

**JSC “Baltic International Bank”**

**Auditors’ Report and Financial Statements prepared in accordance  
with International Financial Reporting Standards and the  
Requirements of the Financial and Capital Markets Commission  
for the years ended 31 December 2004 and 2003**

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## MANAGEMENT REPORT

Dear Ladies and Gentlemen,

We are very pleased to present you with a new Annual Report of JSC *Baltic International Bank*. At the end of the 12th reporting period, once again we have arrived to the conclusion that the Bank's adopted approach proved to be a success. In essence, this approach remains conservative, whereas it undergoes certain necessary changes to respond to the changes in the current situation, while the underlying principles stay unchanged.

In December 2004, the Bank's Shareholder Council approved the *Basic Principles of Development Strategy for JSC Baltic International Bank for the period 2005 to 2010*. This guidance document provides the basis for devising an action plan for the implementation of the Bank's new development strategy for the next five-year period. 1 July 2006 is a target date when the Bank will commence actively working in accordance with the new strategy. While preparing for the implementation of the new strategy, already in the year 2004 the Bank embarked on the following program:

- in February 2004, international credit ratings agency *Moody's Investors Service* assigned first-time ratings to the Bank;
- in December 2004, the Bank's Shareholders' Council approved a new organizational structure which is consistent with the objectives, challenges and targets posed by the new strategy;
- in 2004, the Bank opened its first foreign representative office in Moscow (the Russian Federation) which has already started its active work. Beyond that, the Bank obtained the representative office license for opening the Bank's London-based office (the United Kingdom). The establishment of the Bank's foreign representative offices mainly was driven by our service quality commitment and by our challenge to penetrate new markets;
- In line with its office expansion plan, last year the Bank initiated and embarked on the general reconstruction of a new building which will fully meet the latest technological, labor environmental and other requirements. In 2006, the majority of the Bank's structural units are expected to move to a new headquarters.

Furthermore, the Bank succeeded in tackling some other vital tasks:

- in 2004, the Bank implemented and launched *Transware Retail* payment card system designed to issue and service payment cards in our dedication to ensure a high-quality servicing;
- by the end of 2004, we also succeeded in practical changeover to the IBAN coding of customers' accounts in conformity with the *IBAN (International Bank Account Number)*, account number standard which is mandatory for EU Member States.

In 2004, the Bank's specific focus rested on the prevention of money laundering and the standards related to combating the financing of terrorism. Last year the Bank continued to realize international principles and to follow guidelines adopted by the *Basel Committee on Banking Supervision*, the *Volsfsberg* principles and the *FATF* recommendations in practice. In the context of AML requirements, by the end of 2004 the Bank had documented its internal anti-money laundering policies and procedures in line with Latvian and international anti-money laundering acts, laws and recommendations.

The aforementioned facts, undoubtedly, have exerted a certain impact on the Bank's financial performance indicators for 2004:

- in 2004, the volume of total deposits has experienced a significant increase: as at 31/12/2004 the Bank's deposits totaled LVL 35 814 309. A 42 percent increase in the Bank's deposit base within the one-year period was a consequence of successful activities directed towards further realization of the Bank's deposits program;

**JSC "BALTIC INTERNATIONAL BANK"  
ANNUAL REPORT 2004.**

- the Bank also has experienced a 27 percent growth in its loan portfolio on a year-over-year basis: as at 2004-end, the total amount of the Bank's loans made up LVL 16 570 720. Together with the strong growth in loans the Bank increased its activity in the area of extending loans as part of trust operations as well.
- the Bank attained the rise in its financial variables in terms of investments in fixed-income securities and non-fixed income securities: up 48 percent and 100 percent, accordingly;
- the Bank's total assets rose by 27 percent year-over-year (from LVL 35 070 744 to LVL 44 674 450 as at the end of the reporting period).

In conclusion, we wish to extend a warm, hearty thank you to our customers, business partners, and shareholders in the firm belief that our further mutually beneficial and long-standing partnership, which has already made a good start many years ago, will continue through next year and beyond. Also, we believe that our recently established partnership will turn into long-term relationships to last for many years. Altogether, this will foster our common success. A special word of appreciation is also appropriate to the Bank's staff members. This Annual Report presented for your attention is a result of their joint efforts.



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Leonid Kramnoy  
Chairperson of the Council



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Valeri Belokon  
Chairperson of the Board

15 March 2005

## SUPERVISORY COUNCIL AND MANAGEMENT BOARD

### Supervisory Council (as at 31 December 2004)

Name	Position held	Appointed	Re-elected
Leonid Kramnoy	Chairperson of the Council	10/10/2003	-
Vilori Belokon	Deputy Chairperson of the Council	10/10/2003	-
Viacheslav Kramnoy, sr.	Member of the Council	18/07/1997	10/10/2003

### Management Board (as at 31 December 2004)

Name	Position held	Appointed	Re-elected
Valeri Belokon	Chairperson of the Board	15/08/2003	-
Alon Nodelman	Member of the Board, Deputy Chairperson of the Board	15/08/2003	-
Janis Apelis	Member of the Board	13/10/2004	-
Anita Lase	Member of the Board	15/08/2003	-
Ilona Gulchak	Member of the Board	15/08/2003	-

In the year 2004, no changes were made in JSC "Baltic International Bank" Council's membership. In the year 2004, the Bank announced the following Board membership changes:

#### The Bank's Board:

Maria Guliayeva retired as a member of the Board in accordance with the Council decision of 31 March 2004. Tatiana Valikova resigned from her post as Deputy Chairperson of the Board in accordance with the Council decision of 27 September 2004.

In accordance with the Council decision of 27 September 2004, the changes in the scope of powers of Board member Alon Nodelman were made. A. Nodelman was designated to become Deputy Chairperson of the Board empowered as an authorized person to represent the stock company severally.

## STATEMENT OF MANAGEMENT'S RESPONSIBILITIES

Riga,

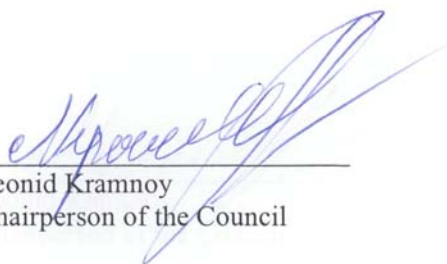
15 March 2005

The financial statements are prepared in accordance with the source documents and present fairly the Bank's financial position as of the end of the financial year and the results of its operations and cash flows for that year according to the accounting principles set forth in International Financial Reporting Standards.

The management confirms that suitable accounting policies have been used and applied consistently and reasonable and prudent judgments and estimates have been made in the preparation of the financial statements for the period from 1 January 2004 to 31 December 2004 set out on pages 8 to 33. The management also confirms that applicable International Financial Reporting Standards have been used in the preparation of the financial statements and that these financial statements have been prepared on a going concern basis and comply with the Financial and Capital Market Commission Regulations on the Annual Reports of Credit Institutions in all material respects.

The Bank's management is also responsible for keeping proper accounting records, for taking reasonable steps to safeguard the assets of the Bank and to prevent and detect fraud and other irregularities. They are also responsible for managing the Bank in compliance with the Financial and Capital Market Commission on the Annual Reports of Credit Institutions and other legislation of the Republic of Latvia in all material respects.

On behalf of the Bank's Management



Leonid Kramnoy  
Chairperson of the Council



Valeri Belokon  
Chairperson of the Board

## INDEPENDENT AUDITORS' REPORT

To the Shareholders of JSC "Baltic International Bank":

We have audited the accompanying balance sheets of a JSC "Baltic International Bank" (the Bank) as of 31 December 2004 and 2003 and the related statements of profit and loss, changes in shareholders' equity and cash flows for the years then ended. 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 audits.

We conducted our audits in accordance with International Standards on Auditing issued by the International Federation of Accountants. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Bank as of 31 December 2004 and 2003 and the results of its operations and cash flows for the years then ended in accordance with International Financial Reporting Standards and the financial reporting requirements of the Financial and Capital Market Commission.

We have read the management report for the year ended 31 December 2004 as shown on pages 3 and 4 of the annual report and we have not identified any material discrepancies between the historical financial information presented in this report and the historical financial statements for the year ended 31 December 2004.

Without qualifying our opinion, we draw attention to Note 3 (Risk management) to the financial statements, which describes the status of the development of the Bank's anti-money laundering, including know your client, procedures and controls, and the Financial and Capital Market Commission reviews on the Bank.

Deloitte & Touche Audits SIA  
License No. 43



Ian Dent  
Audit Director

Riga, Latvia  
15 March 2005



Inguna Stasa  
Sworn Auditor  
Certificate No. 145

**STATEMENTS OF PROFIT AND LOSS**

for the fiscal years ended December 31, 2004 and 2003

	<b>Notes</b>	<b>2004 LVL</b>	<b>2003 LVL</b>
Interest income	4	2 294 890	1 657 275
Interest expense	5	(716 375)	(765 573)
Income from securities	6	25 153	4 607
Fees and commission income	7	1 041 262	783 002
Fees and commission expense	8	(355 224)	(217 993)
Gain on trading in financial instruments	9	195 449	514 181
Other operating income	10	9 737	104 922
Administrative expenses	11	(2 267 005)	(1 550 941)
Amortization of intangible assets and fixed assets depreciation	23, 24	(191 834)	(178 748)
Other operating expenses	12	(75 924)	(66 386)
Provisions for doubtful debts and off-balance sheet liabilities	18	(491 193)	(2 086 200)
Release of provisions		1 176 842	52 583
(Loss)/gain of long-term financial investments	20	<u>(348 000)</u>	<u>2 417 115</u>
<b>Current year profit before taxation</b>		<b>297 778</b>	<b>667 844</b>
Corporate income tax	13	<u>-</u>	<u>(131 001)</u>
<b>Current year profit after taxation</b>		<b><u>297 778</u></b>	<b><u>536 843</u></b>
Earnings per share		<u>0.19562</u>	<u>0.35266</u>

The accompanying notes on pages 13 to 33 are an integral part of the current financial statements.

