates	–	31
Tax rebate	(267)	(324)
<b>Actual corporate income tax expense for the reporting period</b>	<b>1,221</b>	<b>1,196</b>
Adjustment to prior year corporate income tax	13	8
<b>Total corporate income tax expense for the reporting period</b>	<b>1,234</b>	<b>1,204</b>

Deferred corporate income tax calculation:

	31/12/2004		31/12/2003	
	Amounts subject to timing differences	Tax rate	Amounts subject to timing differences	Tax rate
	LVL '000		LVL '000	
Accumulated excess of tax depreciation over accounting depreciation	2,397	15%	1,484	15%
Fair value revaluation reserve	1,848		3,443	
General allowance and accruals	(1,273)		(927)	
Revaluation of assets, net	80		3	
<b>Deferred corporate income tax liability</b>	<b>3,052</b>	<b>458</b>	<b>4,003</b>	<b>600</b>

	2004	2003
	LVL '000	LVL '000
Deferred corporate income tax at the beginning of the period	600	182
Increase/ (decrease) charged to statement of income during the period	97	(98)
(Decrease)/ increase related to fair value revaluation reserve under equity	(239)	516
<b>Deferred corporate income tax at the end of the period</b>	<b>458</b>	<b>600</b>

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
	LVL '000	LVL '000	LVL '000	LVL '000	LVL '000
<b>Overpaid/(payable) as at 01/01/2003</b>	<b>444</b>	–	<b>(61)</b>	<b>(11)</b>	–
Calculated	(1,294)	(575)	(851)	(43)	(34)
Prior year adjustments	(7)	–	–	–	1
Paid	335	575	838	51	33
<b>(Payable) as at 31/12/2003</b>	<b>(522)</b>	–	<b>(74)</b>	<b>(3)</b>	–
Calculated	(1,124)	(881)	(1,282)	390	(51)
Prior year adjustments	(13)	–	–	–	–
Paid	1,883	881	1,220	(125)	51
<b>Overpaid/(payable) as at 31/12/2004</b>	<b>224</b>	–	<b>(136)</b>	<b>262</b>	–

## 12. Cash and demand deposits with central banks

	<b>Group/Bank</b>	<b>Bank</b>
	<b>31/12/2004</b>	<b>31/12/2003</b>
	<b>LVL '000</b>	<b>LVL'000</b>
Cash	3,774	3,120
Deposits with the Bank of Latvia	15,096	6,558
<b>Total cash and demand deposits with central banks</b>	<b>18,870</b>	<b>9,678</b>

Deposits with the Bank of Latvia comprise correspondent account balance as at 31 December 2004.

The average correspondent account balance with the Bank of Latvia calculated based on the Bank of Latvia's instructions should exceed the compulsory reserve requirement set at 4% (3%) of attracted deposits. Starting from the year 2003, customer term deposits with a maturity exceeding 2 years, repo transactions and customer demand deposits with a maturity exceeding 2 years (with notice period exceeding 2 years) are excluded from the reserves calculation base. As at 31 December 2004, the Bank was in compliance with this requirement.

## 13. Balances due from credit institutions

	<b>Group/Bank</b>	<b>Bank</b>
	<b>31/12/2004</b>	<b>31/12/2003</b>
	<b>LVL '000</b>	<b>LVL '000</b>
Due from credit institutions registered in OECD area	148,881	53,992
Due from credit institutions registered in other countries	9,715	5,524
Due from credit institutions registered in Latvia	5,677	4,580
<b>Total balances due from credit institutions</b>	<b>164,273</b>	<b>64,096</b>
Less provision for possible credit losses	–	(105)
<b>Total balances due from credit institutions, net</b>	<b>164,273</b>	<b>63,991</b>

As at 31 December 2004, the Bank had established correspondent relationships with 24 (26) credit institutions registered in the OECD area, 8 (4) credit institutions registered in Latvia and 26 (28) financial institutions incorporated in other non-OECD countries.

	<b>Balances due from credit institutions</b>				
	<b>OECD</b>	<b>Other</b>		<b>Total</b>	<b>Total</b>
	<b>area</b>	<b>Latvia</b>	<b>countries</b>	<b>31/12/2004</b>	<b>31/12/2003</b>
	<b>LVL '000</b>	<b>LVL '000</b>	<b>LVL '000</b>	<b>LVL '000</b>	<b>LVL '000</b>
Correspondent account balances	37,979	1,544	9,713	49,236	35,827
Overnight deposits	48,375	–	–	48,375	15,025
Collateral deposits	–	289	–	289	303
Term deposits	62,527	3,844	2	66,373	12,941
<b>Total balances due from credit institutions</b>	<b>148,881</b>	<b>5,677</b>	<b>9,715</b>	<b>164,273</b>	<b>64,096</b>
Less allowance for possible credit losses	–	–	–	–	(105)
<b>Total balances due from credit institutions, net</b>	<b>148,881</b>	<b>5,677</b>	<b>9,715</b>	<b>164,273</b>	<b>63,991</b>



