

A/S Latvijas Krājbanka

Annual Report

for the year ended 31 December 2003

TABLE OF CONTENTS

Statement of the President	3
The Economic and Banking Environment	6
Supervisory Council and Management Board of the Bank	8
Statement of Responsibility of the Management	10
Financial Statements:	
Income Statement	11
Balance Sheet and Memorandum items	12
Statement of Changes in Shareholders' Equity	14
Cash Flow Statement	15
Notes to the Financial Statements	16
Auditors' Report	48

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STATEMENT OF THE PRESIDENT

Dear shareholders and customers of *Krājbanka*!

The year 2003 for A/S "Latvijas Krājbanka" (hereinafter also referred to as – the Bank or *Krājbanka*) operations and development has been abundant with several significant events that we can justly consider as a natural end for the Bank's privatisation process started in the previous years. Tender for sale for cash of state owned shares took place and as a result the number of *Krājbanka* private shareholders has increased. 99% of Bank shares are the property of private shareholders and bank employees.

At the end of the year the Bank became a public joint stock company, wherewith all Bank shares can be sold and purchased without restraint, but the annual shareholder's meeting will make a decision if *Krājbanka* shares will be quoted on the stock exchange.

In the annual report should be emphasized an exclusive event in Bank's life: the fact that *Krājbanka* became the first Latvian commercial bank that obtained the quality management system certificate ISO 9001:2000. ISO certificate verifies that all processes identified internally are relevant to the Bank in order to achieve higher customer satisfaction with Bank's products and services, based on customers' opinion and wishes.

Along these changes last year significant change occurred in the Bank's management. Part of the Bank's Board Members changed. The current Board works since 27 June 2003, when in *Krājbanka* Shareholder's meeting was elected the former *Krājbanka* Member of the Board Andris Nātriņš as President/ Chairman of the Board, and re-elected Board Members Olga Lomaša and Uģis Latsons, who was re-elected as *Krājbanka* First Vice-President. Gints Bukovskis and Valts Vīgants were also elected as the members of the Board.

The new Board of the Bank in its operations observes and strives to develop those aims, values and principles that have been included in the Bank's strategy for last 5-6 years. The main are - *Krājbanka* is a universal commercial bank with wide range customer service network around Latvia that offers modern on new technologies based products and services. According to the mentioned principles, the Bank has further developed its structure, personal and product management policy. In the previous year these are the fields where most changes took place.

At the end of the year Bank started optimisation of structure with a purpose to reach two aims. Firstly, centralisation of accounting function, secondly, decentralisation of decision taking. The necessity of change is dictated by the situation in banking sector, as well as necessity to perform possibly larger amount of work and to reach consistent quality for all processes in Bank's network with precisely structured human resources. In line with the human resource policy declared in the Strategy of *Krājbanka*, which is based on professionalism, loyalty and creativity, the result of reorganisation is aimed at providing wider opportunities for staff to demonstrate their professional potential. During the reporting period the structural change affected the Central Administration Department and branches in Riga. In year 2004 change is expected to continue in all *Krājbanka* structural units throughout Latvia.

When evaluating *Krājbanka* personnel policy achievements in year 2003, one certainly should mark out e-training implementation that is essential for new employees when they are introduced with the quite complicated Bank activity processes, as well allows to evaluate knowledge of each employee on his competency area fast enough when necessary.

As far as product development is concerned, last year the Bank has developed and implemented new products, and improved the existing ones. As well the Bank has improved its technological resources to ensure the Bank's product maintenance. In 2003 *Krājbanka* has launched the issue of smart-cards. *Krājbanka* supports implementation of smart card technologies and takes part in the *VISA Chip Incentive* program that stimulates a gradual transition from cards with magnetic line to new technology payment cards, where microprocessor (chip) as data carrier is used.

In 2003 *Krājbanka* successfully started issuing VISA Electron smart cards, but at the end of the year the Bank started the project of issuing Maestro smart cards, that is planned to be finished in the spring of 2004.

STATEMENT OF THE PRESIDENT

At the end of 2003, already 7 thousand bank customers have received smart cards. The next aim – credit cards where microprocessor or chip will be used not only as a mean of security, but will give possibility to use payment card in a broader way than existing payment cards with magnetic line. In the microprocessor cards besides payment card data it will be possible to store also other data, such as customer personal data and data on services used by the customer.

As a significant Bank's investment in *Krājbanka* card service in 2003 for customer security should be mentioned the implemented payment card twenty four hour transaction monitoring system, that performs real time card transaction verification in order to detect and prevent payment card usage for fraudulent purposes on a timely basis and decrease possible losses for customers and the Bank that can occur from unauthorised usage of the payment card. Additionally, the implemented monitoring system ensures the possibility to timely prevent problems that are connected with payment card service technical errors.

Confirming the realisation of strategic aims in the payment card market, on 20 March 2003 *Krājbanka* congratulated its 200,000th user of Bank payment card. The first *Maestro* payment card was issued in 1998, and since that time the offered payment card choice has increased to 14 products. In accordance with *Krājbanka*'s strategic development for the next 5 years, the Bank plans to offer also other additional services by expanding smart card possibilities, as well as improving ATM functionality for all *Krājbanka* payment card users.

Until the end of the reporting year *Krājbanka* has issued 238 thousand debit cards and more than 4 thousand credit cards. In the past year the number of customers that have opened only credit card accounts increased by 17.7%. This confirms that *Krājbanka* credit card products become more popular among existing, as well as among newly attracted customers.

Krājbanka payment card owners have the possibility to withdraw cash from 760 ATMs without additional charges due to cooperation with *Hansabanka*, *Unibanka*, *Parekss banka*, *Baltijas Tranzītu banka* and *Nord/LB*.

In 2003 a lot of positive changes and innovations took place also in the development of other products of the Bank. The conditions to grant the mortgage loans to Bank customers were revised. They have become more favourable, as well as the Bank introduced a special Mortgage loan offer called "My house is my Palace". There is elaborated and implemented new credit transaction interest calculation method. Consumption loans have gained particular popularity among loan products for private persons during last year.

During the reporting year the Bank has continued to develop electronic payment system (EPS) by increasing customer conveniences and expanding the product range. Starting from July 2002 *Krājbanka* customers that use Electronic payment systems - *Telephone Bank*, *Online bank* and *Office bank* - may place deposits electronically.

During the reporting year term deposit balances placed by private customers have increased significantly, resulting in an increase of a three times of the increase of 2002. Such increase indicates that *Krājbanka*'s name is being increasingly trusted by customers, and it is recognised as a secure and stable Bank.

During last year account management possibilities in *Krājbanka* have increased significantly. Currently Bank customers are offered to receive account statements at any of *Krājbanka*'s customer service place in Latvia, as well as there are offered possibilities to make changes in previously opened accounts in any branch of the bank/ customer service centres. In 2003 there has been developed new product sets for private persons and legal entities, as well as implemented more attractive service fees for customers with wider choice possibilities.

Starting from August 2003 in cooperation with AAS *Baltijas Apdrošināšanas Nams* (BAN), the Bank has started to offer property, casco and travel insurance policies, as well as additional information about for 6 other non-life insurance types in its branch network in order to increase possibility for customer to receive wider range of financial services.

If we look at the amount of active customers, the number of bank products used per one customer, number and structure of performed transactions, as well as financial resources attracted from customers, we see an indication of the dynamics of *Krājbanka* operations in 2003, which demonstrates the ability of Bank to achieve growth and profitability under quite sophisticated conditions. As well the Bank has successfully operated in an increasingly competitive environment, when the traditional revenue item for the Bank - income from privatisation certificate operations - has decreased to minimum.

STATEMENT OF THE PRESIDENT

Reforms timely made in previous years in terms of choice of customer service locations, information systems, development of private person product basket, as well as visual changes to the premises and increase in human resource quality have been basis for successful development of the Bank in future.

In conclusion we would like to thank our customers, employees of the Bank and shareholders for support, confidence and successful cooperation in 2003, as well to make a promise to continue a ambitious work to increase competitiveness of *Krājbanka*, so that in 2004 when *Krājbanka* will celebrate its 80 anniversary, each of the Bank's performance indicators would be worth the anniversary!

Yours truly,

Ilmārs Razumovskis
Chairman of the Council

Andris Nātriņš
President/ Chairman of the Board

Riga,
17 February 2004

THE ECONOMIC AND BANKING ENVIRONMENT

In 2003 Latvia experienced a continued economic growth, stimulated by the increase in industrial production, export and investments.

According to the forecasts of the Ministry of Economics, the GDP growth in 2003 at the date of these financial statements was expected at 7.5% (one of the highest forecasts among EU accession countries). During the 9 months of 2003, GDP in Latvia increased by 7.4%. The forecasted growth of GDP in Latvia during 2003 exceeds the actual growth in 2002 (6.1%) and is slightly lower than the DGP growth in 2001 (7.9%). Forecasts for the other Baltic countries in 2003 also reflect a rather quick economic development where Lithuania retains the leading positions with a GDP growth of 8.9%. During 2003, the Baltic countries have maintained a rather rapid pace of development in comparison with the decreased economic development in the European Union.

The GDP growth in Latvia is currently promoted by the development of processing industry, construction, trade, commercial services, transport and communications. The highest growth trends within the processing industry were observed in timber industry, machine building and manufacturing of metal products. Due to the rapid increase in the investment amounts, the development in the construction area during 2003 significantly exceeded the average development rates in other industries. At the same time, agriculture production in Latvia decreased in 2003 (primarily crop farming).

In 2003, exports increased from Latvia to the EU countries, Estonia, Lithuania, and CIS countries. The main trade partners of Latvia during 2003 were EU countries. Foreign trade is primarily constituted by transactions with Germany, Lithuania, Sweden, Russia and Great Britain.

Current account deficit in 2003 was rather high (approximately 9.0 % of the forecasted GDP); however it is not critical in line with the direct foreign investments upon Latvia's accession to the EU.

During January to October 2003 (the latest available information at the date of these financial statements), exports increased by 17% compared to the respective period in the previous year, and imports increased at a more rapid pace and amounted to 20%, which has adversely impacted the Latvia's trade balance. Timber and timber products constitute the largest contribution to the increase in exports during 2003. During the 10 months of 2003, exports increased across all product groups except agricultural and food products. Imports over the 10 months of 2003 increased across all product groups and the largest increase was observed in metal processing and machine building product group.

In contrast to the negative trading balance, services balance during the 9 months of 2003 was positive which was basically supported by income from transit traffic.

Consumer price inflation in Latvia during 2003 was one of the lowest among the countries of transition economics. The average inflation rate during 2003 was 2.9%, which is a 1% increase over 2002. The increase in consumer price inflation was impacted by the increase of certain administratively regulated prices, as well as prices on medical and other services and products. In addition, the increased inflation level in 2003 was promoted by the increase in the prices of imported goods as a result of the rapid rise of the Euro exchange rate.

According to the Central Bureau of Statistics, manufacturer prices in 2003 increased by 3.2%, which is the largest increase during the last 6 years.

The consolidated budget deficit in 2003 was 103.1 million lats, which lays basis for the forecast that the limit of 3% from DGP as set in the Maastricht Treaty will be complied with in 2003. In addition, 2003 budget deficit in Latvia was the lowest during the last five years.

Public debt to GDP ratio in 2003 was forecasted rather low – below 15% of GDP.

According to Employment State Agency, the number of the registered unemployed at the end of 2003 was 90.6 thousand of the economically active residents and the unemployment rate was 8.6%. Compared to 2002 the unemployment rate has increased by 0.1%.