The Management Board approved these financial statements on pages 8 to 33 on 15 March 2005.



Leonid Kramnoy  
Chairperson of the Council



Valeri Belokon  
Chairperson of the Board



**BALANCE SHEETS AND OFF - BALANCE SHEET ITEMS**

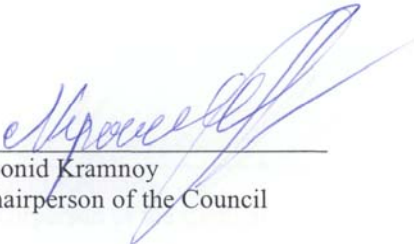
as of 31 December 2004 and 2003

<b>ASSETS</b>	<b>Notes</b>	<b>2004</b>	<b>2003</b>
		<b>LVL</b>	<b>LVL</b>
Cash and balances with the central banks	15	2 298 524	1 144 301
Due from credit institutions and central banks	16	19 896 913	13 434 826
<i>On demand</i>		<i>18 485 653</i>	<i>6 891 811</i>
<i>Others</i>		<i>1 411 260</i>	<i>6 543 015</i>
Loans	17	16 570 720	13 005 286
Debt securities and other fixed-income securities	19 (a)	1 778 807	1 199 017
<i>Government debt securities</i>		<i>277 404</i>	<i>335 512</i>
<i>held-to-maturity securities</i>		<i>192 513</i>	<i>196 179</i>
<i>securities held for trading</i>		<i>84 891</i>	<i>139 333</i>
<i>Other debt securities and fixed-income securities</i>		<i>1 501 403</i>	<i>863 505</i>
<i>held-to-maturity securities</i>		<i>201 823</i>	<i>103 141</i>
<i>securities held for trading</i>		<i>1 299 580</i>	<i>760 364</i>
Shares and other non-fixed-income securities	19 (b)	672 449	336 733
<i>held-to-maturity securities</i>		<i>8 225</i>	<i>-</i>
<i>securities held for trading</i>		<i>664 224</i>	<i>336 733</i>
Derivative contracts	21	88 070	7 281
Investments in associated undertakings	22	127 111	127 111
Intangible assets	23	205 117	220 568
Fixed assets and investment property		2 409 683	5 140 232
<i>Fixed assets</i>	24	<i>1 186 683</i>	<i>1 076 232</i>
<i>Investment property</i>	25	<i>1 223 000</i>	<i>4 064 000</i>
Deferred expenses and accrued income	26	364 912	195 697
Other assets	27	262 144	268 691
<b>Total assets</b>		<b><u>44 674 450</u></b>	<b><u>35 079 743</u></b>

*(to be continued)*

The accompanying notes on pages 13 to 33 are an integral part of the current financial statements.

The Management Board approved these financial statements on pages 8 to 33 on 15 March 2005.

  
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Leonid Kramnoy  
Chairperson of the Council

  
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Valeri Belokon  
Chairperson of the Board

**BALANCE SHEETS AND OFF - BALANCE SHEET ITEMS**

as of 31 December 2004 and 2003

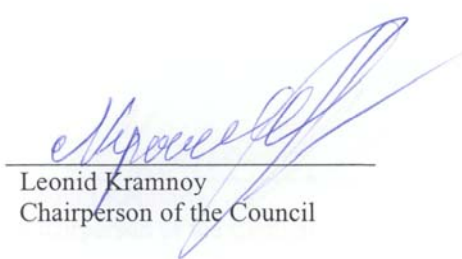
**LIABILITIES AND SHAREHOLDERS' EQUITY**


	Notes	2004 LVL	2003 LVL
Due to credit institutions and central banks	28	2 071 902	3 396 985
<i>On demand</i>		588 302	1 384 481
<i>Others</i>		1 483 600	2 012 504
Customer deposits	29	35 814 309	25 216 889
<i>On demand</i>		24 096 426	14 558 679
<i>Other customer deposits</i>		11 717 883	10 658 210
Derivative contracts	21	65 010	30 449
Deferred income and accrued expenses	30	226 132	216 681
Accruals for liabilities and payments	31	171 715	164 748
Other liabilities	32	327 288	338 321
Subordinated liabilities	33	354 075	369 429
<b>Total liabilities</b>		<b>39 030 431</b>	<b>29 733 502</b>
<b>Shareholders' equity</b>	34	<b>5 644 019</b>	<b>5 346 241</b>
<i>Share capital</i>		7 611 285	7 611 285
<i>Reserve capital and other reserves</i>		545 024	545 024
<i>Accumulated deficit</i>		(2 810 068)	(3 346 911)
<i>Profit for the current year</i>		297 778	536 843
<b>Total liabilities and shareholders' equity</b>		<b>44 674 450</b>	<b>35 079 743</b>
<b>OFF-BALANCE SHEET ITEMS</b>	38		
Sureties and guarantees		226 004	1 219 335
Commitments to customers		2 663 164	1 304 741
<i>Other commitments</i>		2 663 164	1 304 741
<b>Total off-balance sheet items</b>		<b>2 889 168</b>	<b>2 524 076</b>

*(concluded)*

The accompanying notes on pages 13 to 33 are an integral part of the current financial statements.

The Management Board approved these financial statements on pages 8 to 33 on 15 March 2005.

  
Leonid Kramnoy  
Chairperson of the Council

  
Valeri Belokon  
Chairperson of the Board

**STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**

	<b>Paid-in share capital LVL</b>	<b>Reserve capital LVL</b>	<b>Accumulated deficit LVL</b>	<b>TOTAL LVL</b>
<b>Balance as at 31 December 2002</b>	<b>5 874 310</b>	<b>545 024</b>	<b>(3 346 911)</b>	<b>3 072 423</b>
Share capital increase	1 736 975	-	-	1 736 975
Profit for the current year	-	-	536 843	536 843
<b>Balance as at 31 December 2003</b>	<b>7 611 285</b>	<b>545 024</b>	<b>(2 810 068)</b>	<b>5 346 241</b>
Profit for the current year	-	-	297 778	297 778
<b>Balance as at 31 December 2004</b>	<b>7 611 285</b>	<b>545 024</b>	<b>(2 512 290)</b>	<b>5 644 019</b>

The accompanying notes on pages 13 to 33 are an integral part of the current financial statements.

## STATEMENTS OF CASH FLOWS

	Notes	2004 LVL	2003 LVL
<b>Cash flow from operating activities</b>			
Profit before taxes		297 778	667 844
Depreciation and amortization of intangible and tangible fixed assets		192 846	194 237
(Decrease)/increase in provisions for doubtful debts and off-balance sheet commitments		(740 531)	1 777 084
(Profit)/loss from translation of foreign currencies		(246 210)	556 366
(Profit) from revaluation of long-term financial investments		(258 000)	(2 433 000)
Loss on sale of fixed assets, intangible assets and investment property		606 000	-
<b>(Decrease)/increase in cash and cash equivalents from operating activities before changes in assets and liabilities</b>		<b>(148 117)</b>	<b>762 531</b>
Increase/(decrease) in deferred income and accrued expenses		9 451	(32 861)
(Increase)/decrease in deferred expenses and accrued income		(177 081)	51 088
(Increase) in other assets		(73 866)	(127 138)
Increase in other liabilities		23 528	155 324
Increase in accruals for liabilities and payments		6 967	15 362
(Increase) in short-term investments		(812 265)	(292 185)
Decrease in balances due from credit institutions and central banks		-	11 884
(Increase) in loans		(2 817 408)	(3 060 148)
(Decrease)/increase in balances due to credit institutions and central banks		(146 519)	508 119
Increase in deposits		10 597 420	2 796 889
<b>Increase in cash and cash equivalents from operating activities</b>		<b>6 462 110</b>	<b>788 865</b>
<b>Cash flow from investing activities</b>			
(Purchase) of fixed assets, intangible assets and investment property		(287 851)	(948 900)
(Purchase) of stakes held in undertakings and other long-term investments		(103 241)	(96 942)
Proceeds from sales of fixed assets, intangible assets and investment property		2 493 000	-
<b>Increase /(decrease) in cash and cash equivalents as a result of investing activities</b>		<b>2 101 908</b>	<b>(1 045 842)</b>
<b>Cash flow from financing activities</b>			
(Decrease) in subordinated liabilities		(15 354)	(597 984)
Increase in share capital		-	1 736 975
<b>(Decrease)/increase in cash and cash equivalents as a result of financing activities</b>		<b>(15 354)</b>	<b>1 138 991</b>
<b>Increase in cash and cash equivalents</b>		<b>8 548 664</b>	<b>882 014</b>
Opening balance of cash and cash equivalents	35	11 896 261	11 570 613
Gain /(loss) on translation of foreign currencies	9	246 210	(556 366)
<b>Closing balance of cash and cash equivalents</b>	<b>35</b>	<b>20 691 135</b>	<b>11 896 261</b>

The accompanying notes on pages 13 to 33 are an integral part of the current financial statements.

## THE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS

### 1. GENERAL INFORMATION

JSC Baltic International Bank's (hereinafter referred to as the Bank) principal activity is rendering banking services to private individuals and legal entities in areas such as lending, acceptance of deposits, customer funds transfer, diverse transactions in the financial market both by order of the customers and for the Bank's trading purposes.