Concentration of balances due from credit institutions by geographical area:

	<b>Group/Bank</b>	<b>Bank</b>
	<b>31/12/2004</b>	<b>31/12/2003</b>
	<b>number</b>	<b>number</b>
<b>Balances over LVL 15,000 thousand</b>		
due from credit institutions registered in OECD area	4	1
<b>from LVL 5,000 up to LVL 15,000 thousand</b>		
due from credit institutions registered in OECD area	7	2
<b>up to LVL 5,000 thousand</b>		
due from credit institutions registered in OECD area	13	20
due from credit institutions registered in other countries	23	21
due from credit institutions registered in Latvia	8	4
<b>Total</b>		
due from credit institutions registered in OECD area	24	23
due from credit institutions registered in other countries	23	21
due from credit institutions registered in Latvia	8	4

#### 14. Loans and advances to customers

	<b>Group/Bank</b>	<b>Bank</b>
	<b>31/12/2004</b>	<b>31/12/2003</b>
	<b>LVL '000</b>	<b>LVL '000</b>
<b>Loans and advances to customers</b>		
Mortgage loans for housing to private individuals	70,530	22,786
Regular loans	35,962	22,384
Utilised credit lines	17,060	10,049
Other mortgage loans	13,813	8,073
Finance leases	967	1,677
Overdrafts on payment cards	653	670
Overdrafts on current accounts	563	401
Security deposits	113	220
<b>Total loans and advances to customers</b>	<b>139,661</b>	<b>66,260</b>
Less allowance for possible credit losses	(1,694)	(1,550)
<b>Total loans and advances to customers, net</b>	<b>137,967</b>	<b>64,710</b>

In 2004, the Management of the Bank preserved the policy to establish general (portfolio) allowance for regular loans not secured by deposits. General (portfolio) allowance for loans issued to private individuals is established in accordance with the Bank's internal credit rating category within the range of 0.1% to 1% (0.35% to 1%) of the outstanding principal amounts, whereas general allowance for loans issued to enterprises and non-secured credit facilities on the settlement cards is at the 1.5% (1.5%) and 2% (2%) level, respectively. General (portfolio) allowance for overdrafts is established in accordance with the overdraft programmes, i.e. at the 0% – 1.5% (0% – 1.5%) level of the outstanding principal of the overdraft.

Breakdown of loans and advances by customer profile:

<b>Customer profile</b>	<b>Group/Bank</b>	<b>Bank</b>
	<b>31/12/2004</b>	<b>31/12/2003</b>
	<b>LVL '000</b>	<b>LVL '000</b>
Privately held companies	49,055	31,681
Bank's employees	2,764	1,374
Non-profit institutions serving private individuals	312	–
Municipal enterprises	190	79
Other private individuals	87,340	33,126
<b>Total loans and advances to customers</b>	<b>139,661</b>	<b>66,260</b>
Less allowance for possible credit losses	(1,694)	(1,550)
<b>Total loans and advances to customers, net</b>	<b>137,967</b>	<b>64,710</b>

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 2004, 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:

<b>Interest accrual basis</b>	<b>Group/Bank</b>	<b>Bank</b>
	<b>31/12/2004</b>	<b>31/12/2003</b>
	<b>LVL '000</b>	<b>LVL '000</b>
Accrual basis	138,945	65,223
Non-accrual basis	716	1,037
<b>Total loans and advances to customers</b>	<b>139,661</b>	<b>66,260</b>
Less allowance for possible credit losses	(1,694)	(1,550)
<b>Total loans and advances to customers, net</b>	<b>137,967</b>	<b>64,710</b>

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

<b>Industry profile*</b>	<b>Group/Bank</b>	<b>Bank</b>
	<b>31/12/2004</b>	<b>31/12/2003</b>
	<b>LVL '000</b>	<b>LVL '000</b>
Trade	16,777	9,191
Real estate management	14,182	8,125
Construction	5,619	3,343
Transport and communication	4,072	1,729
Manufacturing	2,612	3,164
Financial intermediaries	2,056	1,719
Other service industries	1,350	767
Agriculture and forestry	203	193
Other industries	2,374	3,529
<b>Gross loans and advances to corporate customers</b>	<b>49,245</b>	<b>31,760</b>

\* 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 it is based on the purpose of the loan granted (by the industry for the development of which the loan has been issued).