In 2003, the net foreign reserve of the Bank of Latvia increased by 5.9%, which ensured complete coverage of cash basis. The coverage of cash in circulation and deposits in the Bank of Latvia with net assets at the end of December 2003 was 102.1%.

THE ECONOMIC AND BANKING ENVIRONMENT

In 2003 banking services were provided by 22 banks and one branch of a foreign bank in Latvia. Also, three representative offices of foreign banks not permitted to provide financial services are operating in Riga.

The Latvian banking sector in 2003 underwent stable development. There was a gradual increase of all key banking figures such as assets, equity and reserves, attracted deposits, issued loans and profit figures. Net interest income and net income from intermediary services of commercial banks increased during 2003. However, according to the Ministry of Economics, irrespective of the annual growth the ratio of deposits and loans issued and GDP was significantly lower than in developed countries.

The largest amount of attracted deposits in commercial banks were deposits by non-residents (over 53% of total deposits); however, approximately 88.3% of all banking sector loans were issued to residents. The availability of financial resources for individuals and companies improved due to the decrease of interest rates on long term loans. According to the Bank of Latvia, the average weighted annual rate of the lat-denominated long term loans issued to local companies and individuals at the end of 2003 was 7.4%, and the rate of long term loans issued in the currency of OECD-countries was 4.2%. The gradual decrease of loan interest rates in 2003 was promoted by the improvement of the economic environment, low inflation levels, the growing loan offers and increased bank competition.

According to the Financial and Capital Market Commission, the largest amount of loans in the Latvian commercial banking sector at the end of 2003 was issued to trading companies (20.3% of all resident companies). In addition, the amount of loans issued to all sectors of national economy, except power, gas and water supply, increased in 2003 compared to 2002. During 2003 mortgage lending experienced a rapid growth where 27.9% of all loans issued by commercial banks at the end of 2003 were mortgage loans. The amount of short term loans issued by the banking sector in 2003 decreased whereas the number of long term loans increased, and so did the amount of term deposits.

The stability of the banking sector in 2003 was promoted by structured legislation in the banking area and strict and consistent monitoring of the financial and capital market.

SUPERVISORY COUNCIL AND MANAGEMENT BOARD OF THE BANK

As at the date of signing of the Financial Statements the Supervisory Council of the Bank consisted of the following members:

Supervisory Council

<i>Name, surname</i>	<i>Position</i>	<i>Date of appointment</i>
Ilmārs Razumovskis	Chairman of the Council	31/03/2003
Vilis Dambiņš	Deputy Chairman of the Council	31/03/2003
Laimonis Strujevičs	Deputy Chairman of the Council	31/03/2003
Marita Vildava	Member of the Council	31/03/2003
Maira Gūtmane	Member of the Council	31/03/2003
Gundars Lācis	Member of the Council	31/03/2003
Lolita Kronberga	Member of the Council	31/03/2003
Ansis Sormulis	Member of the Council	31/03/2003
Vidaga Putniņa	Member of the Council	31/03/2003

On 31 March 2003, the extraordinary General Meeting of shareholders recalled from their duties all the members of the Supervisory Council: Ģirts Rungainis, Aivis Spuņģis, Marita Vildava, Alexandre Rene Garese, Lolita Kronberga, Vilis Dambiņš, Ansis Sormulis, Dzintars Kašs, Laimonis Strujevičs.

At the same Meeting, the shareholders reelected: Lolita Kronberga, Vilis Dambiņš, Marita Vildava, Laimonis Strujevičs, Ansis Sormulis and elected four new members: Ilmārs Razumovskis, Gundars Lācis, Maira Gutmane, Vidaga Putniņa as members of the Supervisory Council for a three year period.

There have been no other changes in the Supervisory Council of the Bank during the period since 1 January 2003 through the date of signing the financial statements.

SUPERVISORY COUNCIL AND MANAGEMENT BOARD OF THE BANK

As at the date of signing of the Financial Statements members of the Management Board were as follows:

The Board of Management

<i>Name, surname</i>	<i>Position</i>	<i>Date of appointment / reappointment</i>
Andris Nātriņš	Chairman of the Board/ President	27/06/2003
	Member of the Board	31/03/2003
Uģis Latsons	First Deputy Chairman of the Board/ First Vice President	04/02/2002/ 27/06/2003
Valts Vīgants	Member of the Board/ Senior Vice President	27/06/2003
Gints Bukovskis	Member of the Board/ Senior Vice President	27/06/2003
Olga Lomaša	Member of the Board/ Senior Vice President	27/03/2000 / 27/06/2003

Changes in the Management Board of the Bank since 1 January 2003 until the day of signing the financial statements were as follows:

On 31 March 2003 the General Meeting of Krājbanka shareholders took place. Since three year term of appointment had expired for Members of the Board - Olga Lomaša and Vladimirs Pataņins and as the Krājbanka Statute Clause 12.2 prescribes the number of the Board to be seven (before 11 March 2002 the Board of Krājbanka had five Board members - Z.Jeromanovs, U.Latsons, R.Kumpiņš, V.Pataņins and O.Lomaša), A/S "Latvijas Krājbanka" Shareholders' Meeting decided to elect four new Board members: Dace Bolšteina, Daiga Pravaine and Andris Nātriņš and to reappoint Olga Lomaša.

Under this condition after registration in the Register of Enterprise on 16 April 2003 A/S "Latvijas Krājbanka" Board worked in the following team: Chairman of the Board/ President Z.Jeromanovs, First Deputy Chairman of the Board (First Vice President) U.Latsons, Member of the Board – R.Kumpiņš, D.Bolšteina, O.Lomaša, D.Pravaine and A.Nātriņš.

On 30 May 2003 Krājbanka's Council meeting took place and on the basis of a/s "Latvijas Krājbanka" Statute Clause 12.12 decided to release Z.Jeromanovs from the duties of the Chairman of the Board (President) and Member of the Board effective 2 June 2003.

On the basis of a/s "Latvijas Krājbanka" Council decision dated 27 June 2003 Dace Bolšteina was released from duties of the Member of the Board effective 27 June 2003. On 27 June 2003 Krājbanka's shareholders' extraordinary meeting took place and made a decision to recall from Management Board positions: Uģis Latsons, Olga Lomaša, Rolands Kumpiņš, Daiga Pravaine and Andris Nātriņš.

On 27 June 2003 Krājbanka Shareholders' extraordinary meeting took place and decided to appoint Andris Nātriņš as Chairman of the Board (president) and Member of the board of the joint stock company "Latvijas Krājbanka" and as Members of the Board to reappoint Uģis Latsons, Olga Lomaša and to appoint for the first time Valts Vīgants, Gints Bukovskis.

The Board of Management released from their duties in 2003:

<i>Name, surname</i>	<i>Position</i>	<i>Date of appointment - date of reappointment</i>
Zigurds Jeromanovs	Chairman of the Board/ President	04/02/2002- 30/05/2003
Vladimirs Pataņins	Member of the Board/ Senior Vice President	27/03/2000- 31/03/2003
Rolands Kumpiņš	Member of the Board/ Senior Vice President	07/05/2002- 27/06/2003
Dace Bolšteina	Member of the Board/ Senior Vice President	31/03/2003- 27/06/2003
Daiga Pravaine	Member of the Board/ Senior Vice President	31/03/2003- 27/06/2003

STATEMENT OF RESPONSIBILITY OF THE MANAGEMENT

The Management of A/S Latvijas Krājbanka (hereinafter - the Bank) is responsible for the preparation of the financial statements of the Bank.

The financial statements on pages 11 to 47 are prepared in accordance with the source documents and present fairly the financial position of the Bank as at 31 December 2003, the results of its operations, changes in shareholders' equity and cash flows for the year then ended.

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

The Management of A/S Latvijas Krājbanka is responsible for the maintenance of proper accounting records, the safeguarding of the Bank's assets and the prevention and detection of fraud and other irregularities in the Bank. They are also responsible for operating the Bank in compliance with the Law on Credit Institutions, the regulations of the Bank of Latvia, the instructions of the Financial and Capital Market Commission and other legislation of the Republic of Latvia applicable to credit institutions.

Ilmārs Razumovskis
Chairman of the Council

Andris Nātriņš
President/ Chairman of the Board

Riga,
17 February 2004

A/S LATVIJAS KRĀJBANKA
INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2003

	Notes	2003 LVL '000	2002 LVL '000
Interest income	4	9,895	9,490
Interest expense	4	(3,688)	(3,599)
Net interest income		6,207	5,891
Commission and fee income	5	5,209	5,588
Commission and fee expense	5	(762)	(605)
Net commission and fee income		4,447	4,983
Income on securities		-	7
Profit on sale of securities and foreign exchange trading	6	1,343	3,336
Other operating income	7	1,474	1,191
Operating income		13,471	15,408
Administrative expenses	8,9	(9,280)	(10,431)
Depreciation and amortisation expense	24	(2,227)	(2,657)
Other operating expenses	10	(344)	(214)
Provision for possible credit losses and off balance liabilities	11	(1,034)	(816)
Release of previously established provisions	11	374	814
Result before corporate income tax		960	2,104
Corporate income tax	12	(98)	(282)
Net profit for the year		862	1,822
distributed as follows:			
Transferred to accumulated deficit		862	1,822
Basic earnings per share (in lats per share)	13	0.095	0.200
Diluted earnings per share (in lats per share)	13	0.092	0.179

The accompanying notes on pages 16 to 47 form an integral part of these financial statements.

The financial statements on pages 11 to 47 have been authorised by the Management of the Bank for approval and signed on its behalf by:

 Ilmārs Razumovskis
 Chairman of the Council

 Andris Nātriņš
 President/ Chairman of the Board

Riga,
 17 February 2004

A/S LATVIJAS KRĀJBANKA
BALANCE SHEET AND MEMORANDUM ITEMS
AS AT 31 DECEMBER 2003

	Notes	31.12.2003 LVL '000	31.12.2002 LVL '000
<u>Assets</u>			
Cash and deposits with the central bank	14	14,751	13,069
Balances due from credit institutions	15	22,106	8,460
<i>Demand deposits</i>		18,398	8,210
<i>Other balances due from credit institutions</i>		3,708	250
Loans and advances to non-banking customers	16-20	96,044	91,446
Bonds and other fixed income securities available for sale	21	40,945	41,462
<i>Government bonds and other fixed income securities</i>		33,717	34,377
<i>Other bonds and other fixed income securities</i>		7,228	7,085
Shares and other non-fixed income securities available for sale	22	173	230
Derivative assets	23	98	112
Intangible assets	24	1,028	220
Property and equipment	24	8,080	11,896
Other assets	25	2,941	1,558
Prepayments and accrued income	26	1,576	1,400
Total assets		187,742	169,853
Assets under management	37		

The accompanying notes on pages 16 to 47 form an integral part of these financial statements.