#### **Financial and Capital Market Commission – the financial services regulatory and supervisory institution of the Republic of Latvia**

The Financial and Capital Market Commission (referred to herein as the Commission) is an integrated supervisory institution for all financial services including banking, the stock-market, and insurance. The aim of the Commission is to provide protection of interests of investors and depositors and to ensure development and stability of the financial and capital market.

The practice of the Commission is to conduct thorough inspections of every market participant, at least once a year. These reviews also include reviews of banks' compliance with the national legislative requirements on Anti-Money Laundering (AML), as well as adoption of international best practices (see Note 3 "Risk management").

### 2. INTERPRETATION OF ACCOUNTING POLICIES AND THE PRINCIPLES OF ASSESSMENT

#### **General principles of accounting**

The Bank's financial statements are prepared in all material respects in accordance with International Financial Reporting Standards. Initially the financial statements are prepared under the historical cost convention. Subsequently the financial assets and liabilities are re-measured and recognized in the financial statements at their fair value.

#### **Foreign currency translation**

All assets and liabilities denominated in foreign currencies are revaluated to Latvian lats (LVL) using the exchange rates published by the Bank of Latvia. Transactions denominated in foreign currencies are translated into the functional currency (Latvian lat) at the official Bank of Latvia exchange rate on the date of the transaction, which approximates the prevailing market rates. Gains and losses from currency exchange rate fluctuations are included in the profit and loss statement for the period. The applicable rates for the principal currencies held by the Bank were as follows:

Currency		The Bank of Latvia's rate valid as at 31.12.2004	The Bank of Latvia's rate valid as at 31.12.2003
1 BYR	=	LVL 0.000237	LVL 0.000250
1 EUR	=	LVL 0.703000	LVL 0.674000
1 GBP	=	LVL 0.996000	LVL 0.960000
1 RUB	=	LVL 0.018600	LVL 0.018400
1 USD	=	LVL 0.516000	LVL 0.541000

#### **Accounting for income and expenses**

The reporting periods - related income and expenses are included in the Statements of Profit and Loss regardless of when they were received and paid. All interest income and expenses are recognized in the financial statements on an accruals basis. Fees and commission received from customers are included in

## THE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS

the income as at the transaction date, unless otherwise provided by the relevant agreement between the Bank and the customer. Loan origination fees, which are in excess of direct costs, if any, are included in determining the loan value at amortized cost using the effective interest rate method..

### Investments

The Bank's investments fall into two portfolios: held-to-maturity investments and held for trading financial assets.

#### (a) Securities acquired for investment purposes (held-to-maturity investments)

The Bank's held-to-maturity investment comprises government securities and corporate bonds, which are recognized at amortized cost. Held-to-maturity securities are accounted for using a settlement date basis for purchases. Initially, held-to-maturity securities are recorded at their purchase value adjusted for discounts or premiums. Subsequently the straight-line method is used for amortizing discounts over the term to maturity. There is no material difference between the result obtained and that, which might have been obtained based on the effective interest method.

#### (b) Securities acquired for trading purposes (held for trading financial assets)

The Bank acquires held-for-trading securities for speculative purposes. The Bank's held for trading financial assets comprises fixed-income and non-fixed-income securities issued by the Latvian and cross-border issuers. Held-for-trading securities are accounted for using the settlement date basis for both purchases and sales. Held-for-trading securities are initially recognized at purchase cost (which includes transaction costs) and subsequently re-measured at fair value based on market prices. Realized and unrealized gains or losses are recorded as net trading income or net trading loss, respectively.

**Re-classification of financial instruments** from held for trading financial assets to the held-to-maturity investments is not allowed. The re-classification of a financial instrument from the held-to-maturity investments to held for trading financial assets is allowed in the following exceptional cases: where behavior of a financial instrument is impossible to predict and the financial markets signal a sharp fluctuation in prices and exchange rates; where the Bank's investment policy or business strategy is revised.

### Derivative instruments

As for derivative contracts, the Bank is a party to foreign currency *forward* and *swaps* contracts. Gains or losses resulting from changes in currency exchange rates as at the transaction date are recognized in the statements of profit and loss as a profit or loss from the revaluation of positions in foreign currencies. The Bank's derivative contracts also comprise *options*. Where *options* are involved, option premiums paid are recognized in the balance sheet at market prices

### Other off-balance sheet financial transactions

In its daily business, the Bank is involved in off-balance sheet financial transactions associated with lending, the issuance of bank guarantees and letters of credit. These financial transactions are recorded in the financial statements as at the relevant agreement's concluding date. Off-balance sheet liabilities are exposed to off-balance sheet risks differing in their levels, in the financial statements off-balance sheet liabilities are included in the capital adequacy calculation, liquidity risk analysis and currency risk analysis.

### Impairment of financial assets

The Bank assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired.

## THE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS

Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the Bank about the following loss events:

- (i) significant financial difficulty of borrower;
- (ii) a breach of contract, such as a default or delinquency in interest or principal payments;
- (iii) the Bank granting to the borrower, for economic or legal reasons relating to the borrower's financial difficulty, a concession that the lender would not otherwise consider;
- (iv) it becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
- (v) the disappearance of an active market for that financial asset because of financial difficulties;
- (vi) observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including: adverse changes in the payment status of borrowers in the group; or national or local economic conditions that correlate with defaults on the assets in the group.

The Bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant and for all loans with overdue payments or interest regardless of the size of the outstanding principal. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics mainly based on collateral type.

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amounts and estimated present value of future cash flows. The Bank uses discounted collateral realisation value as an approximation of the present value of future cash flows. For the measurement of collective impairment the bank assumes that all contractual cash flows will be received and recognises impairment loss based on historical loss experience, which is adjusted on the basis of currently available data.

The carrying amount of the asset is reduced through the use of an allowance and the increase/decrease in the amount of the impairment loss is recognised in the statement of profit and loss.

Loans, which are treated as non-performing, interest is no longer recorded as income, but specific provisions are made for previously accrued but non-received payments.

### **Intangible assets**

The Bank's intangible assets comprise licenses, which are necessary for operating the Bank's business, and an array of software programs. The Bank's intangible assets are accounted for at their historical cost less amortization. Intangible assets amortization term is determined by the Bank based on the intangible asset's useful life, if any; in the event that such a term is not stated, then the Bank amortizes the intangible asset into expenses over a period of 5 years. The Bank applies the straight-line method of depreciation to write off intangible assets, based on the assumption that intangible assets constantly lose their value.

### **Tangible fixed assets**

Tangible fixed assets are recorded in the Bank's financial statements at their historical cost less depreciation. Tangible fixed assets having a purchase price below 100 lats are expensed at the moment of purchase. Tangible fixed assets purchased for foreign currency are accounted for in lats at the Bank of Latvia's established rate valid as at the assets factual delivery date.

## THE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS

The depreciation terms of the Bank's fixed assets are as follows:

Buildings	50 years
Machinery	5 years
Motor vehicles	5 years
Other fixed assets	10 years
Computers	5 years

As for construction projects and land plots, depreciation is not calculated. Costs relating to the maintenance and repair of the Bank's fixed assets are included in the statements of profit and loss when they arise. If repair, renovation and improvement prolong the asset's useful life (change the value of the asset), then the repair, renovation and improvement expenditure amount is added to the fixed asset's historic cost.

### Investment property

Investment property is initially recognized in the balance sheet at its purchase value, including purchase costs. Subsequently, the investment property is revalued and accounted for at its fair value based on its market price. Changes in value are recorded in the statements of profit and loss in "Gain or loss on revaluation of long-term financial investments" item.

### Repo operations (*repos*)

Securities sold under repurchase agreements (*repos*) are recorded in the financial statements along with other securities, while the Bank's commitments are included in the respective items in the liabilities-side of the balance sheet, as "Due to credit institutions" or "Deposits" depending on the agreement's characteristics.

### Fair value of financial assets and liabilities

Fair value is based on the intentions for further activity of the Bank in certain financial assets and financial liabilities, taking into account its current financial position. The initial evaluation of financial assets and financial liabilities of the Bank is carried out at the fair value of the included asset and received liability for its repayment, including the transaction costs. The subsequent evaluation of financial assets and liabilities in the Bank's balance sheet is carried out at depreciated cost, excluding trading assets and liabilities and derivatives. The fair value of a financial asset and financial liability is established by means of an evaluation method based on the initial data of the market, interest rates, norms of determined losses for granted loans, and the coefficient for discounting. The trading portfolio, consisting of the securities of the Bank, is carried at fair value, which is based on published quotes on active markets.

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.

### Money in transits

At the accounting period-end "Money in transits" is included in the respective customer's account balances.

### Cash and cash equivalents

Cash and cash equivalents in the statement of cash flows comprises cash and deposits with the Bank of Latvia and other credit institutions with a maturity of less than 3 months when purchased, less balances due to the Bank of Latvia and credit institutions with a maturity of less than 3 months.



## THE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS

### Corporate income tax

Corporate income tax in the Republic of Latvia is a direct tax on profits, which is collected at the rate of 15% (2003: 19%). Deferred tax liabilities or claims arise from temporary differences insofar as the Bank's income and expenses stated in tax return and their carrying amounts in the financial statements are not recognized at the same time. Deferred tax liabilities or claims arise for the Bank as a result of short-term differences, connected with non-simultaneous recognition of income and expense in the financial statements or tax declaration prepared by the Bank. Deferred taxes apply to the probable future tax claims and liabilities for all transactions and events, recognized in the financial statements or tax declaration of the Bank. Basic short-term differences arise because of differences between the depreciation rates of fixed assets, used for financial accounting and for tax purposes, and general accruals for bad debts and other expenses.