Finance lease receivables:

	<b>Group/Bank</b>	<b>Bank</b>
	<b>31/12/2004</b>	<b>31/12/2003</b>
	<b>LVL '000</b>	<b>LVL '000</b>
<b>Gross investment in finance lease</b>		
within one year	–	21
from 1 to 5 years	1,034	1,792
<b>Total gross investment in finance lease</b>	<b>1,034</b>	<b>1,813</b>
Less unrealised interest income	(67)	(136)
<b>Finance lease receivables, gross</b>	<b>967</b>	<b>1,677</b>
Less allowance for possible credit losses	(3)	(1)
<b>Total finance lease receivables, net</b>	<b>964</b>	<b>1,676</b>

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

### 15. Debt securities and other fixed income securities

	<b>Group/Bank</b>	<b>Bank</b>
	<b>31/12/2004</b>	<b>31/12/2003</b>
	<b>LVL '000</b>	<b>LVL '000</b>
Government and central bank debt securities	22,689	33,140
Debt securities issued by credit institutions	46,540	46,236
Debt securities issued by privately held companies	23,555	21,172
Debt securities issued by state-owned companies	3,501	–
Debt securities issued by municipalities	1,619	1,720
Debt securities issued by financial institutions	1,143	718
<b>Total debt securities and other fixed income securities</b>	<b>99,047</b>	<b>102,986</b>
Less allowance for possible credit losses	(226)	(237)
<b>Total debt securities and other fixed income securities, net</b>	<b>98,821</b>	<b>102,749</b>

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

	<b>Group/Bank</b>		<b>Bank</b>	
	<b>31/12/2004</b>		<b>31/12/2003</b>	
	<b>Available-for-sale portfolio</b>	<b>Trading portfolio</b>	<b>Available-for-sale portfolio</b>	<b>Trading portfolio</b>
	<b>LVL '000</b>	<b>LVL '000</b>	<b>LVL '000</b>	<b>LVL '000</b>
Latvian government debt securities	8,096	–	8,677	–
Latvian credit institution debt securities	515	–	–	–
<b>Debt securities issued in OECD area</b>				
Government debt securities	6,665	–	7,619	–
Issued by credit institutions	32,625	–	25,145	1,622
Issued by privately held companies	359	–	1,479	–
<b>Debt securities issued in other countries</b>				
Government and central bank debt securities	7,680	248	16,436	408
Issued by municipalities	1,565	54	1,663	57
Issued by credit institutions	12,445	955	18,653	816
Issued by financial institutions	1,090	53	718	–
Issued by state-owned companies	3,396	105	–	–
Issued by privately held companies	22,478	718	18,650	1,043
<b>Total debt securities and other fixed income securities</b>	<b>96,914</b>	<b>2,133</b>	<b>99,040</b>	<b>3,946</b>
Less allowance for possible credit losses	(226)	–	(237)	–
<b>Total debt securities and other fixed income securities, net</b>	<b>96,688</b>	<b>2,133</b>	<b>98,803</b>	<b>3,946</b>

The Bank's available-for-sale securities are classified as follows:

	Group/Bank		Bank	
	31/12/2004		31/12/2003	
	Liquidity portfolio LVL '000	Investments held for undefined period LVL '000	Liquidity portfolio LVL '000	Investments held for undefined period LVL '000
Latvian government debt securities	496	7,600	4,147	4,530
Latvian credit institution debt securities	515	–	–	–
<b>Debt securities issued in OECD area</b>				
Government debt securities	5,184	1,481	3,402	4,217
Issued by credit institutions	32,625	–	25,145	–
Issued by privately held companies	–	359	–	1,479
<b>Debt securities issued in other countries</b>				
Government and central bank debt securities	–	7,680	–	16,436
Issued by municipalities	–	1,565	–	1,663
Issued by credit institutions	–	12,445	–	18,653
Issued by financial institutions	–	1,090	–	718
Issued by state-owned companies	–	3,396	–	–
Issued by privately held companies	–	22,478	–	18,650
<b>Total debt securities and other fixed income securities</b>	<b>38,820</b>	<b>58,094</b>	<b>32,694</b>	<b>66,346</b>
Less allowance for possible credit losses	–	(226)	–	(237)
<b>Total debt securities and other fixed income securities, net</b>	<b>38,820</b>	<b>57,868</b>	<b>32,694</b>	<b>66,109</b>

As a result of evaluating the risk associated with the Bank's investment portfolio, as at 31 December 2004 the Bank established an impairment provision for Argentinean government bonds in the amount of LVL 226 (237) thousand.

As at 31 December 2004, the Bank had pledged Latvian government debt securities with a carrying amount of LVL 1,962 (2,872) thousand as collateral for repo transactions.

As at 31 December 2004, 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 1,589 (322.6) thousand, were listed on stock exchanges.

## 16. Shares and other non-fixed income securities

As at 31 December 2004 and 2003 all of the Bank's investments in shares are classified as available-for-sale investments.