The financial statements on pages 11 to 47 have been authorised by the Management of the Bank for approval and signed on its behalf by:

Ilmārs Razumovskis
Chairman of the Council

Andris Nātriņš
President/ Chairman of the Board

Riga,
17 February 2004

A/S LATVIJAS KRĀJBANKA
BALANCE SHEET AND MEMORANDUM ITEMS
AS AT 31 DECEMBER 2003

	Notes	31.12.2003 LVL '000	31.12.2002 LVL '000
<u>Liabilities</u>			
Balances due to the central bank and credit institutions	27	25,630	30,754
<i>Demand deposits</i>		6,675	5,817
<i>Term deposits</i>		18,955	24,937
Deposits from the public	28	141,757	121,190
<i>Demand deposits</i>		79,348	65,308
<i>Term deposits</i>		62,409	55,882
Derivative liabilities	23	59	144
Deferred income and accrued expenses	29	1,952	1,925
Provision for liabilities and charges	30	258	313
Deferred tax liability	31	526	357
Other liabilities	32	3,294	2,100
<u>Total liabilities</u>		173,476	156,783
Subordinated debt	33	2,600	2,200
<u>Shareholders' equity</u>			
Paid-in share capital	34-36	9,106	9,106
Share premium		1,323	1,323
Treasury shares		-	(5)
Reserve capital and other reserves		626	626
Revaluation reserve		402	1,364
Accumulated deficit		(653)	(3,366)
Net profit for the year		862	1,822
<u>Total shareholders' equity</u>		11,666	10,870
<u>Total liabilities and shareholders' equity</u>		187,742	169,853
Liabilities under management	37		
<u>Memorandum items:</u>			
Contingent liabilities and commitments	38	7,996	14,516

The accompanying notes on pages 16 to 47 form an integral part of these financial statements.

The financial statements on pages 11 to 47 have been authorised by the Management of the Bank for approval and signed on its behalf by:

Ilmārs Razumovskis
Chairman of the Council

Andris Nātriņš
President/ Chairman of the Board

Riga,
17 February 2004

A/S LATVIJAS KRĀJBANKA
STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2003

Note	Paid-in share capital LVL '000	Share premium LVL '000	Treasury shares LVL '000	Reserve capital and other reserves LVL '000	Revaluation reserve LVL '000	Retained earnings/ (accumulated deficit) LVL '000	Total shareholders' equity LVL '000
Balance on 31 December 2001	9,106	1,323	-	626	1,819	(3,366)	9,508
Change in revaluation reserve due to sold property	-	-	-	-	(455)	-	(455)
Net profit for the year	-	-	-	-	-	1,822	1,822
Treasury shares	-	-	(5)	-	-	-	(5)
Balance on 31 December 2002	9,106	1,323	(5)	626	1,364	(1,544)	10,870
Change in revaluation reserve due to sold property	-	-	-	-	(891)	891	-
Deferred tax recognised in the revaluation reserve	-	-	-	-	(71)	-	(71)
Net profit for the year	-	-	-	-	-	862	862
Treasury shares	-	-	5	-	-	-	5
Balance on 31 December 2003	9,106	1,323	-	626	402	209	11,666

The accompanying notes on pages 16 to 47 form an integral part of these financial statements.

The financial statements on pages 11 to 47 have been authorised by the Management of the Bank for approval and signed on its behalf by:

 Ilmārs Razumovskis
 Chairman of the Council

 Andris Nātriņš
 President/ Chairman of the Board

Riga,
 17 February 2004

**A/S LATVIJAS KRĀJBANKA
CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2003**

	Notes	2003 LVL '000	2002 LVL '000
Operating activities			
Result before corporate income tax		960	2,104
Depreciation and amortisation charge		2,227	2,657
Increase in provisions for possible credit losses		777	111
Increase / (decrease) in other provisions		(55)	63
Gain on revaluation of foreign currency positions		(25)	(192)
Gain on revaluation of long term investments		(641)	-
Gain on revaluation of short-term investments		(367)	(1,009)
Loss / (gain) from disposal of fixed assets, net	7, 10	44	(87)
Increase in cash and cash equivalents before changes in assets and liabilities, as a result of ordinary operations		2,920	3,647
Decrease in deferred income and accrued expenses		26	50
(Increase) in prepayments and accrued income		(336)	(54)
Net decrease /(increase) in derivative instruments		(71)	26
(Increase) in other assets		(212)	(398)
Increase in other liabilities		1,171	1,154
Decrease / (increase) in short-term investments		889	(3,982)
(Increase) in loans and advances to non-banking customers		(5,173)	(30,992)
Increase in balances due to the central bank and credit institutions		48	-
Increase /(decrease) in deposits from the public		20,567	(2,573)
Net increase/ (decrease) in cash and cash equivalents from operating activities		19,829	(33,122)
Cash inflow/ outflow from investing activities			
Purchase of fixed assets		(1,008)	(1,495)
Proceeds from disposal of fixed assets		492	1,208
Proceeds from sale of long-term investments, net		757	-
Increase / (decrease) in cash and cash equivalents from investing activities		241	(287)
Cash inflow from financing activities			
Issue of subordinated debt		400	-
Purchase of treasury shares		5	(5)
Increase in cash and cash equivalents from financing activities		405	(5)
Net increase in cash and cash equivalents		20,475	(33,414)
Cash and cash equivalents at the beginning of the year		(9,225)	23,997
Profit from revaluation of foreign currency positions, net		25	192
Cash and cash equivalents at the end of the year	39	11,275	(9,225)

The accompanying notes on pages 16 to 47 form an integral part of these financial statements.

The financial statements on pages 11 to 47 have been authorised by the Management of the Bank for approval and signed on its behalf by:

Ilmārs Razumovskis
Chairman of the Council

Andris Nātriņš
President/ Chairman of the Board

Riga,
17 February 2004

**A/S LATVIJAS KRĀJBANKA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2003**

1. INCORPORATION AND PRINCIPAL ACTIVITIES

A/S Latvijas Krājbanka (hereinafter – the Bank) was founded in 1924 as Latvijas Pasta Krājbanka (*Latvian Post Savings Bank*). In June 1940 it was reorganised and included into the structure of the USSR Savings Bank. Up until 1991 the main task of the Bank was to attract financial resources and service them within the framework of the Soviet banking system.

On 3 September 1991 the Supreme Council of the Republic of Latvia decided to re-establish a/s Latvijas Krājbanka. A/S Latvijas Krājbanka took over all rights of the former USSR National Savings Bank and on 15 October 1992 received a license to perform banking operations. The Bank was registered in the Enterprise Register of the Republic of Latvia on 16 October 1992 as a state owned commercial bank. On 29 March 1994 the Bank was re-registered as a state joint-stock company Latvijas Krājbanka. In accordance with the Order of the Cabinet dated 18 January 1996, the state joint stock company Latvijas Krājbanka was included into the list of entities to be privatised. During the first phase of the privatisation process in 1997, the Bank was merged with Rīgas Apvienotā Baltijas banka (*Riga United Baltic Bank*). During the subsequent public offering the shares of the Bank were purchased by residents of Latvia using privatisation certificates.

In 2003 the Bank's privatisation was finalised, and at the moment 99% of Bank's shares are held private shareholders and Bank's employees.

In comparison with all commercial banks of Latvia, the Bank has one of the widest network of branches and customers service centres (CSC). As at 31 December 2003, the Bank had branches and CSCs in all regions of Latvia:

<i>Region</i>	<i>Branches</i>	<i>Customer service centres</i>
Rīga	- (4)	36 (45)
Vidzeme, except Rīga	4 (4)	12 (27)
Latgale	2 (2)	8 (14)
Kurzeme	3 (3)	8 (13)
Zemgale	1 (1)	5 (8)
Total	10 (14)	69 (107)

The comparatives for 2002 are disclosed in brackets.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

a) Reporting currency

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

b) Basis of presentation

These Financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and Financial and Capital Market Commission "Regulations on the preparation of financial statements of banks".

Financial statements have been prepared based on the accounting ledgers maintained in accordance with the requirements of the legislation. The ledgers are prepared in accordance with historical cost convention, modified for the purpose of fair presentation in accordance with International Financial Reporting Standards.

Derivative financial instruments, financial assets and liabilities held for trading and available-for-sale assets except those for which a reliable measure of fair value is not available are measured on fair value basis. Other financial assets and liabilities and non-financial assets and liabilities are stated at amortised cost or historical cost.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

c) Income and expense recognition

All significant interest income and expense items are recognised on an accrual basis method applied to all interest earning assets and liabilities.

No interest income is recognised on non-performing loans and advances (see paragraph g) on which interest is unlikely to be collected. The recognition of interest income ceases when the payment of interest or principal is in doubt and provision for accrued interest income is automatically provided for.

Commissions are credited/charged to the income statement as earned/ incurred. Commission income from the performed custodian and brokerage services for its clients is credited to the Bank's income statement in the period when the services are provided.

d) Foreign currency translation

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

The principal foreign exchange rates (LVL to 1 foreign currency unit) set forth by the Bank of Latvia and used in the preparation of the Bank's balance sheet were as follows:

<u>Reporting date</u>	<u>USD</u>	<u>EUR</u>	<u>RUB</u>
As of 31 December 2003	0.541000	0.674000	0.018400
As of 31 December 2002	0.594000	0.610000	0.018700

e) Corporate income tax

Corporate income tax at the rate of 19% (2002:22%) is calculated in accordance with Latvian tax regulations and is based on the taxable profit reported for the taxation period.

Deferred taxes are provided for all temporary differences between the tax base of an asset or liability and its carrying amount in the balance sheet. The tax base of an asset or liability is the amount attributed to that asset or liability for tax purposes. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using future tax rates enacted at the balance sheet date (15% starting from 1 January 2004).

Deferred tax assets are recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

f) Earnings per share

Earnings per share are calculated by dividing the attributable profit for the year by the weighted average number of shares in issue during the year.

For the purpose of calculating diluted earnings per share, the net profit attributable to ordinary shareholders and the weighted average number of shares outstanding are adjusted for the effects of all dilutive potential ordinary shares (subordinated debt).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

g) Loans and provisions for credit losses

The loans originated by the Bank are categorized as loans and advances, and are carried at amortized cost. All loans and advances are recognised when cash is advanced to borrowers. Loans and advances to non-banking customers represent the outstanding principal balances less provisions for loans and advances.

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

The level of provisions is based on estimates 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 estimated value of any underlying collateral and current economic conditions as well as other relevant factors affecting loan and advance collect ability and collateral values.

Provisions for possible credit losses represent the estimated amounts of probable losses that have been incurred at the balance sheet date. The specific provision is determined after individually reviewing all loans for potentially uncollectable amounts. When a loan or advance has been classified as non-performing or of high risk a provision for possible credit losses is established for that specific loan or advance for the amount of outstanding balance, which is deemed uncollectible. The amount of the loss is the difference between the assets' carrying amount and the present value of expected future cash flows discounted at the original effective interest rate of respective loan.

Provisions for the portfolio value decrease relate to the potential loan losses and off-balance sheet liabilities, which experience indicates are present in the Bank's portfolio of loans and advances to customers.

When according to management loans and advances cannot be recovered, they are written off and charged against the provision for possible credit losses. They are not written off until all the necessary legal procedures have been completed, and the Bank gains sufficient assurance about the unrecoverability of the loan, and the final amount of the loss is determined.

h) Leases

For the purposes of these financial statements, finance lease receivables are classified as *Loans and advances to non-banking customers*.

Finance leases, which confer rights and obligations similar to those attached to owned assets, 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.

i) Financial instruments

In 2001 upon adoption of IAS 39, the Bank classified its securities as available-for-sale.

Available-for-sale assets are financial assets that are not held for trading purposes, originated by the Bank, or held to maturity. Available-for-sale instruments include money market placements and certain debt and equity investments.