### 3. RISK MANAGEMENT

The Bank's financial business is exposed to various risks, of which core risk categories are credit risk, liquidity risks, currency risk and market risk. All the aforementioned risks stem from the impairment of the borrower's credit solvency, exchange rates fluctuations, interest rates fluctuations, and other factors. The Bank's risk management policies set forth regulatory limits on risk transactions and outline the procedures designed to mitigate the risks across all of the Bank's business areas. The Bank's Board and two committees - the Credit Committee and the Resources Supervision Committee - continuously verify compliance with the regulatory requirements and guidelines outlined in the Bank's internal documents. In view of the expansion of the Bank's activity and the evolvement of the financial market, the Bank regularly improves its risk management system over which the Internal Audit Department maintains continuing control.

#### Customer policy

A risk exists that banks can be involved into money-laundering offences and the financing of terrorism unless the credit institutions ensure that they have adequate control mechanism in place to be able to identify, monitor and prevent such a risk. The Bank has, therefore, documented internal policies and guidelines to comply with the principles of:

- a) Valid laws and legislative decrees of the Republic of Latvia;
- b) Other guidelines and recommended standards adopted by the organizations associated with the banking industry and competent supervisory institutions of the Republic of Latvia; and
- c) International anti-money laundering principles and recommendations.

In 2004, as well as in 2005 the Bank has continued to develop its AML procedures, including Know Your Client (KYC) policies and procedures, designed for i) identification of high-risk customers; ii) analysis and ongoing monitoring of customers. To facilitate the realization of the said policies and guidelines in practice, the Bank's staff also participates in various AML training programs.

Due to the current situation in the world and in Latvia in particular with the common concerns about the threat of money laundering using the international banking system, the Latvian banks' regulator pays much attention to this issue while making its usual audits of every Latvian bank. In July 2004, the Commission has performed a regular review of the Bank, and has identified recommendations and areas of improvement in the Bank's AML, including KYC procedures and controls and is closely monitoring the Bank. At the date of this report, a next inspection by the Commission is currently taking place to assess the adequacy and completeness of the Bank's improved AML and KYC internal controls and procedures, the outcome and results, if any will be only made available to the Bank after the issuance of these financial statements.

## THE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS

### **Credit risk**

Credit risk is the risk that the Bank may sustain losses through the Bank counterpart's or debtor's failure to meet contractual obligations vis-à-vis the Bank.

For the purpose of minimizing credit risk, the Bank has set operating limits on various deals and transactions, for instance, limits to the amount involved in the transaction with any borrower (including any bank), depending on the borrower's financial position, registration and the region where the borrower's business is based, and depending on the amount and type of the underlying collateral, currency of the transaction, and other criteria. All of the said restrictions are set forth by the Bank's internal policies and regulations. The Bank's structural units are obligated to enforce the limits set. The Resources Supervision Committee, the Credit Committee and the Bank's Board are charged with the control function. The Bank's adopted procedures are designed to trace, analyze and monitor credit risk, complemented by the maintenance of limits set by internal policies and regulations, to ensure that a multilateral control system is in place whenever the Bank seals any transaction that involves allocation of the Bank's resources.

### **Liquidity risk**

Liquidity is the Bank's ability to ensure that its unexpected or forecasted financing needs are satisfied to meet legally proven claims of the Bank's creditors. Liquidity is understood as the Bank's ability to convert assets into ready cash with the minimal losses or to borrow funds at a reasonable price.

The Bank meets its liquidity requirements in compliance with the Bank's Liquidity Management Policy, as adopted by the Bank's Board and Council. The Policy sets forth terms for overall net position limits on a maturity basis. The Resources Supervision Committee has the responsibility to ensure uniform implementation of this Policy. The Committee sets appropriate liquidity net positions sub-limits on the maximum aggregate deposit amount deposited by one customer (interlinked customer group), and other restrictions. Also, the Committee ensures the enforcement of operating limits and adherence to the procedures.

To maintain the required liquidity level, every month the Resources Supervision Committee makes a number of assumptions as to the withdrawal of deposits and determines the amount of doubtful deposits, forecasts the increase in demand for loans and changes in the market situation. Also, the Bank's Liquidity Policy envisages the scenario of how to address the Bank's liquidity problem and to deal with a liquidity crisis in the event of its incidence.

To comply with the Financial and Capital Market Commission, the Bank is obligated to hold sufficient liquid assets reserve to meet its financial commitments, but not less than 30% of the Bank's total current liabilities.

As at 31 December 2004, the Bank's liquidity ratio stood at 69%.

**THE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS**

**ANALYSIS OF ASSETS AND LIABILITIES BY MATURITY PROFILE**

**as at 31 December 2004**

	On demand	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	5 years and more	Other	Pledged	TOTAL
<b>ASSETS</b>										<b>LVL</b>
Cash and balances with the central banks	2 298 524	-	-	-	-	-	-	-	-	2 298 524
Due from credit institutions and central banks	18 485 653	1 199 700	211 560	-	-	-	-	-	-	19 896 913
Loans	1 144 809	2 508 822	765 555	16 429	2 324 068	6 012 852	3 798 185	-	-	16 570 720
Debt securities and other fixed-income securities	1 384 471	6 936	-	-	-	-	-	-	387 400	1 778 807
<i>Government debt securities</i>	84 891	5 113	-	-	-	-	-	-	187 400	277 404
<i>Other debt securities and fixed- income securities</i>	1 299 580	1 823	-	-	-	-	-	-	200 000	1 501 403
Shares and other non-fixed- income securities	97 275	-	-	-	-	-	575 174	-	-	672 449
Derivative contracts	-	76 760	11 310	-	-	-	-	-	-	88 070
Investments in associated undertakings	-	-	-	-	-	-	127 111	-	-	127 111
Intangible assets	-	-	-	-	-	-	-	205 117	-	205 117
Fixed assets and investment property	-	-	-	-	-	-	-	2 409 683	-	2 409 683
<i>Fixed assets</i>	-	-	-	-	-	-	-	1 186 683	-	1 186 683
<i>Investment property</i>	-	-	-	-	-	-	-	1 223 000	-	1 223 000
Deferred expenses and accrued income	46 663	101 280	45 834	18 811	33 637	102 788	15 899	-	-	364 912
Other assets	17 335	25 834	114 741	-	-	-	104 234	-	-	262 144
<b>Total assets</b>	<b>23 474 730</b>	<b>3 919 332</b>	<b>1 149 000</b>	<b>35 240</b>	<b>2 357 705</b>	<b>6 115 640</b>	<b>4 620 603</b>	<b>2 614 800</b>	<b>387 400</b>	<b>44 674 450</b>
<b>LIABILITIES</b>										
Due to credit institutions and central banks	588 302	516 000	-	-	567 600	-	-	-	400 000	2 071 902
Customer deposits	25 341 276	4 424 355	1 772 618	2 978 685	810 382	486 993	-	-	-	35 814 309
Derivative contracts	-	53 691	11 319	-	-	-	-	-	-	65 010
Deferred income and accrued expenses	85 975	56 007	9 464	30 866	18 919	24 901	-	-	-	226 132
Accruals for liabilities and payments	-	38 522	2 192	-	131 001	-	-	-	-	171 715
Other liabilities	268 158	59 130	-	-	-	-	-	-	-	327 288
Subordinated liabilities	-	-	-	222 947	11 400	119 728	-	-	-	354 075
Off-balance sheet liabilities*	2 834 155	9 768	-	-	-	-	-	-	-	2 843 923
<b>Total liabilities</b>	<b>29 117 866</b>	<b>5 157 473</b>	<b>1 795 593</b>	<b>3 232 498</b>	<b>1 539 302</b>	<b>631 622</b>	<b>-</b>	<b>-</b>	<b>400 000</b>	<b>41 874 354</b>
<b>Maturity gap</b>	<b>(5 643 136)</b>	<b>(1 238 141)</b>	<b>(646 593)</b>	<b>(3 197 258)</b>	<b>818 403</b>	<b>5 484 018</b>	<b>4 620 603</b>	<b>x</b>	<b>x</b>	<b>x</b>
<b>Maturity gap as at 31 December 2003</b>	<b>(7 646 445)</b>	<b>3 272 061</b>	<b>(913 419)</b>	<b>(1 414 720)</b>	<b>(735 448)</b>	<b>3 006 764</b>	<b>2 877 900</b>	<b>x</b>	<b>x</b>	<b>x</b>

\*Off-balance sheet liabilities are diminished by the amount of the issued guarantees, which are secured by the deposits deposited with the Bank and totaling LVL 45 245.

### Currency risk

Exchange rate fluctuations may affect the Bank's financial position and cash flow. Currency risk inherent in the transactions is calculated separate for each currency with respect to foreign currency-denominated assets and liabilities and the projected cash flow from derivative financial instruments.

To monitor currency risk, the Bank has formulated the Currency risk management policy. The Resources Supervision Committee's responsibility is to ensure that the regulatory requirements outlined in the Policy are implemented. The regulatory requirements impose restrictions both on the size of currency conversion transactions and the net open foreign-currency position (NOFP). Under the Law *On Credit Institutions*, the net open position in any foreign currency may not exceed 10 percent, while the overall foreign exchange exposure may not exceed 20% of the Bank's equity. In the financial market, the Bank is a party to *spot*, *swap* and *forward* contracts for the delivery of foreign currencies.