	Group/Bank		Bank	
	31/12/2004		31/12/2003	
	Listed on stock exchange LVL '000	Not listed on stock exchange LVL '000	Listed on stock exchange LVL '000	Not listed on stock exchange LVL '000
Equity shares in foreign corporate entities	731	31	–	30
Equity shares in Latvian corporate entities	–	–	30	–
<b>Total shares and other non-fixed-income securities</b>	<b>731</b>	<b>31</b>	<b>30</b>	<b>30</b>

## 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		Fair value			
	Group/Bank	Bank	Assets		Liabilities	
	31/12/2004	31/12/2003	Group/Bank	Bank	Group/Bank	Bank
	LVL '000	LVL '000	LVL '000	LVL '000	LVL '000	LVL '000
<b>Foreign currency exchange contracts</b>						
Spots	7,941	5,078	18	9	–	10
Derivatives						
Forwards	5,943	2,575	205	33	3	–
Swaps	22,897	2,033	14	6	1,271	47
<b>Total foreign currency exchange contracts</b>	<b>36,781</b>	<b>9,686</b>	<b>237</b>	<b>48</b>	<b>1,274</b>	<b>57</b>
<b>Interest rate derivatives</b>						
Futures, sold	16,292	4,142	39	–	34	20
<b>Total interest rate derivatives</b>	<b>16,292</b>	<b>4,142</b>	<b>39</b>	<b>–</b>	<b>34</b>	<b>20</b>

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

## 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	Equity share (%)		Equity share (%)	
		Cost value	Cost value	Cost value	Cost value
		31/12/2004	31/12/2003	31/12/2004	31/12/2003
<b>Investments in associated entities</b>		<b>LVL '000</b>	<b>(%)</b>	<b>LVL '000</b>	<b>(%)</b>
A/s AB Konsultācijas	Consulting	12	30%	12	30%
<b>Total investments in associated companies</b>		<b>12</b>		<b>12</b>	

## 19. Investments in subsidiaries

On 8 March 2004, the Bank acquired 100% of the shares of the company SIA Hanzas 16a, which is engaged in the real estate business. The objective of the acquisition was the purchase of a land plot owned by the company. The total acquisition price amounted to LVL 702,6 thousand. The subsidiary's share capital is LVL 130 thousand, whereas its equity, including loan convertible into share capital, at the moment of the acquisition was LVL 125 thousand. The excess of the acquisition price over the equity is attributed to the value of the land plot. In April 2004, the Bank invested an additional LVL 5 thousand through payment for the remaining unpaid shares. The registered address of SIA Hanzas 16a is Elizabetes Street 23, Riga, LV 1010.

## 20. Intangible and tangible fixed assets

	<b>Group</b>	<b>Bank</b>	<b>Bank</b>
	<b>31/12/2004</b>	<b>31/12/2004</b>	<b>31/12/2003</b>
	<b>LVL '000</b>	<b>LVL '000</b>	<b>LVL '000</b>
Intangible fixed assets	423	423	404
Prepayments for intangible fixed assets	366	366	106
<b>Total intangible fixed assets</b>	<b>789</b>	<b>789</b>	<b>510</b>
Land	161	161	161
Buildings	4,718	4,718	4,706
Leasehold improvements	564	564	155
Investment properties	11,554	10,854	1,475
Transport vehicles	276	276	224
Office equipment:			
EDP equipment	899	899	721
Other tangible fixed assets	1,752	1,752	793
Prepayments for tangible fixed assets	56	56	459
<b>Total tangible fixed assets</b>	<b>19,980</b>	<b>19,280</b>	<b>8,694</b>
<b>Total net book value of fixed assets</b>	<b>20,769</b>	<b>20,069</b>	<b>9,204</b>

The movements in the Group's and Bank's intangible and tangible fixed assets are as follows:

	<b>Intangible fixed assets</b>	<b>Buildings and property</b>			<b>Leasehold improvements</b>	<b>Transport vehicles</b>	<b>Office equipment</b>	<b>Total fixed assets excluding prepayments</b>
	<b>LVL '000</b>	<b>Land improvements</b>	<b>LVL '000</b>	<b>LVL '000</b>	<b>LVL '000</b>	<b>LVL '000</b>	<b>LVL '000</b>	<b>LVL '000</b>
<b>As at 1 January 2004</b>	<b>724</b>	<b>161</b>	<b>4,904</b>	<b>295</b>	<b>370</b>	<b>3,192</b>	<b>9,646</b>	
Additions	163	–	458	446	159	1,628	2,854	
Disposals	–	–	–	(9)	(60)	(164)	(233)	
Reclassifications	–	–	(254)	–	–	254	–	
<b>As at 31 December 2004</b>	<b>887</b>	<b>161</b>	<b>5,108</b>	<b>732</b>	<b>469</b>	<b>4,910</b>	<b>12,267</b>	
<b>As at 1 January 2004</b>	<b>320</b>	<b>–</b>	<b>198</b>	<b>140</b>	<b>146</b>	<b>1,678</b>	<b>2,482</b>	
Depreciation charge	144	–	192	35	82	742	1,195	
Reversal of depreciation	–	–	–	(7)	(35)	(161)	(203)	
<b>As at 31 December 2004</b>	<b>464</b>	<b>–</b>	<b>390</b>	<b>168</b>	<b>193</b>	<b>2,259</b>	<b>3,474</b>	
<b>As at 1 January 2004</b>	<b>404</b>	<b>161</b>	<b>4,706</b>	<b>155</b>	<b>224</b>	<b>1,514</b>	<b>7,164</b>	
<b>As at 31 December 2004</b>	<b>423</b>	<b>161</b>	<b>4,718</b>	<b>564</b>	<b>276</b>	<b>2,651</b>	<b>8,793</b>	
Depreciation rate (straight-line method)	20%	–	5%	10-25%	20%	10-33%		

Movement in the Group and Bank's investment properties is as follows:

	Group			Bank		
	Land LVL '000	Buildings LVL '000	Total LVL '000	Land LVL '000	Buildings LVL '000	Total LVL '000
<b>As at 1 January 2004</b>	<b>100</b>	<b>1,422</b>	<b>1,522</b>	<b>100</b>	<b>1,422</b>	<b>1,522</b>
Additions	9,940	218	10,158	9,240	218	9,458
<b>As at 31 December 2004</b>	<b>10,040</b>	<b>1,640</b>	<b>11,680</b>	<b>9,340</b>	<b>1,640</b>	<b>10,980</b>
<b>As at 1 January 2004</b>	<b>–</b>	<b>47</b>	<b>47</b>	<b>–</b>	<b>47</b>	<b>47</b>
Depreciation charge	–	79	79	–	79	79
<b>As at 31 December 2004</b>	<b>–</b>	<b>126</b>	<b>126</b>	<b>–</b>	<b>126</b>	<b>126</b>
<b>As at 1 January 2004</b>	<b>100</b>	<b>1,375</b>	<b>1,475</b>	<b>100</b>	<b>1,375</b>	<b>1,475</b>
<b>As at 31 December 2004</b>	<b>10,040</b>	<b>1,514</b>	<b>11,554</b>	<b>9,340</b>	<b>1,514</b>	<b>10,854</b>
Depreciation rate (straight-line basis)		5%			5%	

The market value of all Bank's investment properties as at 31 December 2004 was LVL 44,967 thousand; whereas the market value of the Group's investment properties amounted to LVL 46,581 thousand.

The Management of the Bank believe that the most credible market value of investment properties was identified based on the evaluations presented by several independent valuers. The selling value of the Bank's investment properties may differ from the market value as defined, as the market for such properties is not sufficiently developed.

Rentals from investment properties in 2004 amounted to LVL 136 thousand, whereas the related property maintenance expense was LVL 129 thousand, including direct operating expenses arising from investment property that did not generate rental income amounting to LVL 7 thousand.

## 21. Prepayments and accrued income

	Group/Bank	Bank
	31/12/2004	31/12/2003
	LVL '000	LVL '000
Accrued interest income	1,657	1,647
Prepayments	78	47
<b>Total prepayments and accrued income</b>	<b>1,735</b>	<b>1,694</b>
Less provision for possible credit losses	(9)	(13)
<b>Total prepayments and accrued income, net</b>	<b>1,726</b>	<b>1,681</b>

Accrued interest income is mainly comprised of accrued interest income on debt securities and other fixed income securities, which as at 31 December 2004 constituted LVL 1,363 (1,412) thousand.

## 22. Other assets

	Group/Bank	Bank
	31/12/2004	31/12/2003
	LVL '000	LVL '000
Overpaid corporate income tax	224	–
Clearing balances related to credit cards	288	69
Property for sale, net	23	82
Result of foreign exchange spots	18	9
Other current assets	481	53
<b>Other assets, net</b>	<b>1,034</b>	<b>213</b>

### 23. 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:

	<b>Group/Bank</b>	<b>Bank</b>
	<b>31/12/2004</b>	<b>31/12/2003</b>
	<b>LVL '000</b>	<b>LVL '000</b>
Balances due to credit institutions incorporated in other countries	2,426	412
Balances due to credit institutions incorporated in the Republic of Latvia	2,404	968
Balances due to the Bank of Latvia	1,980	2,450
Balances due to credit institutions incorporated in OECD countries	1,381	–
<b>Total balances due to credit institutions and central banks</b>	<b>8,191</b>	<b>3,830</b>