Available-for-sale securities (shares, long-term investment in share capital) are initially recognized at cost (which includes transaction costs) and subsequently re-measured to fair value based on market value at the balance sheet date. The fair value of financial instruments is based on their quoted market price. When equity securities are not traded in active markets, the Bank uses alternative methods to determine fair value, for example, using pricing models or discounted cash flow techniques.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Purchase of securities is accounted for using settlement date.

Gains and losses arising from a change in the fair value of available-for-sale assets are recognized directly in the income statement.

j) Investments in privatisation certificates

Investments in privatisation certificates are stated at their market value determined in accordance with the Privatisation and certification centre published information on average prices based on volume of transactions in auctions and transactions with private individuals.

Unrealised profits or losses arising as a result of stating privatisation certificates at market value are respectively credited or charged to the statement of income as profit or loss from the revaluation of securities.

k) Derivatives

In the normal course of business, the Bank is a party to contracts for forward foreign exchange rate and currency swap instruments. Receivables and payables arising from recognizing derivatives at their fair value, are recognized in the balance sheet as the assets or liabilities of these agreements. Foreign exchange instruments are valued according to the forward rate which is determined based on differences arising between the exchange rates and interest rates of the respective currencies as at the date of the financial statements, as set by the Bank of Latvia. The revaluation result is disclosed as profit or loss from currency exchange trading.

The Bank does not apply hedge accounting.

l) Intangible assets

Intangible assets are recognised when it is probable that the asset will generate future economic benefits and their cost can be measured reliably. Intangible assets are amortized over the period of their useful economic life on a straight-line basis. The annual amortization rate for software varies from 12.5% - 20%. Computer software is treated as an intangible asset only when it is not an integral part of the related hardware.

m) Fixed assets

Fixed assets are recorded at historical cost or their revalued amount less accumulated depreciation. If the recoverable amount of a fixed asset is lower than its carrying amount due to circumstances not considered to be temporary, the fixed asset is written down to its recoverable amount.

Depreciation is provided using the straight-line method over the estimated useful life of the asset. Assets under construction and preparation are not depreciated. The following depreciation rates have been applied:

<u>Type of fixed assets</u>	<u>Annual Rate 2003</u>	<u>Annual Rate 2002</u>
Buildings	2%	2%
Software	12.5%-20%	12.5%-20%
EDP equipment	25%	25%
Equipment and fixtures	10%-14.29%	10%-14.29%
Transport vehicles	10%	10%

Maintenance and running repair costs are charged to the statement of income as incurred.

Leasehold improvements and capital repair costs are capitalised and depreciated over the shorter of the useful economic life and the remaining lease contract period on a straight-line basis.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

n) Sale and repurchase agreements

Sale and repurchase agreements are accounted for as financing transactions. Under sale and repurchase agreements, where the Bank is the transferor, assets transferred remain on the Bank's balance sheet and are subject to the Bank's usual accounting policies, with the purchase price received stated as a liability to the transferee.

Where the Bank is the transferee, the assets are not recognised in the Bank's balance sheet, but the purchase price paid to the transferor is included as a receivable from the transferor. Interest income or expense arising from outstanding sale and repurchase agreements is recognised in the income statement over the term of the agreement.

o) Other off-balance sheet instruments

In the ordinary course of business the Bank is involved with commitments to extend loans and advances, financial guarantees and commercial letters of credit. Such financial instruments are recorded in the financial statements when the respective contracts are concluded. The methodology for provisioning against off-balance sheet instruments is consistent with that adopted for loans and advances to customers as described in paragraph g) above.

p) Assets and liabilities under management

Assets and liabilities managed by the Bank on behalf of its customers, trusts and other institutions are not regarded as assets or liabilities of the Bank and, therefore, are not included in its balance sheet.

q) Cash and cash equivalents

Cash and cash equivalents comprise cash and deposits with the Bank of Latvia and other credit institutions with a remaining 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.

r) Provision for employee holiday pay

The provision for vacations is estimated for the Bank's personnel based on the total number of holidays earned but not taken, multiplied by the average daily remuneration expense for the preceding six months including social security contributions.

s) The fair value of financial assets and liabilities

The fair value of financial assets and liabilities represent the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transactions. If according to Management of the Bank the fair value of financial assets and liabilities are different than balance sheet value, then the fair value of financial assets and liabilities is disclosed in the notes to the financial statements.

t) Reclassification

Where necessary, certain immaterial comparative figures have been reclassified to conform with changes in presentation in the current year.

3. RISK MANAGEMENT

The Bank has developed a system for the identification, supervision and management of its main financial risks, which has been approved by the Bank's Board and Council. Supervision and management of this system is performed by the Asset and Liabilities Committee. The system is continuously improved by taking into account changes in the market and operation development trends. The following policies are established and approved within the risk management system:

- Control policy over risk transactions
- Liquidity management policy
- Credit policy
- Interest rate risk management policy
- Trade portfolio policy
- Foreign exchange risk management policy
- State risk management policy

In 2003 the limits and regulations set in the risk management policies were properly followed.

Credit risk

The Bank is exposed to credit risk while performing trading, lending and investment activities, as well as in transactions where the Bank acts as intermediary in the name of clients or issues guarantees to third parties. Credit risk related to trading and investment activities is managed in line with the Bank's trading risk management procedures.

The risk which can arise in the event that the Bank's partners in derivative and other financial instrument transactions might default on their obligations is monitored on an on going basis. To manage credit risk of derivative instruments, the Bank deals with counterparties of good credit standing. The Bank's credit policy identifies the requirements for the credit risk mitigation.

The main basis of credit risk occurrence is lending. The extent of credit risk is reflected in the asset amounts in the balance sheet. However, credit risk can also occur in relation to other products offered by the Bank including derivatives and investments in debt securities. The extent of credit risk in relation to these products is reflected in their carrying value in the balance sheet. In addition the Bank is exposed to credit risk from off-balance sheet items arising from additional loan commitments and issued guarantees.

Derivatives

The financial instruments used by the Bank include forward and swap agreements whose value varies together with foreign currency exchange rate fluctuations and changes in interest rates. The risk in the transactions mentioned before is the possibility that the parties involved in the transactions might refuse to fulfil their obligations, as well as the market risk that the agreement value will decrease as a result of unfavourable changes in interest rates.

Market risk

All trading and available for sale financial instruments are subject to market risk. This is the risk that changes in market conditions will change the value of financial instruments. Financial instruments are recognised at their fair value and all changes in market value have a direct influence on the profit of the Bank.

The bank uses its trading and available for sale financial instruments to follow market conditions. Market risk has been managed according to risk limits defined by the management of the Bank.

"Know your client"

To comply with the regulations of the legislation on Anti money laundering and to avoid the possibility that clients could perform illegal operations, the Bank has established (and continues to improve) policies and procedures for the identification of unusual and suspicious transactions. "Know your client" – is the main motto of all activities performed by the Bank.

4. INTEREST INCOME AND EXPENSE

	2003 LVL '000	2002 LVL '000
Interest income:		
- interest on loans and advances to non-banking customers	7,532	6,952
- interest on long-term bonds and other fixed income securities	2,314	2,332
- interest on balances due from credit institutions	49	203
- interest on short-term bonds and other fixed income securities	-	3
Total interest income	9,895	9,490
Interest expense:		
- interest on deposits from the public	(2,741)	(2,867)
- interest on balances due to credit institutions	(547)	(293)
- contributions to deposit guarantee fund	(242)	(285)
- interest on subordinated debt	(158)	(154)
Total interest expense	(3,688)	(3,599)
Net interest income	6,207	5,891

5. COMMISSION AND FEE INCOME AND EXPENSE

	2003 LVL '000	2002 LVL '000
Commission and fee income:		
- commission on money transfers	1,614	1,550
- commission on transactions with settlement cards	1,231	944
- account maintenance fee	869	1,044
- commission on transactions with privatisation certificates	517	1,073
- commission on granting of loans	471	534
- cash disbursement commission	289	185
- brokerage fee	76	93
- other commission and fee income	142	165
Total commission and fee income	5,209	5,588
Commission and fee expense:		
- commission on settlement cards	(428)	(410)
- correspondent bank service charges	(3)	(5)
- other commission and fee expense	(331)	(190)
Total commission and fee expense	(762)	(605)
Net commission and fee income	4,447	4,983

6. PROFIT ON SALE OF SECURITIES AND FOREIGN EXCHANGE TRADING

Profit / (loss) on sale of securities and foreign exchange trading represents the profit or loss from trading activities, mark to market revaluation of securities and revaluation of foreign currency positions, excluding interest income or expense and commissions and fees incurred in respect of those transactions.

	2003 LVL '000	2002 LVL '000
Profit from dealing with currency exchange	394	326
Profit from sale of securities	557	1,809
Profit from revaluation of securities, net	367	1,009
Profit/(loss) from revaluation of foreign currency positions, net	25	192
Total profit on sale of securities and foreign exchange trading	1,343	3,336

7. OTHER OPERATING INCOME

	2003 LVL '000	2002 LVL '000
Penalties received	551	334
Gain from sale of investments	641	455
Income from cession	57	-
Income from amounts recognised in expenses of previous years	2	141
Rental income	49	48
Gain from sale of fixed assets	114	139
Other operating income	60	74
Total other operating income	1,474	1,191

A major part of penalties received are penalties for non-compliance with contract terms and conditions, as well as for loans repaid before maturity.

Within the gain from sale of investments there is included a gain LVL 544 from the sale of capital shares of SIA "Palasta Nami". In 2003 the Bank established a 100% owned subsidiary SIA "Palasta Nami". The Bank invested the real estate with a fair value 1,366 thousand LVL in the share capital of the company. In 23 December 2003 the Bank sold all of the shares of SIA "Palasta Nami" to a non-related private individual (resident) for 1,910 thousand LVL.

8. ADMINISTRATIVE EXPENSES

	2003 LVL '000	2002 LVL '000
Remuneration and related social security contributions	5,494	6,173
Communication	531	663
Advertising and marketing	383	606
Rent of premises and land	492	529
EDP maintenance	479	524
Security	429	447
Repairs and maintenance of premises and buildings	231	280
Car maintenance	159	200
Office expense	159	202
Consulting and professional fees	82	165
Training and other personnel costs	128	128
Property and real estate tax	63	95
Other administrative expense	650	419
Total administrative expense	9,280	10,431

9. REMUNERATION AND RELATED SOCIAL SECURITY CONTRIBUTIONS

Remuneration and related social security contributions include remuneration to the Supervisory Council, the Management Board and other personnel of the Bank as well as related social security contributions and costs of other benefits.

	2003 LVL '000	2002 LVL '000
Remuneration to the Supervisory Council	46	42
Remuneration to the Management Board	246	253
Remuneration to other personnel	4,188	4,643
Social security contributions	1,014	1,235
Total remuneration and related social security contributions	5,494	6,173

**A/S LATVIJAS KRĀJBANKA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2003**

9. REMUNERATION AND RELATED SOCIAL SECURITY CONTRIBUTIONS (continued)

The total number of personnel employed by the Bank is specified as follows:

	2003	2002
Members of the Management Board	5	5
Other management personnel	51	59
Staff personnel	887	952
Total number of personnel employed	943	1,016

During the year ended 31 December 2003 the Bank had an average number of personnel amounting to 988 (2002: 1,096).