**THE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS**

**ANALYSIS OF ASSETS AND LIABILITIES BY CURRENCY PROFILE**

**as at 31 December 2004**

ASSETS	LVL	USD	EUR	RUB	BYR	Other currencies	TOTAL LVL
Cash and balances with the central banks	2 012 860	214 201	61 288	-	-	10 175	2 298 524
Due from credit institutions and central banks	12 964	18 029 126	652 574	898 520	143 617	160 112	19 896 913
Loans	4 003 647	9 141 135	3 425 938	-	-	-	16 570 720
Debt securities and other fixed-income securities	394 336	1 384 471	-	-	-	-	1 778 807
Shares and other non-fixed-income securities	566 949	97 275	8 225	-	-	-	672 449
Derivative contracts	88 070	-	-	-	-	-	88 070
Investments in associated undertakings	127 111	-	-	-	-	-	127 111
Intangible assets	176 640	-	28 477	-	-	-	205 117
Fixed assets and investment property	2 406 021	-	-	3 662	-	-	2 409 683
Deferred expense and accrued income	191 036	145 614	28 231	2	-	29	364 912
Other assets	240 969	18 974	2 201	-	-	-	262 144
<b>Total assets</b>	<b>10 220 603</b>	<b>29 030 796</b>	<b>4 206 934</b>	<b>902 184</b>	<b>143 617</b>	<b>170 316</b>	<b>44 674 450</b>
<b>LIABILITIES</b>							
Due to credit institutions and central banks	400 023	1 662 123	8 842	914	-	-	2 071 902
Customer deposits	2 376 048	29 646 445	2 904 726	644 723	195 161	47 206	35 814 309
Derivative contracts	65 010	-	-	-	-	-	65 010
Deferred income and accrued expenses	96 915	120 876	5 855	-	240	2 246	226 132
Accruals for liabilities and payments	171 312	-	-	-	-	403	171 715
Other liabilities	115 422	190 172	16 154	4 558	517	465	327 288
Subordinated liabilities	37 168	316 907	-	-	-	-	354 075
Shareholders' equity	5 644 019	-	-	-	-	-	5 644 019
<b>Total liabilities</b>	<b>8 905 917</b>	<b>31 936 523</b>	<b>2 935 577</b>	<b>650 195</b>	<b>195 918</b>	<b>50 320</b>	<b>44 674 450</b>
<b>BALANCE POSITION</b>	<b>1 314 686</b>	<b>(2 905 727)</b>	<b>1 271 357</b>	<b>251 989</b>	<b>(52 301)</b>	<b>119 996</b>	<b>-</b>
Unsettled spot contracts	4 861 785	(3 833 260)	(877 095)	(234 131)	52 940	-	-
Forward contracts	(6 714 142)	7 191 860	(388 917)	-	-	(75 910)	-
<b>NET POSITION</b>	<b>(537 671)</b>	<b>452 873</b>	<b>5 345</b>	<b>17 858</b>	<b>639</b>	<b>44 086</b>	<b>-</b>
<b>Ratio to the shareholders' equity (%)*</b>		<b>8%</b>	<b>0%</b>	<b>0%</b>	<b>0%</b>		

The sum of overall foreign exchange exposure and the net position in gold stood at 11% of the Bank's equity as at 31 December 2004

The sum of overall foreign exchange exposure and the net position in gold stood at 15% of the Bank's equity as at 31 December 2003.

\* Equity (net worth) totaling LVL 5 478 308 (2003 LVL 5 240 015) as at 31 December 2004

### Interest rate risk

Interest rate risk is the risk that fluctuating interest rates will adversely affect the Bank's earnings and the Bank's economic value.

To manage interest rate risk, the Bank has formulated and adopted the Interest rate risk management policy and the Procedure designed for measuring, monitoring and controlling interest rate risk. To set interest rate risk limits, the Delta approach (Delta measures interest rate changes) is used. Given a one percent change in the interest rate under the Delta approach, the Bank calculates the affect on the annual net interest profit separately for every single currency and for the overall foreign exchange exposure.

The Resources Supervision Committee is responsible for ensuring that the requirements outlined in the aforementioned Procedure are implemented and the Bank's officers operate within prescribed limits. The Bank's Board regularly resets the Bank's pre-determined interest rates based on the analysis of the current market and based on the predictions for the rise or fall of interest rates.

**THE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS**

**ANALYSIS OF ASSETS AND LIABILITIES BY MATURITY PROFILE  
BASED ON FLUCTUATING INTEREST RATES  
as at 31 December 2004**

	Up to 1 month LVL	1 to 3 months LVL	3 to 6 months LVL	6 to 12 months LVL	1 year and more LVL	No interest is paid LVL	Others LVL	TOTAL LVL
<b>ASSETS</b>								
Cash and balances with central banks	1 641 077	-	-	-	-	657 447	-	2 298 524
Due from credit institutions and central banks (net)	18 386 189	211 560	-	-	-	1 299 164	-	19 896 913
Loans (net)	3 812 857	1 455 806	511 231	3 033 748	7 562 282	194 796	-	16 570 720
Debt securities and other fixed-securities	4 441	315 247	33 034	135 387	1 290 698	-	-	1 778 807
Shares and other non-fixed income securities	-	-	-	-	-	672 449	-	672 449
Derivative contracts	-	-	-	-	-	88 070	-	88 070
Investments in associated undertakings	-	-	-	-	-	-	127 111	127 111
Intangible assets	-	-	-	-	-	-	205 117	205 117
Fixed assets and investment property	-	-	-	-	-	-	2 409 683	2 409 683
<i>Fixed assets</i>	-	-	-	-	-	-	1 186 683	1 186 683
<i>Investment property</i>	-	-	-	-	-	-	1 223 000	1 223 000
Deferred expense and accrued income (net)	-	-	-	-	-	364 912	-	364 912
Other assets (net)	-	-	-	-	-	262 144	-	262 144
<b>Total assets</b>	<b>23 844 564</b>	<b>1 982 613</b>	<b>544 265</b>	<b>3 169 135</b>	<b>8 852 980</b>	<b>3 538 982</b>	<b>2 741 911</b>	<b>44 674 450</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>								
Due to credit institutions and central banks	1 409 628	-	-	567 600	-	94 674	-	2 071 902
Customer deposits	22 028 722	1 772 618	2 978 685	810 383	486 993	7 736 908	-	35 814 309
Derivative contracts	-	-	-	-	-	65 010	-	65 010
Deferred income and accrued expense	-	-	-	-	-	226 132	-	226 132
Accruals for liabilities and payments	-	-	-	-	-	171 715	-	171 715
Other liabilities	-	-	-	-	-	327 288	-	327 288
Subordinated liabilities	-	-	222 947	11 400	119 728	-	-	354 075
Shareholders' equity	-	-	-	-	-	-	5 644 019	5 644 019
<b>Total liabilities and shareholders' equity</b>	<b>23 438 350</b>	<b>1 772 618</b>	<b>3 201 632</b>	<b>1 389 383</b>	<b>606 721</b>	<b>8 621 727</b>	<b>5 644 019</b>	<b>44 674 450</b>
<b>Balance sheet sensitivity to interest rate risk</b>	<b>406 214</b>	<b>209 995</b>	<b>(2 657 367)</b>	<b>1 779 752</b>	<b>8 246 259</b>	<b>(5 082 745)</b>	<b>(2 902 108)</b>	
<b>Balance sheet sensitivity to interest rate risk as at 31 December 2003</b>	<b>9 336 283</b>	<b>(1 502 372)</b>	<b>611 767</b>	<b>(670 447)</b>	<b>(99 042)</b>	<b>(7 817 860)</b>		

**Market risk**

The Bank focuses a lot of attention on the monitoring and analysis of market risk. The Bank has adopted its Trading Portfolio Policy designed to define the structure of the Bank's trading portfolio and to set out the maximum effective open position transacted with one issuer and the limits by the maturity profile of the securities. The Resources Supervision Committee is charged with the responsibility of implementing the Trading Portfolio Policy. The Internal Audit Department is charged with a continuing control function.

**Operational risk**

Operational risk is the risk of loss, which may stem from the shortcomings of the staff members, damage of in-house hardware, contingencies, fire and other factors of this sort. To prevent such losses, the Bank has adopted internal guidance documents, such as the internal by-law, fire safety regulations, technical

**THE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS**

system and facility safety regulations, information classification rules and other rules, regulations and directives. The Bank's Board has appointed a task force whose task is to oversee the implementation of the regulatory requirements set forth in the aforesaid internal documents.

**GEOGRAPHICAL BREAKDOWN FOR THE MAIN GROUPS OF ASSETS AND LIABILITIES  
as at 31 December 2004**

	Latvia LVL	EU Member States LVL	Other OECD countries LVL	CIS countries LVL	Others LVL	TOTAL LVL
<b>ASSETS</b>						
Due from credit institutions and central banks	2 177 738	654 067	15 290 165	1 774 943	-	<b>19 896 913</b>
Loans	10 034 058	3 072 642	1 973 088	679 785	811 147	<b>16 570 720</b>
<b>LIABILITIES</b>						
Due to credit institutions and central banks	916 093	-	-	1 105 214	50 595	<b>2 071 902</b>
Customer deposits	4 052 561	1 796 374	20 707 933	3 008 560	6 248 881	<b>35 814 309</b>

**4. INTEREST INCOME**

	<b>2004</b>	<b>2003</b>
	<b>LVL</b>	<b>LVL</b>
Loans	1 452 036	1 202 898
Due from credit institutions	731 626	392 849
Investments in securities	100 161	54 282
Payment cards	11 067	7 246
	<b>2 294 890</b>	<b>1 657 275</b>

**5. INTEREST EXPENSE**

	<b>2004</b>	<b>2003</b>
	<b>LVL</b>	<b>LVL</b>
Deposits	598 262	644 051
Due to credit institutions	113 546	107 573
Subordinated liabilities	4 567	13 949
	<b>716 375</b>	<b>765 573</b>