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

	<b>Group/Bank</b>	<b>Bank</b>
	<b>31/12/2004</b>	<b>31/12/2003</b>
	<b>LVL '000</b>	<b>LVL '000</b>
Balances repayable on demand	6,211	1,188
Repo transaction	1,980	2,450
Overnight deposits	–	192
<b>Total balances due to credit institutions and central banks</b>	<b>8,191</b>	<b>3,830</b>

### 24. Deposits from the customers

<b>Sector profile</b>	<b>Group</b>	<b>Bank</b>	<b>Bank</b>
	<b>31/12/2004</b>	<b>31/12/2004</b>	<b>31/12/2003</b>
	<b>LVL '000</b>	<b>LVL '000</b>	<b>LVL '000</b>
Privately held companies	348,328	348,334	194,893
Private individuals	28,550	28,550	25,495
State-owned enterprises	2,962	2,962	79
Central governments	1,049	1,049	–
Municipalities	998	998	636
Financial institutions	524	524	175
Nonprofit institutions serving private individuals	152	152	58
<b>Total deposits from the customers</b>	<b>382,563</b>	<b>382,569</b>	<b>221,336</b>

<b>Geographical profile of customers' residence</b>	<b>Group</b>	<b>Bank</b>	<b>Bank</b>
	<b>31/12/2004</b>	<b>31/12/2004</b>	<b>31/12/2003</b>
	<b>LVL '000</b>	<b>LVL '000</b>	<b>LVL '000</b>
Residents	26,753	26,759	11,641
Non-residents	355,810	355,810	209,695
<b>Total deposits from customers</b>	<b>382,563</b>	<b>382,569</b>	<b>221,336</b>



## 25. Deferred income and accrued expense

	<b>Group/Bank</b>	<b>Bank</b>
	<b>31/12/2004</b>	<b>31/12/2003</b>
	<b>LVL '000</b>	<b>LVL '000</b>
Accrued interest expense	321	183
Employees vacation reserve	247	159
Other accrued expense	447	294
<b>Total deferred income and accrued expense</b>	<b>1,015</b>	<b>636</b>

## 26. Other liabilities

	<b>Group/Bank</b>	<b>Bank</b>
	<b>31/12/2004</b>	<b>31/12/2003</b>
	<b>LVL '000</b>	<b>LVL '000</b>
Suspense amounts	14,192	87
Other tax liabilities	136	78
Dividends payable	1	1
Cash in transit	–	149
Corporate income tax payable	–	522
Other liabilities	70	140
<b>Total other liabilities</b>	<b>14,399</b>	<b>977</b>

"Suspense amounts" include incoming money transfers amounting to LVL 13,468 thousand, which in accordance with the money transfer supervision procedure of the Bank require additional investigations as to the origin of these payments. Until the completion of these investigations these balances are not available to the Bank's customers.

With respect to these suspense amounts, the Bank continuously ensures sufficient funds in its correspondent accounts, which will enable execution of the money transfers upon completion of the investigation procedures.

## 27. Memorandum items

	<b>Group/Bank</b>	<b>Bank</b>
	<b>31/12/2004</b>	<b>31/12/2003</b>
	<b>LVL '000</b>	<b>LVL '000</b>
<b>Contingent liabilities</b>		
Outstanding guarantees	3,297	1,237
Letters of credit	1,813	561
<b>Total contingent liabilities</b>	<b>5,110</b>	<b>1,798</b>
<b>Financial commitments</b>		
Loan commitments	12,658	8,806
Unutilised credit lines	8,911	9,728
Undrawn credit facilities on settlement cards	1,963	1,868
Contractual commitments on purchase of intangible assets	218	–
Contractual commitments on purchase of other fixed assets	29	136
Contractual commitments on real estate purchase	–	1,220
Contractual commitments on reconstruction of the building	–	108
<b>Total financial commitments</b>	<b>23,779</b>	<b>21,866</b>
<b>Total contingent liabilities and financial commitments</b>	<b>28,889</b>	<b>23,664</b>

Funds under trust management in the amount of LVL 6,685 (4,138) thousand 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.

## 28. Subordinated liabilities

In 2004, the Bank received subordinated loans in the total amount of USD 13 million. Subordinated loans are included in the second tier of equity calculation. In accordance with the provisions of the subordinated loan agreements, the lenders have no right to demand anticipatory repayment of the loans and capitalize the subordinated loans into the Bank's share capital.