10. OTHER OPERATING EXPENSES

	2003 LVL '000	2002 LVL '000
Loss from fixed assets disposal	158	52
State duty on court claims	71	43
Other operating expense	115	119
Total other operating expense	344	214

11. PROVISION EXPENSE FOR CREDIT LOSSES AND OFF BALANCE LIABILITIES

An analysis of the change in provisions for possible credit losses is presented as follows:

	Provision for			
	Provisions for loan principal LVL'000	accrued income LVL'000	Other provisions LVL'000	Total LVL'000
Specific provision at the beginning of the year	1,087	142	147	1,376
General provision at the beginning of the year	251	-	-	251
Total provision at the beginning of the year	1,338	142	147	1,627
Specific provision charge for the year	773	183	42	998
General provision charge for the year	36	-	-	36
Total provision charge for the year	809	183	42	1,034
Release of previously established specific provision	(203)	(20)	(3)	(226)
Release of previously established general provision	(17)	-	-	(17)
Recovery of assets previously written-off	(131)	-	-	(131)
Total release of previously established provision	(351)	(20)	(3)	(374)
Net charge to the statement of income	458	163	39	660
Foreign exchange movements	(14)	(1)	-	(15)
Net write-offs and recoveries of assets	14	(22)	(51)	(59)
Specific provision at the end of the year	1,526	282	135	1,943
General provision at the end of the year	270	-	-	270
Total provision at the end of the year	1,796	282	135	2,213

A/S LATVIJAS KRĀJBANKA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2003

11. PROVISION EXPENSE FOR CREDIT LOSSES AND OFF BALANCE LIABILITIES (cont.)

The table below shows the division of the Bank's total provision for possible credit losses among balances due from credit institutions, loans and advances to non-banking customers, bonds and other fixed income securities, other assets and accrued interest income at the end of the year:

	31.12.2003				Net outstanding balance 31.12.2002
	Gross outstanding balance	Specific provisions	General provisions	Net outstanding balance	
Balances due from credit institutions	22,106	-	-	22,106	8,460
Loans and advances to non-banking customers	97,840	(1,526)	(270)	96,044	91,446
Bonds and other fixed income securities	40,945	-	-	40,945	41,462
Other assets	3,075	(134)	-	2,941	1,558
Accrued interest income	1,478	(282)	-	1,196	1,119
Other accrued income	103	(1)	-	102	14
Off-balance sheet liabilities	7,609	-	-	7,609	12,926
Total	173,156	(1,943)	(270)	170,943	156,985

The aggregated portfolio impairment provision for possible credit losses on loans and advances to non-banking customers represents approximately 0.3 % (2002: 0.3%) of the Bank's residual portfolio of loans and advances after deduction of loans fully secured by Latvian government securities and credit exposures specifically provided for by the Bank.

12. CORPORATE INCOME TAX

Corporate income tax expense for the year ended 31 December 2003 was as follows:

	2003 LVL '000	2002 LVL '000
Deferred tax expense	98	282
Corporate income tax expense	98	282

The reconciliation of corporate income tax expense at the statutory rate of 19% (22%) and the actual corporate income tax expense was as follows:

	2003 LVL'000	2002 LVL'000
Profit before taxes	960	2,104
Theoretical tax: 19% (2002: 22%)	182	463
Non-deductible expenses, net	16	24
Impact from the changes in tax rate	(65)	-
Revaluation gain and gain from the sale of public securities	(44)	(374)
Previous year deferred tax effect	80	-
Deferred tax recognized in the revaluation reserve	(71)	-
Not utilized tax losses	-	169
Uzņēmuma ienākuma nodoklis pārskata periodā	98	282

A/S LATVIJAS KRĀJBANKA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2003

13. EARNINGS PER SHARE

Earnings per share are calculated based upon the profit after taxation and the average number of shares in issue during the year.

	2003	2002
Profit after taxation (LVL'000)	862	1,822
Average number of shares in issue (thousand)	9,106	9,106
Earnings per share	0.095	0.200

Diluted earnings per share are calculated based on agreements, which in future might impact the number of shares in issue, as well as leave an impact on the current year income statement. Thus the diluted earnings per share are calculated by dividing profit after taxation adjusted for the interest paid on subordinated debt, by the average number of shares in issue during the year adjusted for the effects of the amount of shares, which might be issued by converting subordinated debt.

	2003	2002
Profit after taxation (LVL'000)	862	1,822
Interest for subordinated debt (LVL'000)	158	154
	1,020	1,976
Average number of shares in issue (thousand)	9,106	9,106
Potential shares in result of conversion of subordinated debt (thousand)	1,971	1,913
	11,077	11,019
Diluted earnings per share (LVL)	0.092	0.179

14. CASH AND DEPOSITS WITH THE CENTRAL BANK

	31.12.2003 LVL '000	31.12.2002 LVL '000
Cash	11,665	8,284
Deposits with the Bank of Latvia	3,086	4,785
Total cash and deposits with the central bank	14,751	13,069

Deposits with the Bank of Latvia represent a correspondent account that is non-interest bearing. As at 31 December 2003 the Bank has pledged Latvian state securities at nominal value LVL 6,835 thousand (balance sheet value LVL 7,076 thousand) to the Bank of Latvia in order to ensure correspondent account balance is within set daily limit.

According to the requirement of the Bank of Latvia credit institutions should comply with the requirement on obligatory reserves. The reserves cannot be used to maintain the basic operations of the Bank. As at 31 December 2003 the obligatory reserves were LVL 3,605 thousand (2002: LVL 6,375 thousand).

15. BALANCES DUE FROM CREDIT INSTITUTIONS

	31.12.2003 LVL '000	31.12.2002 LVL '000
Due from credit institutions registered in OECD countries	12,891	1,979
Due from credit institutions registered in Latvia	9,116	6,430
Due from credit institutions registered in other non-OECD countries	99	51
Total balances due from credit institutions	22,106	8,460

As of 31 December 2003, the Bank had established correspondent relationships with 14 (2002: 15) credit institutions registered in the OECD area, 11 (2002: 7) credit institutions incorporated in non-OECD countries and 2 (2002: 3) Latvian credit institutions.

**A/S LATVIJAS KRĀJBANKA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2003**

15. BALANCES DUE FROM CREDIT INSTITUTIONS (continued)

The following table provides an analysis of balances due from credit institutions by maturity profile:

Maturity profile	Due from credit institutions registered in			Total 31.12.2003 LVL'000	Total 31.12.2002 LVL'000
	OECD Area LVL'000	Latvia LVL'000	Other countries LVL'000		
Correspondent accounts	2,133	4	99	2,236	2,022
Overnight deposits	10,550	6,112	-	16,662	6,188
Other demand deposits	17	-	-	17	-
Total demand deposits	12,700	6,116	99	18,915	8,210
Term deposits with credit institutions:					
- due within 1 month	-	3,000	-	3,000	189
- due within 1 – 3 months	191	-	-	191	61
Total term deposits	191	3,000	-	3,191	250
Net due from credit institutions	12,891	9,116	99	22,106	8,460

As at 31 December 2003 average interest rate for issued term deposits for credit institutions was 1.94% (2002: 2,53%)

During the reporting year, the Bank mainly used correspondent accounts with the following credit institutions registered in the OECD area: Deutsche Bank Trust Company America (New York), Deutsche Bank AG (Frankfurt), Nordea Bank Finland (Helsinki), UBS AG (Zurich), National Westminster Bank Plc (London).

16. LOANS AND ADVANCES TO NON-BANKING CUSTOMERS

Loans and advances to non-banking customers comprise the following:

	31.12.2003 LVL '000	31.12.2002 LVL '000
Regular loans	81,480	70,757
Loans under reverse repurchase agreements	1,565	7,915
Utilised credit lines	11,623	10,334
Total gross loans to non-banking customers	94,668	89,006
Finance lease	1,641	2,414
Factoring	682	732
Overdrafts	75	127
Debit balances on settlement cards	774	505
Total gross loans and advances to non-banking customers	97,840	92,784
Less provision for possible credit losses (see Note 11)	(1,796)	(1,338)
Total net loans and advances to non-banking customers	96,044	91,446

Loans under *reverse repurchase* agreements are granted in exchange for Latvian government securities. As at 31 December 2003, the Bank had issued such loans in the amount of LVL 1,565 thousand (2002: 7,915 thousand). The nominal value of the Latvian government securities received by the Bank under the reverse repurchase agreements was LVL 1,545 thousand (2001: 7,582 thousand).

A/S LATVIJAS KRĀJBANKA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2003

17. LOANS AND ADVANCES TO NON-BANKING CUSTOMERS BY INTEREST ACCRUAL AND MATURITY PROFILE

The following table provides the division between interest accruing and non-interest accruing loans and advances to non-banking customers at the end of the year:

Interest accrual profile	31.12.2003 LVL '000	31.12.2002 LVL '000
Accrual basis	95,702	91,576
Non-accrual basis	2,138	1,208
Total gross loans and advances to non-banking customers	97,840	92,784
Less provision for possible credit losses (see Note 11)	(1,796)	(1,338)
Total net loans and advances to non-banking customers	96,044	91,446

As at 31 December 2003, the average interest rate charged on outstanding short-term loans was 8.24 % (2002: 9.93%), on long-term loans – 8.18% (2002: 8.93%) and on reverse repurchase agreements with Latvian government securities – 2.97% (2002: 3.61%).

The table below provides the division of outstanding loans and advances to non-banking customers by maturity profile (maturity breakdown for this table has been prepared taking into account original maturity according to loan contracts):

Maturity profile	31.12.2003 LVL '000	31.12.2002 LVL '000
Overdue	1,627	1,114
Falling due within:		
- 1 month	1,887	7,048
- 1 - 3 months	949	5,805
- 3 - 6 months	3,886	4,641
- 6 - 12 months	9,877	14,231
- 1 - 5 years	22,175	33,108
- more than 5 years	57,439	26,837
Total gross loans and advances to non-banking customers	97,840	92,784
Less provision for possible credit losses (see Note 11)	(1,796)	(1,338)
Total net loans and advances to non-banking customers	96,044	91,446

18. LOANS AND ADVANCES TO NON-BANKING CUSTOMERS BY CUSTOMER, GEOGRAPHICAL AND INDUSTRY PROFILE

Customer profile	31.12.2003 LVL '000	31.12.2002 LVL '000
Privately held companies	69,981	73,228
Municipality owned enterprises	100	423
State owned enterprises	64	84
Total gross loans and advances to corporate customers	70,145	73,735
Municipal authorities	1,212	1,438
Public and religious institutions	15	26
Personnel employed by the Bank	1,558	1,148
Other private individuals	24,910	16,437
Total gross loans and advances to non-banking customers	97,840	92,784
Less provision for possible credit losses (see Note 11)	(1,796)	(1,338)
Total net loans and advances to non-banking customers	96,044	91,446

18. LOANS AND ADVANCES TO NON-BANKING CUSTOMERS BY CUSTOMER, GEOGRAPHICAL AND INDUSTRY PROFILE (continued)

The following table presents a geographical profile of the portfolio of loans and advances to non-banking customers analysed by the place of the customers' residence:

Geographical profile by the place of customers' residence	31.12.2003 LVL '000	31.12.2002 LVL '000
Residents of Latvia	97,276	86,368
Residents of other non-OECD area countries	119	784
Residents of OECD countries	445	5,632
Total gross loans and advances to non-banking customers	97,840	92,784
Less provision for possible credit losses (see Note 11)	(1,796)	(1,338)
Total net loans and advances to non-banking customers	96,044	91,446

The table below provides an analysis of the portfolio of loans and advances to non-banking customers by geographical region of Latvia in respect of the lending branch:

Geographical profile by the lending branch	31.12.2003 LVL '000	31.12.2002 LVL '000
Riga	62,725	61,692
Zemgale	14,006	8,092
Vidzeme, except Riga	8,673	10,615
Kurzeme	6,533	6,433
Latgale	5,903	5,952
Total gross loans and advances to non-banking customers	97,840	92,784
Less provision for possible credit losses (see Note 11)	(1,796)	(1,338)
Total net loans and advances to non-banking customers	96,044	91,446

An industry analysis of the gross portfolio of loans and advances to corporate customers before provisions for possible credit losses is provided below:

Industry profile	31.12.2003 LVL '000	31.12.2002 LVL '000
Retail trade and wholesale distribution	19,204	15,910
Manufacturing	10,860	10,467
Agriculture and forestry	6,606	5,441
Construction	6,025	5,164
Financial intermediaries	3,027	3,230
Hotels and restaurants	3,623	2,814
Electricity, gas and water utilities	944	1,081
Transport, warehousing and communications	4,612	3,778
Fishing	176	354
Other service industries	15,068	25,496
Total gross loans and advances to corporate customers	70,145	73,735

Loans issued to corporate customers specifically for the purpose of constructing buildings or other premises in the above industry profile have been classified as loans and advances to construction industry.