**6. INCOME FROM SECURITIES**

	<b>2004</b>	<b>2003</b>
	<b>LVL</b>	<b>LVL</b>
Dividends on shares	25 153	4 607
	<b>25 153</b>	<b>4 607</b>

**7. FEES AND COMMISSION INCOME**

	<b>2004</b>	<b>2003</b>
	<b>LVL</b>	<b>LVL</b>
Servicing of settlements	819 744	651 995
Forex transactions	108 457	38 011
Payment cards	39 101	27 905
Trust operations	31 816	3 966
Cash operations	16 833	24 220
Servicing of loans	10 713	970
Other fees and commission income	14 598	35 935
	<b>1 041 262</b>	<b>783 002</b>

**THE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS**

**8. FEES AND COMMISSION EXPENSE**

	<b>2004</b>	<b>2003</b>
	<b>LVL</b>	<b>LVL</b>
Services of correspondent banks	231 575	192 789
Services of agents and brokers	95 654	6 674
Payment cards	18 769	8 935
Securities-based transactions	9 226	9 595
	<u><b>355 224</b></u>	<u><b>217 993</b></u>

**9. GAIN ON TRADING IN FINANCIAL INSTRUMENTS**

	<b>2004</b>	<b>2003</b>
	<b>LVL</b>	<b>LVL</b>
(Loss)/gain on foreign exchange operations	(303 229)	929 228
Gain /(loss) on revaluation of positions in foreign currency	246 210	(556 366)
Gain from revaluation of trading and other financial instruments	174 502	76 553
Gain on trading in financial instruments	76 629	61 196
Gain on trading in and revaluation of precious metals	1 337	3 570
	<u><b>195 449</b></u>	<u><b>514 181</b></u>

**10. OTHER OPERATING INCOME**

	<b>2004</b>	<b>2003</b>
	<b>LVL</b>	<b>LVL</b>
Rent of premises	2 372	104 054
Penalty amounts received	5 152	824
Other	2 213	44
	<u><b>9 737</b></u>	<u><b>104 922</b></u>

**11. ADMINISTRATIVE EXPENSES**

	<b>2004</b>	<b>2003</b>
	<b>LVL</b>	<b>LVL</b>
Salaries to staff employees	718 830	527 957
Professional services	345 125	172 086
Security	230 516	200 709
Communication	214 059	158 411
Social insurance payments	164 516	113 940
Renovation and maintenance	148 749	69 481
Representation expenses	67 410	57 805
Business trips	59 132	25 432
Motor vehicles	41 701	44 785
Real property tax	35 577	32 794
Other	241 390	147 541
	<u><b>2 267 005</b></u>	<u><b>1 550 941</b></u>

**12. OTHER OPERATING EXPENSE**

	<b>2004</b>	<b>2003</b>
	<b>LVL</b>	<b>LVL</b>
Advertising and publicity	37 232	26 949
Penalties paid	19 142	25 128
Other	19 550	14 309
	<u><b>75 924</b></u>	<u><b>66 386</b></u>

**THE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS**

**13. CORPORATE INCOME TAX**

**a) Corporate income tax charge**

	<b>2004</b>	<b>2003</b>
	<b>LVL</b>	<b>LVL</b>
Corporate income tax	-	-
Deferred tax	-	131 001
<b>Total</b>	<b>-</b>	<b>131 001</b>

**b) Reconciliation of accounting profit to tax charge:**

	<b>2004</b>	<b>2003</b>
	<b>LVL</b>	<b>LVL</b>
Profit before taxation	<b>297 778</b>	<b>667 844</b>
Expected tax charge, applying current tax rate of 15% (2003: 19%)	44 667	126 890
<i>Tax effect of:</i>		
Non-deductible items	273 446	472 761
Deferred tax not recognized	-	(468 650)
Losses of prior years not previously recognized in deferred tax assets	(318 113)	-
<b>Total</b>	<b>-</b>	<b>131 001</b>

**c) Deferred taxes**

	<b>2004</b>	<b>2003</b>
	<b>Tax effect 15%</b>	<b>Tax effect 15%</b>
	<b>LVL</b>	<b>LVL</b>
Temporary differences in amortization of fixed assets	(144 404)	(139 161)
Temporary differences in vacation accruals	7 718	8 160
Temporary differences in tax loss carried forward	5 685	-
<b>Deferred tax (liabilities) / assets</b>	<b>(131 001)</b>	<b>(131 001)</b>

The Bank is allowed to offset losses suffered by the Bank in the year 1999, until 2004.

**14. TAXES AND SOCIAL INSURANCE PAYMENTS**

	<b>2004</b>	<b>2003</b>
	<b>LVL</b>	<b>LVL</b>
Taxes paid		
Social tax	235 276	151 865
Personnel income tax	152 959	95 909
Real property tax	35 008	31 606
Value added tax	8 416	22 206
Corporate income tax from non-residents	2 172	1 517
Penalties paid	-	2
<b>Total taxes paid</b>	<b>433 831</b>	<b>303 105</b>

**15. CASH AND BALANCES WITH THE CENTRAL BANKS**

	<b>2004</b>	<b>2003</b>
	<b>LVL</b>	<b>LVL</b>
Cash	657 447	348 215
Balance with the Bank of Latvia	1 641 077	796 086
	<b>2 298 524</b>	<b>1 144 301</b>



**THE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS**

**16. DUE FROM CREDIT INSTITUTIONS AND CENTRAL BANKS**

	<b>2004</b>	<b>2003</b>
	<b>LVL</b>	<b>LVL</b>
Credit institutions incorporated in the OECD countries	15 934 631	5 242 197
Credit institutions incorporated in the Republic of Latvia	2 177 737	1 007 642
Credit institutions incorporated in other countries	1 784 645	7 185 083
	<b>19 897 013</b>	<b>13 434 922</b>
Provisions (Note 18)	(100)	(96)
	<b>19 896 913</b>	<b>13 434 826</b>

**17. LOANS**

**( a ) Loans by type**

	<b>2004</b>	<b>2003</b>
	<b>LVL</b>	<b>LVL</b>
Commercial loans	4 888 569	6 824 723
Overdrafts	2 967 480	1 694 006
Industrial loans	2 201 749	1 393 634
Consumer loans	1 862 248	578 851
Mortgage loans	1 335 758	858 008
Financial leasing	229 329	378 148
Payment cards	59 710	41 552
Other	4 475 108	3 433 621
	<b>18 019 951</b>	<b>15 202 543</b>
Provisions (Note 18)	(1 449 231)	(2 197 257)
	<b>16 570 720</b>	<b>13 005 286</b>

**( b ) Loan profile by geographic locale**

	<b>2004</b>	<b>2003</b>
	<b>LVL</b>	<b>LVL</b>
Residents of Latvia	11 284 410	9 103 243
Residents of EU countries	3 191 999	286 063
Residents of other OECD countries	2 052 586	3 215 630
Residents of CIS countries	679 785	326 509
Residents of other countries	811 171	2 271 098
	<b>18 019 951</b>	<b>15 202 543</b>
Provisions (Note 18)	(1 449 231)	(2 197 257)
	<b>16 570 720</b>	<b>13 005 286</b>

**( c ) Loans by customer profile**

	<b>2004</b>	<b>2003</b>
	<b>LVL</b>	<b>LVL</b>
Loans to private companies	13 184 194	12 894 156
Loans to private individuals	4 044 659	1 452 766
Loans to financial institutions	595 943	706 550
Insider loans (senior management and staff employees)	195 155	149 071
	<b>18 019 951</b>	<b>15 202 543</b>
Provisions (Note 18)	(1 449 231)	(2 197 257)
	<b>16 570 720</b>	<b>13 005 286</b>

**THE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS**

<b>( d ) Loans by terms of maturity</b>	<b>2004</b>	<b>2003</b>
	<b>LVL</b>	<b>LVL</b>
Up to 1 month (inclusive)	3 540 221	2 355 730
1 to 3 months	413 110	100
3 to 6 months	1 703	6 478
6 to 12 months	1 318 185	991 763
1 to 5 years	6 964 990	7 970 651
More than 5 year	5 781 742	3 877 821
	<u><b>18 019 951</b></u>	<u><b>15 202 543</b></u>
Provisions (Note 18)	<u>(1 449 231)</u>	<u>(2 197 257)</u>
	<u><b>16 570 720</b></u>	<u><b>13 005 286</b></u>

**18. ANALYSIS OF CHANGES IN PROVISIONS**

	<b>Loans</b>	<b>Due from credit institutions</b>	<b>Other assets</b>	<b>Accrued income</b>	<b>Off-balance sheet liabilities</b>	<b>Total</b>
	<b>LVL</b>	<b>LVL</b>	<b>LVL</b>	<b>LVL</b>	<b>LVL</b>	<b>LVL</b>
<b>Provisions as at 31 December 2003</b>	<b>2 197 257</b>	<b>96</b>	<b>10 341</b>	<b>21 426</b>	<b>-</b>	<b>2 229 120</b>
Amounts written-off	-	-	(80)	-	-	(80)
Increase in provisions	480 902	(36)	80	10 031	216	491 193
Release from provisions	(1 175 346)	-	-	(1 496)	-	(1 176 842)
Difference due to fluctuations in foreign exchange rates	(53 582)	40	(376)	(668)	(216)	(54 802)
<b>Provisions as at 31 December 2004</b>	<u><b>1 449 231</b></u>	<u><b>100</b></u>	<u><b>9 965</b></u>	<u><b>29 293</b></u>	<u><b>-</b></u>	<u><b>1 488 589</b></u>