Lender	Sum of the loan LVL '000	% of the total subordinated capital	Interest rate	Currency	Date of the agreement	Date of maturity
Multicross LLC	2,580	38.46	6.30	USD	24.08.2004	27.08.2009
Euro swiss LLC	2,580	38.46	5.50	USD	02.11.2004	01.12.2009
<b>Major lenders in total</b>	<b>5,160</b>	<b>76.92</b>		<b>USD</b>		
<b>Other lenders</b>						
residents	335	5.00	7.50	USD	09.08.2004	10.08.2009
non-residents	1,213	18.08	7.50	USD	02.08.2004	10.08.2009
<b>Other lenders in total</b>	<b>1,548</b>	<b>23.08</b>		<b>USD</b>		
<b>Total</b>	<b>6,708</b>	<b>100</b>		<b>USD</b>		

The proportionate share of other lenders (for each individual lender) does not exceed 10% of the total amount of the subordinated capital.

## 29. Paid-in share capital

As at 31 December 2004, the issued and registered share capital of the Bank amounted to LVL 15 million (10 million). The share capital consists of ordinary shares with voting rights only. All the shares have a par value of LVL 150 (100) each.

As at 31 December 2004, the Bank had 146 (149) shareholders, including 28 (30) legal entities and 118 (119) private individuals holding the total of 100,000 shares.

The members of the Board directly hold 90.99% (90.72%) of the share capital, while the members of the Council hold 4.35% (4.35%) of the share capital.

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

	31/12/2004		31/12/2003	
	Paid-in share capital LVL '000	% of total paid-in share capital	Paid-in share capital LVL '000	% of total paid-in share capital
Olegs Fijs	6,881	45.88	4,581	45.81
<b>Group of related shareholders</b>				
Ernests Bernis	6,727	44.85	4,478	44.78
Nika Berne	154	1.03	103	1.03
<b>Total for group of related shareholders</b>	<b>6,881</b>	<b>45.88</b>	<b>4,581</b>	<b>45.81</b>

### 30. Related parties

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

	31/12/2004		31/12/2003	
	Amount	Terms	Amount	Terms
<b>Loans issued to related parties</b>	<b>LVL '000</b>		<b>LVL '000</b>	
Management	605	4%-10%	539	4%-10%
Related legal entities	1,377	4%-9%	1,672	4%-9%
Other related private individuals	465	4%-13%	68	4%-10%
<b>Total loans issued to related parties</b>	<b>2,447</b>		<b>2,279</b>	
Loan commitments	92	4%-10%	117	4%-10%
Less provisions for potential credit losses	(171)		(156)	
<b>Net loans and loan commitments</b>	<b>2,368</b>		<b>2,240</b>	
Percentage of equity, % (see Note 33)	7.47		9.92	

As at 31 December 2004, the deposits of related parties with the Bank amounted to LVL 629 (231) thousand. All related party deposits bear standard interest rates offered by the Bank.

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

Interest income and expense from transactions with related parties:

	2004	2003
	LVL '000	LVL '000
Interest income	85	43
Interest expense	11	4

### 31. Cash and cash equivalents

	Group/Bank	Bank
	31/12/2004	31/12/2003
	LVL '000	LVL '000
Cash deposits with the Bank of Latvia	18,870	9,678
Balances due from credit institutions	147,953	62,441
Balances due to credit institutions and central banks	(8,191)	(3,830)
<b>Total cash and cash equivalents</b>	<b>158,632</b>	<b>68,289</b>

### 32. Contingent tax liabilities

In 2004, the Republic of Latvia State Revenue Service (SRS) performed a tax audit at the Bank for the years ended 31 December 2002 and 2001. On 2 July 2004, the Bank received a SRS decision recommending adjustments to the tax calculations for those years, and, as a result, calculated additional taxes and penalties in the amount of LVL 597 thousand.

The Bank does not agree with additional tax calculation and penalties in the amount of LVL 553 thousand, and has appealed the SRS decision under the procedure stated by the law. The Bank management believes that no material additional tax expense will be incurred as a result of the above claim and that the Bank's position is strong enough to achieve a favourable outcome. Therefore, no provisions for contingent tax liabilities have been established in these financial statements.

The Administrative Regional Court is planning to consider the appeal filed by Aizkraukles banka against the decision of the SRS Director General on calculation of additional corporate income tax and penalties on 6 July 2005.

### 33. Capital adequacy

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

	<b>Group/Bank</b>	
	<b>31/12/2004</b>	<b>31/12/2003</b>
	<b>LVL '000</b>	<b>LVL '000</b>
<b>Tier 1</b>		
paid-in share capital	15,000	10,000
share premium	255	255
reserve capital	1,500	1,250
retained earnings	3,413	4,310
own shares	–	(3)
intangible fixed assets	(789)	(510)
current year's audited profit (not subject to distribution of dividends)	6,111	4,352
<b>Total tier 1</b>	<b>25,490</b>	<b>19,654</b>
<b>Tier 2</b>		
revaluation reserve of available-for-sale investments (55%)	865	1,609
subordinated capital (80%)	5,366	–
<b>Total tier 2</b>	<b>6,231</b>	<b>1,609</b>
<b>Total equity</b>	<b>31,721</b>	<b>21,263</b>
Capital charge for credit risk on banking book	19,189	16,532
capital charge for foreign currency risk	60	233
capital charge for position risk	767	409
capital charge for counter-party risk	10	13
Total capital charge for market risks on trading book	837	655
<b>Total capital charge, 8 % (10%)</b>	<b>20,026</b>	<b>17,187</b>
<b>Capital adequacy ratio (%)</b>	<b>12.67</b>	<b>12.37</b>
Minimum capital adequacy ratio (%)	8.00	10.00