A/S LATVIJAS KRĀJBANKA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2003

19. FINANCE LEASES BY TYPE OF LEASED ASSETS

	31.12.2003 LVL '000	31.12.2002 LVL '000
Transport vehicles	828	1,024
Manufacturing equipment	494	909
Agricultural equipment	267	413
Real estate	-	4
Other	52	64
Total gross finance leases	1,641	2,414

The maturity profile of finance leases has been included in note 17.

20. UNEARNED INTEREST INCOME FROM FINANCE LEASES

	2003 LVL '000	2002 LVL '000
Short-term unearned interest income	123	190
Long-term unearned interest income	101	161
Total unearned interest income from finance leases	224	351

21. BONDS AND OTHER FIXED INCOME SECURITIES AVAILABLE FOR SALE

	31.12.2003 LVL '000	31.12.2002 LVL '000
Government bonds and other fixed income securities:		
Latvian government bonds in local currency	30,739	28,145
Latvian government eurobonds	2,978	2,714
Polish government bonds	-	1,794
Hungarian government bonds	-	1,646
Ukrainian government bonds	-	78
Mortgage bonds of Latvijas Hipotēku un Zemes banka	1,638	1,639
Bonds issued by credit and other financial institutions	3,253	3,414
Bonds issued by privately held companies	2,337	2,032
Total net bonds and other fixed income securities	40,945	41,462

Maturity profile	31.12.2003 LVL '000			31.12.2002 LVL '000		
	Government securities	Other securities	Total	Government securities	Other securities	Total
Falling due within:						
- 1 month	-	-	-	830	-	830
- 1 - 3 months	-	-	-	-	-	-
- 3 - 6 months	1,535	1,623	3,158	-	-	-
- 6 - 12 months	-	-	-	4,107	-	4,107
- 1 - 5 years	30,885	4,997	35,882	26,360	5,926	32,286
- more than 5 years	1,297	608	1,905	3,080	1,159	4,239
Total net bonds and other fixed income securities	33,717	7,228	40,945	34,377	7,085	41,462

As at 31 December 2003, the average yield on outstanding investments in Latvian government securities in LVL was 4.89% (2002: 5.84%) and on investments in fixed income securities issued by other credit and financial institutions – 5.73% (2002: 5.73%). The foreign currency denominated investments in fixed income securities which are not specifically provided for as at 31 December 2003, had an average yield of 5.55% (2002: 5.58%) on Euro denominated securities and 8.28% (2002: 7.14%) on USD denominated securities.

A/S LATVIJAS KRĀJBANKA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2003

22. SHARES AND OTHER NON-FIXED INCOME SECURITIES AVAILABLE FOR SALE

	31.12.2003 LVL '000	31.12.2002 LVL '000
Equity shares of:		
Listed Latvian corporate entities	-	3
Unlisted Latvian corporate entities	2	53
Total equity shares	2	56
Latvian privatisation certificates	171	174
Total shares and other non-fixed income securities	173	230

23. DERIVATIVE ASSETS AND LIABILITIES

	Notional amount LVL'000		Fair value LVL'000			
			Assets		Liabilities	
	31.12.2003	31.12.2002	31.12.2003	31.12.2002	31.12.2003	31.12.2002
Currency derivatives						
Currency swaps	7,021	11,841	98	112	38	144
Equity and similar derivatives						
Forwards (sale)	1,348	-	-	-	21	-
	1,348	-	-	-	21	-
Total derivatives	8,369	11,841	98	112	59	144

24. FIXED AND INTANGIBLE ASSETS

The following are included in the net book value of fixed assets:

	31.12.2003 LVL '000	31.12.2002 LVL '000
Land and buildings	2,757	4,311
Leasehold improvements	740	790
Transport vehicles	385	560
Intangible assets	1,009	217
Office equipment:		
<i>EDP equipment and software</i>	<i>1,055</i>	<i>2,452</i>
<i>ATMs and similar card processing equipment</i>	<i>1,337</i>	<i>1,512</i>
<i>Other office equipment</i>	<i>1,749</i>	<i>2,170</i>
Total office equipment	4,141	6,134
Total fixed assets excluding prepayments	9,032	12,012
Prepayments for fixed assets	57	101
Prepayments for intangible assets	19	3
Prepayments for fixed assets and for intangible assets	76	104
Total fixed assets at net book value including prepayments	9,108	12,116

A/S LATVIJAS KRĀJBANKA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2003

24. FIXED AND INTANGIBLE ASSETS (continued)

The following changes in the Bank's fixed assets took place during the year ended 31 December 2003:

	Land and buildings LVL'000	Leasehold improvements LVL'000	Transport vehicles LVL'000	Office equipment LVL'000	Intangible assets LVL'000	Total fixed assets excluding prepayments LVL'000
Historical cost/ Revalued						
As at 31 December 2002	4,720	1,160	971	13,477	425	20,753
Additions	21	140	-	558	293	1,012
Disposals	(1,728)	(72)	(226)	(647)	(25)	(2,698)
Revaluation	98	-	-	-	-	98
Reclassification	-	-	-	(2,347)	2,347	-
As at 31 December 2003	3,111	1,228	745	11,041	3,040	19,165
Depreciation						
As at 31 December 2002	409	370	411	7,343	208	8,741
Charge for the year	175	129	79	1,463	381	2,227
Reversal due to disposals	(230)	(11)	(130)	(452)	(12)	(835)
Reclassification	-	-	-	(1,454)	1,454	-
As at 31 December 2003	354	488	360	6,900	2,031	10,133
Net book value						
As at 31 December 2002	4,311	790	560	6,134	217	12,012
As at 31 December 2003	2,757	740	385	4,141	1,009	9,032

The Income statement item, Depreciation expense includes written off fixed assets in amount of 72 thousand LVL

25. OTHER ASSETS

	31.12.2003 LVL '000	31.12.2002 LVL '000
Balance due from brokerage firm	10	14
Collateral deposit for settlement card transactions	849	690
VAT overpayment	-	124
VAT prepayment	70	85
Unsettled bank card transactions	331	265
Receivable for the investment disposed	1,173	-
Other	642	527
Gross total other assets	3,075	1,705
Less provision for possible credit losses (see Note 11)	(134)	(147)
Total other assets	2,941	1,558

In accordance with the agreement a receivable from the disposal of investment is due by 22 June 2004.

A/S LATVIJAS KRĀJBANKA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2003

26. PREPAYMENTS AND ACCRUED INCOME

	31.12.2003 LVL '000	31.12.2002 LVL '000
Accrued interest income	1,478	1,261
Prepayments	278	267
Other accrued income	103	14
Total gross prepayments and accrued income	1,859	1,542
Less provision for possible credit losses (see Note 11)	(283)	(142)
Total net prepayments and accrued income	1,576	1,400

Accrued interest income mainly relates to accrued interest on government bonds and other fixed income securities, which as of 31 December 2003, amounted to LVL 859 thousand (2002: 601 thousand).

27. BALANCES DUE TO THE CENTRAL BANK AND CREDIT INSTITUTIONS

	31.12.2003 LVL '000	31.12.2002 LVL '000
Bank of Latvia – repurchase agreements	11,809	11,000
Due to credit institutions registered in Latvia– repurchase agreements	4,058	9,387
Due to credit institutions registered in Latvia	9,711	10,365
Due to credit institutions registered in other non-OECD countries	52	2
Total balances due to the Bank of Latvia and credit institutions	25,630	30,754

As at 31 December 2003, the Bank had pledged Latvian government securities with a nominal value of LVL 20,918 thousand (2002: 23,448 thousand) (carrying investment value of LVL 22,258 thousand (2002: 24,886 thousand)) as collateral for repurchase agreements with the Bank of Latvia. The Bank uses repurchase agreements with Latvian government securities to finance the loans issued to customers under reverse repurchase agreements with Latvian government securities, as well as a source of short-term funding.

The following table provides an analysis of the Bank's balances due to the Bank of Latvia and credit institutions by maturity:

Maturity profile	Due to the Bank of Latvia LVL'000	Due to credit institutions registered in		Total 31.12.2003 LVL'000	Total 31.12.2002 LVL'000
		Latvia LVL'000	Other non-OECD countries LVL'000		
Correspondent accounts	-	70	4	74	17
Overnight deposits	5,865	13,699	-	19,564	5,800
Total balances repayable on demand	5,865	13,769	4	19,638	5,817
Term deposits from the Bank of Latvia and credit institutions:					
- due within 1 month	5,944	-	-	5,944	23,937
- due within 1 - 3 months	-	-	48	48	1,000
Total term deposits from the Bank of Latvia and credit institutions	5,944	-	48	5,992	24,937
Total balances due to the Bank of Latvia and credit institutions	11,809	13,769	52	25,630	30,754

As at 31 December 2003 average interest rate on term liabilities with credit institutions was 2,91 % (2002: 2,59%)

As at 31 December 2003 the Bank had balances due of 3 (2002: 3) Latvian registered commercial banks and 7 (2002: 2) non-OECD region commercial institution.

28. DEPOSITS FROM THE PUBLIC

Maturity profile	31.12.2003 LVL '000	31.12.2002 LVL '000
Demand deposits	79,348	65,308
Term deposits:		
- due within 1 month	12,314	10,680
- due within 1 - 3 months	8,602	9,083
- due within 3 - 6 months	13,013	13,380
- due within 6 - 12 months	20,024	16,012
- due within more than 1 year	8,456	6,727
Total term deposits	62,409	55,882
Total deposits from the public	141,757	121,190

As at 31 December 2003, the average interest rate granted on outstanding term deposits accepted from the public was 4.28% (2002: 4.87%).

Sector profile	31.12.2003 LVL '000	31.12.2002 LVL '000
Private individuals	98,750	97,414
Privately held companies	34,549	19,948
State owned enterprises	6,908	1,063
Municipal authorities	623	2,160
Public and religious institutions	620	565
Central governments	307	40
Total deposits from the public	141,757	121,190

Geographical profile	31.12.2003 LVL '000	31.12.2002 LVL '000
Residents	111,531	105,241
Non-residents	30,226	15,949
Total deposits from the public	141,757	121,190

The total amount of deposits placed with the Bank by non-residents as at 31 December 2003 comprised deposits accepted from residents of the OECD and non-OECD area, that amounted to LVL 19,127 thousand (2002: 11,586 thousand) and LVL 11,099 thousand (2002: 4,363 thousand), respectively. The residence of companies is based on the countries where they were officially incorporated.