**19. INVESTMENTS IN SECURITIES**

**a. Fixed-income debt securities and other fixed-income securities**

	<b>2004</b>	<b>2003</b>
	<b>LVL</b>	<b>LVL</b>
Government treasury bills of the Republic of Latvia	192 513	196 179
Government treasury bills of OECD countries	84 891	139 333
Bonds of other issuers and other debt securities	1 501 403	863 505
	<u><b>1 778 807</b></u>	<u><b>1 199 017</b></u>

**b. Shares and non-fixed income securities**

	<b>2004</b>	<b>2003</b>
	<b>LVL</b>	<b>LVL</b>
Investments in shares listed on the Riga Stock Exchange	560 620	245 307
Shares of U.S. privately-held companies	97 275	79 008
Other investments	14 554	12 418
	<u><b>672 449</b></u>	<u><b>336 733</b></u>

**c. Classification of overall investments in securities**

	<b>2004</b>	<b>2003</b>
	<b>LVL</b>	<b>LVL</b>
Held for trading securities	2 048 695	1 236 430
Held-to-maturity investments	402 561	299 320
	<u><b>2 451 256</b></u>	<u><b>1 535 750</b></u>

**THE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS**

**20. (LOSS)/GAIN OF LONG-TERM FINANCIAL INVESTMENTS**

	<b>2004</b>	<b>2003</b>
	<b>LVL</b>	<b>LVL</b>
Revaluation and disposal of investment property	(348 000)	2 433 000
<i>Gain on revaluation (Note 25)</i>	258 000	2 433 000
<i>Loss on disposal (Note 25)</i>	(606 000)	-
JSC Riga Stock Exchange shares	-	4 115
Equity shares in SIA "Ribeksins Baltija B"	-	(20 000)
	<b><u>(348 000)</u></b>	<b><u>2 417 115</u></b>

**21. DERIVATIVE CONTRACTS**

	<b>Notional</b>	<b>Fair value</b>	
	<b>value</b>	<b>Assets</b>	<b>Liabilities</b>
	<b>LVL</b>	<b>LVL</b>	<b>LVL</b>
Foreign currency exchange <i>SWAP</i> transactions	11 048 391	88 070	65 010
	<b><u>11 048 391</u></b>	<b><u>88 070</u></b>	<b><u>65 010</u></b>

**22. INVESTMENTS IN ASSOCIATED UNDERTAKINGS**

<b>Company</b>	<b>Business profile</b>	<b>Shareholding</b>	<b>2004</b>	<b>2003</b>
			<b>%</b>	<b>Equity participation</b>
			<b>LVL</b>	<b>LVL</b>
JSC "Capital"	Trade	20.96	127 111	127 111
			<b><u>127 111</u></b>	<b><u>127 111</u></b>

**23. INTANGIBLE ASSETS**

	<b>Intangible assets</b>	<b>Pre-payments for intangible assets</b>	<b>Total</b>
	<b>LVL</b>	<b>LVL</b>	<b>LVL</b>
Historical cost			
<b>As at 31 December 2003</b>	<b>264 354</b>	<b>64 440</b>	<b>328 794</b>
Additions	-	32 073	32 073
Disposals	(22 999)	-	(22 999)
<b>As at 31 December 2004</b>	<b><u>241 355</u></b>	<b><u>96 513</u></b>	<b><u>337 868</u></b>
Amortization			
<b>As at 31 December 2003</b>	<b>(108 226)</b>	-	<b>(108 226)</b>
Amortization	(47 524)	-	(47 524)
Disposals	22 999	-	22 999
<b>As at 31 December 2004</b>	<b><u>(132 751)</u></b>	<b><u>-</u></b>	<b><u>(132 751)</u></b>
Net book value			
<b>As at 31 December 2003</b>	<b><u>156 128</u></b>	<b><u>64 440</u></b>	<b><u>220 568</u></b>
<b>As at 31 December 2004</b>	<b><u>108 604</u></b>	<b><u>96 513</u></b>	<b><u>205 117</u></b>

**THE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS**

**24. FIXED ASSETS**

	Buildings and land (in own use) LVL	Leased fixed assets- related capital expenditure LVL	Motor vehicles LVL	Office outfit LVL	Pre- payments for fixed assets LVL	Total LVL
Historical cost						
<b>As at 31 December 2003</b>	273 108	373 855	111 774	693 427	-	1 452 164
Additions	-	34 907	72 003	55 176	93 692	255 778
Disposals	-	-	(1 245)	(34 581)	-	(35 826)
Reclassification	-	-	-	90 029	(90 029)	-
<b>As at 31 December 2004</b>	<u>273 108</u>	<u>408 762</u>	<u>182 532</u>	<u>804 051</u>	<u>3 663</u>	<u>1 672 116</u>
Depreciation						
<b>As at 31 December 2003</b>	(33 235)	-	(42 337)	(300 360)	-	(375 932)
Depreciation	(5 179)	-	(25 671)	(113 460)	-	(144 310)
Disposals	-	-	228	34 581	-	34 809
<b>As at 31 December 2004</b>	<u>(38 414)</u>	<u>-</u>	<u>(67 780)</u>	<u>(379 239)</u>	<u>-</u>	<u>(485 433)</u>
Net book value						
<b>As at 31 December 2003</b>	<u>239 873</u>	<u>373 855</u>	<u>69 437</u>	<u>393 067</u>	<u>-</u>	<u>1 076 232</u>
<b>As at 31 December 2004</b>	<u>234 694</u>	<u>408 762</u>	<u>114 752</u>	<u>424 812</u>	<u>3 663</u>	<u>1 186 683</u>

**25. INVESTMENT PROPERTY**

	LVL
<b>As at 31 December 2002</b>	<b>927 000</b>
Additions	704 000
Revaluation	2 433 000
<b>As at 31 December 2003</b>	<u><b>4 064 000</b></u>
Sale	(2 493 000)
Loss from sale (Note 20)	(606 000)
Revaluation (Note 20)	258 000
<b>As at 31 December 2004</b>	<u><b>1 223 000</b></u>

In 2003, the Bank's investment property comprising the buildings and the land was reappraised at fair market value in line with International Financial Reporting Standards: the buildings and the land located at Skolas Street 35 and Bruninieku Street 2, Riga, Latvia were reappraised on 27 August 2003, while the building and the land located at Grecinieku Street 6, Riga, Latvia were reappraised on 30 December 2003.

On 3 December 2004, the Bank's investment property that comprises the building and the land located in Rīga, Grēcinieku Street 6 was reappraised by certified appraiser a/s "Biznesa Konsultāciju Grupa" at fair market value (*FMV*). In 2004, the Bank sold the investment property that comprised the building and the land located in Riga, Skolas Street 35 and Riga, Bruņinieku Street 2.

**26. DEFERRED EXPENSES AND ACCRUED INCOME**

	2004 LVL	2003 LVL
Deferred expenses	178 243	110 588
Accrued interest on loans to non-monetary financial institutions	143 640	54 286
Other accrued income	27 376	10 076
Accrued interest on securities	27 037	18 936
Accrued interest on interbank loans	17 909	23 238
Provisions (Note 18)	<u>(29 293)</u>	<u>(21 427)</u>
	<u><b>364 912</b></u>	<u><b>195 697</b></u>

**THE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS**

**27. OTHER ASSETS**

	<b>2004</b>	<b>2003</b>
	<b>LVL</b>	<b>LVL</b>
Pre-payments	152 979	38 126
Unsettled Spot forex transactions	43 169	186 820
Unidentified funds outflow from correspondent accounts	26 712	6 882
Other accounts receivable	22 146	7 449
Precious metals	20 049	32 293
Funds placed in guarantee funds	7 033	7 361
Property for sale	-	80
Tax overpayment	21	21
Provisions (Note 18)	(9 965)	(10 341)
	<b>262 144</b>	<b>268 691</b>

**28. DUE TO CREDIT INSTITUTIONS AND CENTRAL BANKS**

	<b>2004</b>	<b>2003</b>
	<b>LVL</b>	<b>LVL</b>
Credit institutions incorporated in the Republic of Latvia	516 093	379
The Bank of Latvia	400 000	-
Credit institutions incorporated in other countries	1 155 809	3 396 606
	<b>2 071 902</b>	<b>3 396 985</b>

**29. CUSTOMER DEPOSITS**

	<b>2004</b>	<b>2003</b>
	<b>LVL</b>	<b>LVL</b>
<b>Current account balances</b>		
Private companies	22 814 733	13 086 561
Private individuals	1 171 812	965 046
State-owned companies	97 955	482 677
Financial institutions	10 836	4 904
Public organizations	1 089	6 343
Municipalities	1	13 148
	<b>24 096 426</b>	<b>14 558 679</b>
<b>Term deposits</b>		
Private companies	7 570 323	7 796 666
Private individuals	3 282 493	2 535 450
Financial institutions	865 067	326 094
	<b>11 717 883</b>	<b>10 658 210</b>
<b>Total customer deposits</b>	<b>35 814 309</b>	<b>25 216 889</b>

**30. DEFERRED INCOME AND ACCRUED EXPENSES**

	<b>2004</b>	<b>2003</b>
	<b>LVL</b>	<b>LVL</b>
Accrued interest payable	142 788	121 832
Unused vacation accrued expenses	51 460	54 400
Other accrued expense	31 244	40 077
Deferred income	640	372
	<b>226 132</b>	<b>216 681</b>

**THE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS**

**31. ACCRUALS FOR LIABILITIES AND PAYMENTS**

	<b>2004</b>	<b>2003</b>
	<b>LVL</b>	<b>LVL</b>
Deferred taxes (Note 13)	131 001	131 001
Accruals for other payments	40 714	33 747
	<b>171 715</b>	<b>164 748</b>

**32. OTHER LIABILITIES**

	<b>2004</b>	<b>2003</b>
	<b>LVL</b>	<b>LVL</b>
Unidentified funds inflow to correspondent accounts	201 636	156 185
Unsettled <i>Spot</i> forex transactions	72 929	136 116
Other accounts payable	52 723	46 020
	<b>327 288</b>	<b>338 321</b>

**33. SUBORDINATED LIABILITIES**

Unlike ordinary deposits, subordinated deposits are seven-year fixed term. The subordinated deposits holders may not request principal amount repayment before maturity. Subordinated liabilities can not be converted to equity. No changes in the Bank's subordinated liabilities occurred during the year 2004. As at 31 December 2004, the amount of subordinated liabilities totaled LVL 354 075.