The credit risk capital charge on banking book is calculated as follows:

	Financial and Capital Market Commission's requirements		
	31/12/2004	Risk weighting (%)	Weighted assets
	LVL '000		LVL '000
<b>Assets</b>			
<b>Cash and deposits with the Bank of Latvia</b>	<b>18,870</b>		
<b>Balances due from:</b>			
credit institutions incorporated in OECD and EU countries	149,529	20	29,906
credit institutions incorporated in Latvia	5,677	20	1,135
credit institutions incorporated in other countries	9,067	100	9,067
<b>Loans and advances to customers:</b>			
secured by term deposits with credit institution	1,976		
fully secured by a mortgage of residential property registered with Land Register	54,902	50	27,451
other loans and advances	81,089	100	81,089
<b>Available-for-sale debt securities:</b>			
Latvian government debt securities	8,096		
debt securities issued by OECD-area and EU-member country governments	7,221		
debt securities issued by governments, central banks and municipalities of other countries	8,464	100	8,464
debt securities issued by OECD-area credit institutions	33,140	20	6,628
debt securities issued by credit institutions of other countries	12,445	100	12,445
debt securities issued by privately held companies and financial institutions	27,322	100	27,322
<b>Debt securities of trading portfolio</b>	<b>2,133</b>	<b>*</b>	
<b>Prepayments</b>	<b>79</b>	<b>50</b>	<b>40</b>
<b>Accrued income:</b>			
accrued income, 0% risk weighted	304		
accrued income, 20% risk weighted	157	20	31
accrued income, 50% risk weighted	51	50	26
accrued income, 100% risk weighted	1,100	100	1,100
accrued interest income of trading portfolio	35	*	
<b>Derivatives</b>	<b>258</b>	<b>*</b>	
<b>Intangible fixed assets</b>	<b>789</b>	<b>**</b>	
<b>Fixed assets, investments in associated entities, shares and other assets</b>	<b>21,794</b>	<b>100</b>	<b>21,794</b>
<b>Total assets</b>	<b>444,498</b>		<b>226,498</b>
<b>Memorandum items</b>			
<b>Memorandum items with 100% credit equivalent</b>			
Guarantees secured by deposits	371	0	0
Other guarantees	2,926	100	2,926
Irrevocable stand-by letters of credit secured by deposits	250	0	0
Other irrevocable stand-by letters of credit	967	100	967
Capital expenditure commitments	247	100	247
<b>Memorandum items with 50% credit equivalent</b>			
Documentary letters of credit secured by deposits	236	0	0
Other documentary letters of credit	94	100	47
<b>Financial commitments with 50% credit equivalent</b>			
0% risk weighted	2,957	0	0
50% risk weighted	5,699	50	1,425
100% risk weighted	14,876	100	7,438
<b>Memorandum items with 20% credit equivalent</b>			
Documentary letters of credit secured by deposits	240	0	0
Other documentary letters of credit provided against bills of lading or shipment documents	26	100	5
<b>Total memorandum items</b>	<b>28,889</b>		<b>13,055</b>
<b>Foreign currency exchange contracts (1%-1.5%)</b>			
20% risk weighted	29	0	0
50% risk weighted	189	20	38
100% risk weighted	272	100	272
<b>Total foreign currency exchange contracts</b>	<b>490</b>		<b>310</b>
<b>Total</b>	<b>473,789</b>		<b>239,863</b>
<b>Total credit risk capital charge</b>			<b>19,189</b>

\* 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.



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### To the shareholders of a/s Aizkraukles banka

We have audited the accompanying financial statements of a/s Aizkraukles banka and its subsidiary (hereinafter – the Group) and the accompanying interim financial statements of a/s Aizkraukles banka (hereinafter – the Bank) for the year ended 31 December 2004, 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 the International Standards on Auditing issued by the International Federation of Accountants. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above give a true and fair view of the financial position of the Group and the Bank as at 31 December 2004, and of the results of their operations and their cash flows for the year then ended in accordance with the International Financial Reporting Standards issued by the International Accounting Standards Board.

Ernst & Young Baltic SIA  
License No. 17

**Per Moller**

Personal ID code: 060567-14676  
Member of the Board

**Diana Krišjāne**

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

Riga, 24 February 2005