29. DEFERRED INCOME AND ACCRUED EXPENSES

	31.12.2003 LVL '000	31.12.2002 LVL '000
Deferred income	12	18
Accrued interest expense	1,285	1,395
Unrealized loss on outstanding foreign exchange contracts	-	-
Accrued remuneration costs and social security contributions	162	249
Other accrued expense	493	263
Total deferred income and accrued expense	1,952	1,925

30. PROVISION FOR LIABILITIES AND CHARGES

	31.12.2003 LVL '000	31.12.2002 LVL '000
Accrual for employee holiday pay	163	213
Accrual for state duty on privatisation certificate transfers	95	100
Total provision for liabilities and charges	258	313

31. DEFERRED TAX LIABILITY

	31.12.2003 LVL '000	31.12.2002 LVL '000
Deferred tax liability at the beginning of the reporting period	357	75
Deferred tax expense	98	282
Revaluation reserve	71	-
Deferred tax liability at the end of the reporting period	526	357

The deferred tax assets and liabilities relate to the following items:

	31.12.2003 LVL'000	31.12.2002 LVL'000
<i>Deferred tax liability:</i>		
-temporary difference on fixed asset carrying value for financial purposes and tax written down value	(777)	(1,021)
<i>Deferred tax asset:</i>		
-general provisions	41	38
-other provisions	27	44
-tax losses carried forward	183	582
Deferred tax liability	526	357

The Bank has accumulated tax losses of LVL 1,221 thousand available to be carried forward as at 31 December 2003 which expire in 2006.

32. OTHER LIABILITIES

	31.12.2003 LVL '000	31.12.2002 LVL '000
Money in transit	2,786	1,519
Unrealized losses from SPOT transactions	10	37
Financing received for payment of Banka Baltija compensations	31	35
Other liabilities	467	509
Total other liabilities	3,294	2,100

As at 31 December 31 money in transit included customers' payments to be transferred with valuation date in January 2004

33. SUBORDINATED DEBT

As at 31 December 2003, the Bank's outstanding subordinated debt due to Macasyng Holding B.V. amounted to LVL 2,600 (2002: 2,200) thousand.

On 30 June 2000, based on the resolution of the General Meeting of the shareholders passed on 29 March 1999, the Management Board of the Bank entered into a subordinated debt agreement with SIA "Mērķkapitāla komercsabiedrība", a limited liability company registered in the Republic of Latvia for the subordinated debt origination upon which agreed to in the amount of LVL 400 thousand for seven years at 7% interest per annum for establishing subordinated debt. According to the agreement, the lender may receive its investment only at the maturity or in the event of the Bank's liquidation.

On 9 October 2000, based on the resolution of the General Meeting of the shareholders passed on 29 March 1999, the Management Board of the Bank entered into a subordinated debt agreement with Macasyng Holding B.V. and received a subordinated debt of LVL 1,800 thousand.

On 2 October 2003, based on the resolution of the General Meeting of the shareholders passed on 29 March 1999, the Management Board of the Bank entered into a subordinated debt agreement with Macasyng Holding B.V. and received a subordinated debt of LVL 400 thousand.

33. SUBORDINATED DEBT (continued)

On 9 October 2000, SIA "Mērķkapitāla komercsabiedrība" transferred its rights under the above subordinated loan agreement to Macasyng Holding B.V., a company registered in the Netherlands.

On 13 November 2003 the Bank and Macasyng Holding B.V. signed an agreement on the roll forward of the maturity of the loan for 10 years.

On 19 August 2003 the parties agreed to make amendments to the subordinated debt agreements signed on 30 June 2000 and 9 October 2000. According to the amendments two articles of the agreement were removed – the article stipulating pre-emptive rights of the current shareholders to purchase shares in case of subordinated debt conversion to equity and the article relating to the penalty clause in case subordinated debt is not converted to equity by the contract term.

On 31 December 2003 there was an open litigation between a/s "Kālija Parks", a/s "Ventbunkers" and a/s "Ventamonjaks" (claimants) proceeding against a/s Latvijas Krājbanka and the subordinated debt investor Macasyng Holding B.V (defendants). The claimants have claimed to change three articles of the subordinated debt (LVL 1,800 thousand) agreement. Riga District Court is the first instance where the claim will be reviewed. Court hearing is scheduled to be in March 2004. The suggested amendments cannot influence the contract operation in general, and investor of subordinated debt Macasyng Holding B.V. has rights to request for conversion of subordinated debt with shares in accordance with the terms of the agreement and legislation. In case the subordinated debt is converted to equity the share price stipulated in the contract is LVL 1.15 per share.

According to the management of the Bank, the above litigation will not have a significant impact on the Bank's operations.

34. SHAREHOLDERS' EQUITY

As at 31 December 2003, the Bank's registered and paid share capital was LVL 9,106 thousand (2002: 9,106 thousand). Share capital consists of 9,106,412 shares. Type of shares: common shares with and without voting rights. Nominal value per share is LVL 1.

The 9,106,412 shares are divided into:

- 9,085,412 shares with voting rights,
- 21,000 common shares without voting rights (shares held by the Board of Management).

Board of Directors are entitled to dividends, however they are prohibited to sell. They are holding the shares while they are Board of Directors.

As at 31 December 2002, the Bank's paid-up shares consisted of:

- 7,028,260 shares of closed share issues (including reserve shares of the Board of Management);
- 2,078,152 shares of public share issues.

On 28 March 2003 the Council of the Financial and Capital Market Commission made a decision to register and allow for public issue 1,847,298 common shares with voting rights. Thus the State (Privatisation agency as a share owner) do not own closed issue shares of JSC Latvijas Krājbanka. With a decision of Privatisation Agency of 17 May 2003 (Decision No 103/932) the results of the shares auction were announced, it was decided that the share portfolio consisting of 2,277,514 shares are to be sold to Doxa Fund Limited, and respective agreement on the purchase of the shares are to be signed. After concluding the agreement on 19 May 2003 the Privatisation Agency made 2,277,514 shares of JSC Latvijas Krājbanka transmission to the securities account belonging to the buyer. Thus Doxa Fund Limited obtained a 25.01% of Krājbanka public issue shares.

In accordance with extraordinary shareholders meeting decision on 26 September 2003 (question No 5) "On closed issue shares transformation to public issue and public circulation" and based on the Financial and Capital Markets Commission decision No 294 (protocole No 51, point 11) On JSC Latvijas Krājbanka securities registration, starting with 2 January 2004 in the public issue were placed 5,159,962 formerly closed issue shares.

A/S LATVIJAS KRĀJBANKA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2003

34. SHAREHOLDERS' EQUITY (continued)

The above shares were registered with Latvian Central Depository on 24 December 2003. As at 31 December 2003, the Bank's paid-in shares consisted of:

- 21,000 shares of closed share issues (reserve shares of the Board of Management);
- 9,085,412 shares of public share issues.

35. PRINCIPAL SHAREHOLDINGS

The Bank's principal shareholders as at 31 December 2003 and 2002 were as follows:

	31.12.2003		31.12.2002	
	Paid-in share capital (LVL 000's)	% of total paid-in capital	Paid-in share capital (LVL 000's)	% of total paid-in capital
DOXA FUND	2,278	25.02	-	-
Arnolds Laksa	1,135	12.46	1,135	12.46
Stefans Rāzna	995	10.92	995	10.92
A/s Ventbunkers	853	9.37	853	9.37
A/s Kālija parks	761	8.36	761	8.36
A/s Ventamonjaks	755	8.29	668	7.33
Kompānija "Hafra Limited"	446	4.90	350	3.85
Valts Vīgants	299	3.28	-	-
Aivars Lembergs	276	3.03	276	3.03
Krists Skuja	108	1.19	108	1.19
Ansis Sormulis	108	1.19	108	1.19
"Macasyng Holding B.V.	-	-	96	1.05
Juris Savickis	93	1.01	93	1.01
Lolita Kronberga	86	0.95	86	0.95
Elita Buša	-	-	86	0.95
Gundars Stūris	86	0.95	86	0.95
Jānis Doniņš	86	0.95	86	0.95
Republic of Latvia, held by Latvian Privatisation Agency	66	0.72	2,925	32.12
A/s "Latvijas Krājbanka" share reserve	-	-	5	0.05
Directors' share	21	0.23	16	0.18
Other	654	7.18	373	4.09
Total	9,106	100	9,106	100

36. DIRECTORS' INTERESTS IN SHARES OF THE BANK

The beneficial interests of the members of the Management Board in the shares of the Bank (in thousands of shares) as at the end of the reporting year:

	31.12.2003		31.12.2002	
	Ordinary shares Number ('000)	Shares of the Management Board LVL'000	Ordinary Shares Number ('000)	Shares of the Management Board LVL'000
Andris Nātriņš	-	4.2	-	-
Uģis Latsons	-	4.2	-	3.0
Valts Vīgants	299	4.2	-	-
Gints Bukovskis	-	4.2	-	-
Olga Lomaša	-	4.2	-	3.5
A/S "Latvijas Krājbanka" share reserve	-	-	-	4.5
Zigurds Jeromanovs	-	-	1.1	3.0
Rolands Kumpiņš	-	-	-	3.5
Vladimirs Pataņins	-	-	-	3.5
Total Management Board	299	21	1.1	21

**A/S LATVIJAS KRĀJBANKA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2003**

37. ASSETS AND LIABILITIES UNDER MANAGEMENT

As at 31 December 2003, the following funds were under the trust management of the Bank:

	31.12.2003 LVL '000	31.12.2002 LVL '000
Loans to non-banking customers	10,063	19,958
Total funds under trust management	10,063	19,958

Loans to non-banking customers classified as funds under trust management are issued by the Bank based on the fund owner's specific requests. Based on the trust management agreements with customers, the fund owners bear all the risks associated with these loans, and the Bank acts only as an intermediary for loan issuance.

All assets under the trust management of the Bank are stated at cost. All funds under trust management are owned by entities registered in non-OECD area countries.

38. CONTINGENT LIABILITIES AND FINANCIAL COMMITMENTS

Memorandum items include the following contingent liabilities and commitments, as well as client security account balances outstanding at the end of the year:

	31.12.2003 LVL '000	31.12.2002 LVL '000
Outstanding guarantees	377	356
Total contingent liabilities	377	356
Financial commitments		
Credit commitments	7,609	12,926
Contractual commitments for capital expenditure	-	1,229
Operating lease commitments	10	5
Total contingent liabilities and financial commitments	7,996	14,516

Credit commitments include unused credit limits granted on settlement cards, which as at 31 December 2003 amounted to LVL 1,563 (2002: 1,589) thousand.