Subordinated deposits representing over 10 per cent of the aggregate subordinated liabilities:

<b>Depositor</b>	<b>Currency</b>	<b>Amount in currency</b>	<b>Amount in lats</b>	<b>Interest rate</b>	<b>The inception date of the agreement</b>	<b>Repayment date</b>
A/s Uniparks	USD	94 068	48 539	0.00%	08/05/1998	08/05/2005
Belokon Holdings	USD	85 000	43 860	5.50%	19/04/2000	07/05/2006
Tara Group LLC	USD	100 000	51 600	0.00%	06/05/1998	06/05/2005
Oristo Financial	USD	75 000	38 700	0.00%	28/04/1998	28/04/2005
Impex Land	USD	74 000	38 184	4.00%	04/05/1998	04/05/2005

**34. SHAREHOLDERS' EQUITY**

As at 31 December 2004, the total authorized capital stock was 1 522 257 (One million five hundred twenty two thousand two hundred fifty seven) ordinary voting shares.

These are registered shares, each having a par value of LVL 5.00 (five lats). The total par value of the shares equals LVL 7 611 285 (seven million six hundred eleven thousand two hundred eighty five lats).

Of the Bank's 102 shareholders, 34 are legal entities and 68 are private individuals.

Reserve capital totaling LVL 545 024 is formed from the contributions made by the Bank's shareholders.

Listed below are the shareholders who each directly control more than 10 percent of the shares in the shareholders' equity:

Valeri Belokon	37.2053 %
Viacheslav Kramnoy	27.9721 %
Vilori Belokon	12.1657 %

**THE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS**

**35. CASH AND CASH EQUIVALENTS**

	<b>2004</b>	<b>2003</b>
	<b>LVL</b>	<b>LVL</b>
Cash	657 447	348 215
Balance with the Bank of Latvia	1 641 077	796 086
Due from other credit institutions with up to 3 months remaining maturity	19 897 013	13 434 922
Due to the Bank Of Latvia with up to 3 months remaining maturity	(400 000)	-
Due to other credit institutions with up to 3 months remaining maturity	(1 104 302)	(2 682 866)
Provisions (Note 18)	(100)	(96)
	<b>20 691 135</b>	<b>11 896 261</b>

**36. RELATED PARTY TRANSACTIONS**

	<b>Loans</b>	<b>Cumulative number of risk transactions (excluding provisions)</b>	<b>Risk transactions versus equity (excluding provisions)</b>	<b>Deposits</b>
	<b>LVL</b>	<b>LVL</b>	<b>%</b>	<b>LVL</b>
Council and Board members	16 122	46 416	0.90%	57 761
Other senior executives	52 099	58 368	1.12%	15 340
Bank-related companies	274 190	475 738	9.19%	2 971 496
	<b>342 411</b>	<b>580 522</b>	<b>11.21%</b>	<b>3 044 597</b>

**37. TRUST AGREEMENTS**

The Bank enters into trust agreements with private individuals and legal entities, residents and non-residents of the Republic of Latvia. The Bank undertakes to invest customer funds in those financial instruments, which by the trust administrator's view will prove to be the most profitable. As at 31 December 2004, the Bank's administered assets totaled LVL 5 470 306. 100 percent of this balance was in loans. As at 31 December 2003, the Bank's administered assets stood at LVL 4 052 335. Trust transactions are included in off-balance sheet item.

**38. OFF-BALANCE SHEET ITEMS**

	<b>2004</b>	<b>2003</b>
	<b>LVL</b>	<b>LVL</b>
<b>Sureties and guarantees</b>	<b>226 004</b>	<b>1 219 335</b>
<b>Commitments to customers</b>	<b>2 663 164</b>	<b>1 304 741</b>
Letters of Credit	-	28 766
Liabilities for opening credit lines	2 288 328	968 178
Liabilities for credit cards	373 593	306 993
Other liabilities	1 243	804
	<b>2 889 168</b>	<b>2 524 076</b>

## THE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS

### 39. INFORMATION ON THE BANK'S STAFF

In 2004, the Bank's average staff complement grew to reach the figure 136 (in 2003 – 126). Remuneration to the Bank's Council and Board members amounted to:

	2004	2003
	LVL	LVL
Council members	13 254	6 168
Board members	55 053	49 057
	<b>68 307</b>	<b>55 225</b>

### 40. CAPITAL ADEQUACY CALCULATION

The Bank's capital adequacy ratio reflects the capital level required for hedging against credit risk and market risk which the Bank's assets and off-balance sheet liabilities are exposed to. Therefore, to comply with the Financial and Capital Market Commission's regulatory requirements, the capital adequacy ratio may not be less than 8 percent of the Bank's equity.

	Amount LVL	Risk weight category %	Risk-weighted value LVL
<b>The Bank's portfolio credit risk capital requirements</b>			
<b>Assets</b>			
Cash and balances with the central banks	2 298 524	0%	-
Due from credit institutions and central banks			
<i>Credit institutions incorporated in OECD countries</i>	15 951 322	20%	3 190 264
<i>Credit institutions incorporated in EU countries (except for OECD countries)</i>	9 702	20%	1 940
<i>Demand claims on the LR credit institutions</i>	2 178 136	20%	435 627
<i>Credit institutions incorporated in non-OECD countries</i>	1 775 498	100%	1 775 498
Securities and investments			
<i>Due from the LR central government</i>	195 515	0%	-
<i>Securities issued by credit institutions incorporated in the LR and other fixed income securities</i>	206 820	20%	41 364
<i>Shares and other non-fixed income securities</i>	8 225	100%	8 225
<i>Investments in associated undertakings</i>	127 111	100%	127 111
Customer loans, net value			
<i>Claims secured by fixed-term deposits</i>	1 540 852	0%	-
<i>Claims secured by mortgage on real estate and registered with the Land Register</i>	48 551	50%	24 276
<i>Claims on borrowers who are not credit institutions, except for lower- risk claims</i>	15 095 651	100%	15 095 651
Prepaid expenses and accrued income, if those are not attributable to a particular counterpart	205 794	50%	102 897
Fixed assets and investment property	2 409 683	100%	2 409 683
Other assets	262 144	100%	262 144
<b>TOTAL RISK-WEIGHTED VALUE OF ASSETS</b>			<b>23 474 680</b>

#### OFF-BALANCE SHEET LIABILITIES

##### Adjustment of 100 percent risk-weight for credit risk

Guarantees issued				
	<i>0% risk-weight</i>	45 245	0%	-
	<i>100% risk-weight</i>	180 759	100%	180 759
Other items carrying full credit risk				
	<i>100% risk-weight</i>	9 768	100%	9 768



**THE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS**

**Adjustment of 50 percent risk-weight for credit risk**

Obligations in respect of loans, agreements to open credit lines, and similar liabilities				
	<i>0% risk- weight</i>	125 313	<i>0%</i>	-
	<i>100% risk- weight</i>	2 526 840	<i>100%</i>	1 263 420
Other items carrying average risk				
	<i>100% risk- weight</i>	1 243	<i>100%</i>	622
<b>The credit equivalent amount of foreign-currency derivative contracts</b>				
	<i>20% risk- weight</i>	152 947	<i>20%</i>	30 589
	<i>100% risk- weight</i>	13 724	<i>100%</i>	13 724

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**TOTAL OFF-BALANCE SHEET LIABILITIES** **1 498 882**

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**TOTAL RISK-WEIGHTED VALUE OF ASSETS AND OFF-BALANCE SHEET LIABILITIES** **24 973 562**

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**THE BANK'S PORTFOLIO CREDIT RISK CAPITAL REQUIREMENT** **1 997 885**

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**EQUITY (NET WORTH)**

Paid-in share capital	7 611 285
Reserve capital and other reserves	545 024
Accumulated deficit	(2 810 068)
Profit for the current year	297 778
Intangible assets	(205 117)
<b>Tier 1 Core Capital</b>	<b>5 438 902</b>

Subordinated liabilities with remaining maturity

<i>Up to 1 year (inclusive)</i>	234 347	<i>0%</i>	-
<i>1 to 2 years</i>	69 660	<i>20%</i>	13 932
<i>2 to 3 years</i>	30 000	<i>40%</i>	12 000
<i>3 to 4 years</i>	12 900	<i>60%</i>	7 740
<i>4 to 5 years</i>	7 168	<i>80%</i>	5 734

**Tier 2 Supplementary Capital** **39 406**

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**TOTAL CAPITAL** **5 478 308**

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**Aggregate capital requirements**

The Bank's portfolio credit risk capital requirement	1 997 885
Foreign exchange risk capital requirement	35 280
Position risk capital requirement	122 110
Counter-party risk capital requirement	1 360
<b>Total amount of market risk capital requirements</b>	<b>158 750</b>
<b>Equity coverage for capital requirements</b>	<b>3 321 673</b>

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**CAPITAL ADEQUACY RATIO (%)** **20.32**

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**CAPITAL ADEQUACY RATIO**  
as at 31 December 2003 (%) **20.13**

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