The following table provides an analysis of the Bank's memorandum items outstanding as at 31 December 2003 by geographical profile:

	OECD area LVL'000	Latvia LVL'000	Other countries LVL'000	Total 31.12.2003 LVL'000
Contingent liabilities				
Outstanding guarantees	37	340	-	377
Total contingent liabilities	37	340	-	377
Financial commitments				
Credit commitments	-	7,588	21	7,609
Operating lease commitments	-	10	-	10
Total contingent liabilities and financial commitments	37	7,938	21	7,996

38. CONTINGENT LIABILITIES AND FINANCIAL COMMITMENTS (continued)

The following table provides an analysis of the Bank's memorandum items outstanding as at 31 December 2003 by client type:

	Private financial institutions LVL'000	Private companies LVL'000	Private individuals LVL'000	Total 31.12.2003 LVL'000
Contingent liabilities				
Outstanding guarantees	-	347	30	377
Total contingent liabilities	-	347	30	377
Financial commitments				
Credit commitments	-	3,325	4,284	7,609
Operating lease commitments	-	10	-	10
Total contingent liabilities and financial commitments	-	3,682	4,314	7,996

39. CASH AND CASH EQUIVALENTS

The table below provides a breakdown of cash and cash equivalents as at 31 December 2003

	31.12.2003 LVL '000	31.12.2002 LVL '000
Cash and deposits with the Bank of Latvia	14,751	13,069
Balances due from credit institutions	22,106	8,460
Balances due to credit institutions	(25,582)	(30,754)
Total cash and cash equivalents	11,275	(9,225)

40. CAPITAL ADEQUACY

Capital adequacy refers to the sufficiency of the Bank's capital resources to cover the credit risks and market risks arising from the portfolio of assets of the Bank and the memorandum item exposures of the Bank.

The Bank's international risk based capital adequacy ratio as at 31 December 2003 was 12.3 (2002: 11.6%), which is above the minimum ratio recommended by the 1988 Basle Committee guidelines of 8%. At the same time, in accordance with the Finance and Capital Market Commission requirements, the Bank's risk based capital adequacy ratio was 11.5% (2002: 11.4%). The Finance and Capital Market Commission, the banking regulator for the country, requires Latvian banks to maintain a capital adequacy ratio of at least 10% of risk weighted assets.

During 2000, the Bank of Latvia approved new capital adequacy calculation regulations according to the European Union (EU) Directives on Own Funds, Solvency and Capital Adequacy. Pursuant to these regulations as of 1 January 2001 credit institutions have to calculate the market risk capital requirement for trading book items. The Management of the Bank believe that its trading activities are not significant and therefore the calculation of such a capital requirement would not have a material effect on the capital adequacy ratio. As at 31 December 2002, the market risk capital requirement is calculated only for foreign currency risk.

The Finance and Capital Market Commission requirements developed in line with European Union directives are principally consistent with the Basle Committee guidelines for the calculation of the capital adequacy ratio.

A/S LATVIJAS KRĀJBANKA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2003

40. CAPITAL ADEQUACY (continued)

The Bank's equity to be utilised in the calculation of the capital adequacy ratio as at 31 December 2003 has been calculated as follows:

Description	Amounts in LVL 000's	Total per tier LVL 000's
<i>Tier 1</i>		
- paid-in share capital	9,106	
- share premium	1,323	
- reserve capital	626	
- general banking risk reserve (appropriated from retained earnings)	-	
- audited retained earnings (not subject to dividend distribution)	-	
- audited profit for the year (not subject to dividend distribution)	862	
<i>Less</i>		
- total amount of preference shares	-	
- retained loss	(653)	
- own shares held	-	
- intangible assets (as defined by the Finance and Capital Market Commission)	(1,028)	
- loss for the period	-	
Total Tier 1		10,236
<i>Tier 2</i>		
- subordinated debt (restricted to 50% of Tier 1)	2,600	
- fixed asset revaluation reserve (restricted to 70% of total increase in fixed assets value which has been certified by at least 2 independent valuers)	282	
- revaluation reserve for long-term investments in securities (restricted to 55% of total increase in long-term investments)	-	
Total Tier 2		2,882
Equity to be utilised for the capital adequacy calculation in accordance with the guidelines of the Finance and Capital Market Commission		13,118
<i>Additional Tier 1</i>		
- intangible assets	1,028	
Total Tier 1 under the Basle Agreement		11,264
<i>Additional Tier 2</i>		
- general provisions for possible credit losses (restricted to 1.25% of risk weighted assets)	270	
Total Tier 2 under the Basle Agreement		3,152
Equity to be utilised for the capital adequacy calculation under the Basle Agreement (restricted*)		14,416

* The total of Tier 2 may not exceed the total of Tier 1.

A/S LATVIJAS KRĀJBANKA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2003

40. CAPITAL ADEQUACY (continued)

The following table shows asset weightings used in the calculation of the Bank's capital adequacy ratio according to the Financial and Capital Market Commission requirements:

<i>Under the Financial and Capital Market Commission guidelines</i>	Credit equivalent	Balance in LVL 000's	Risk Weighting	Risk Weighted Assets
Assets				
Cash and deposits with the Bank of Latvia		14,751	0%	-
Latvian government securities		34,427	0%	-
Loans and advances secured by Latvian government securities or Latvian government guarantees		5,621	0%	-
Loans and advances secured by deposits		800	0%	-
Balances due from credit institutions within OECD area		15,649	20%	3,130
Demand deposits with credit institutions within Latvia		5,616	20%	1,123
Loans and advances fully secured by mortgage registered with the Land book		7,802	50%	3,901
Deposits in Latvian credit institutions except demand deposits		1,676	50%	838
Prepayments and accrued income		715	50%	358
Loans to self-governments		1,313	50%	657
Other fixed income securities of non-OECD area, except Latvia, Issuers		2,873	100%	2,873
Due from credit institutions within the non-OECD area, except Latvia, not secured by deposits		99	100%	99
Other loans and advances to customers		84,080	100%	84,080
Shares and other non-fixed income securities		173	100%	173
Fixed assets		8,080	100%	8,080
Other assets		2,931	100%	2,931
Total assets		186,606		108,243
Memorandum items				
Outstanding guarantees secured by deposits	100%	110	0%	-
Outstanding guarantees	100%	267	100%	267
Credit commitments secured by deposits	50%	593	0%	-
Credit commitments secured by Latvian government guarantees	50%	152	0%	-
Other items, not included in the weighting	50%	6,874	100%	3,437
Foreign currency exchange transactions with an initial term over 14 days				
0%	2%	3,986	0%	-
100%	2%	104	100%	2
Total risk weighted assets and memorandum items				111,949
Foreign currency open positions subject to capital charge				210
Capital Adequacy Ratio				11.5%

**A/S LATVIJAS KRĀJBANKA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2003**

40. CAPITAL ADEQUACY (continued)

The Bank's capital adequacy ratio in accordance with the guidelines set forth by the Basle Committee is calculated using the following weights:

- 0%
 - Cash
 - Deposits with the Bank of Latvia
 - Investments in Latvian government securities
 - Loans and advances secured by cash or Latvian government securities
 - Balances due from OECD governments
- 20%
 - Balances due from banks incorporated in the OECD area
 - Balances due from banks incorporated in the Latvia
- 50%
 - Loans and advances fully secured by mortgage registered with the Land book
- 100%
 - Balances due from banks incorporated in the non-OECD area
 - Investments in non-OECD government securities
 - Other loans and advances to non-banking customers
 - Accrued income, prepayments and other short and long-term assets
 - Outstanding guarantees

<i>Under the Basle Agreement</i>				
	Credit equivalent	Balance in LVL 000's	Risk Weighting	Risk Weighted Assets
Assets				
Cash and deposits with the Bank of Latvia		14,751	0%	-
Latvian government securities		34,427	0%	-
Loans and advances secured by Latvian government securities or Latvian government guarantees		5,621	0%	-
Loans and advances secured by deposits		800	0%	-
Balances due from credit institutions within OECD area		15,649	20%	3,130
Demand deposits with credit institutions within Latvia		5,616	20%	1,123
Loans and advances fully secured by mortgage registered with the Land book		7,802	50%	3,901
Deposits in Latvia credit institutions except demand deposits		1,676	100%	1,676
Prepayments and accrued income		715	100%	715
Loans to self-governments		1,313	100%	1,313
Other fixed income securities of non-OECD area, except Latvia, Due from credit institutions within the non-OECD area, except Latvia, not secured by deposits		2,873	100%	2,873
		99	100%	99
Other loans and advances to customers		84,350	100%	84,350
Shares and other non-fixed income securities		173	100%	173
Fixed assets		8,080	100%	8,080
Intangible assets		1,028	100%	1,028
Other assets		2,931	100%	2,931
Total assets		187,904		111,392
Memorandum items				
Outstanding guarantees secured by deposits	100%	110	0%	-
Outstanding guarantees	100%	267	100%	267
Credit commitments secured by deposits	50%	593	0%	-
Credit commitments secured by Latvian government guarantees	50%	152	0%	-
Other items, not included in the weighting	50%	6,874	100%	3,437
Foreign currency exchange transactions with an initial term over 14 days				
0%	2%	3,986	0%	-
20%	2%	104	100%	2
Total risk weighted assets and memorandum items				115,098
Foreign currency open positions subject to capital charge				210
Capital Adequacy Ratio				12.3%

A/S LATVIJAS KRĀJBANKA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2003

41. CURRENCY ANALYSIS

The Bank's transactional exposures give rise to foreign currency gains and losses that are recognized in the income statement. These exposures comprise the monetary assets and monetary liabilities in the Bank that are not denominated in Latvian lats.

The following table provides the analysis of the Bank's assets, liabilities and shareholders' equity as well as memorandum items outstanding as at 31 December 2003 by currency profile:

	LVI LVL'000	USD USD'000	EUR EUR'000	Other currencies LVL'000	Total LVL'000
<u>Assets</u>					
Cash and deposits with the central bank	11,672	1,842	990	247	14,751
Balances due from credit institutions and central banks	7,302	13,969	556	279	22,106
Loans and advances to non-banking customers	71,302	21,643	2,706	393	96,044
Bonds and other fixed income securities	34,554	3,052	3,339	-	40,945
Shares and other non-fixed income securities	173	-	-	-	173
Derivative assets	98	-	-	-	98
Fixed and intangible assets	9,108	-	-	-	9,108
Other assets	1,658	1,254	5	24	2,941
Prepayments and accrued income	1,355	138	83	-	1,576
Total assets	137,222	41,898	7,679	943	187,742
<u>Liabilities and shareholders' equity</u>					
Balances due to the central bank and credit institutions	(20,943)	(4,609)	(69)	(9)	(25,630)
Deposits from the public	(91,450)	(40,101)	(9,915)	(291)	(141,757)
Derivative liabilities	(38)	-	(21)	-	(59)
Deferred income and accrued expense	(1,632)	(239)	(80)	(1)	(1,952)
Provision for liabilities and charges	(784)	-	-	-	(784)
Other liabilities	(1,899)	(845)	(444)	(106)	(3,294)
Subordinated debt	(2,600)	-	-	-	(2,600)
Shareholders' equity	(11,666)	-	-	-	(11,666)
Total liabilities and shareholders' equity	(131,012)	(45,794)	(10,529)	(407)	(187,742)
<i>Net long/ (short) position on balance sheet</i>	<i>6,210</i>	<i>(3,896)</i>	<i>(2,850)</i>	<i>536</i>	<i>-</i>
<u>Off-balance sheet claims arising from foreign exchange</u>					
Spot foreign exchange receivable	857	1,175	553	941	3,526
Forward foreign exchange receivable	-	4,126	2,805	90	7,021
Total foreign exchange receivable	857	5,301	3,358	1,031	10,547
<u>Off-balance sheet liabilities arising from foreign exchange</u>					
Spot foreign exchange payable	(830)	(2,226)	(411)	(60)	(3,527)
Forward foreign exchange payable	(4,019)	(290)	(843)	(1,810)	(6,962)
Total foreign exchange payable	(4,849)	(2,516)	(1,254)	(1,870)	(10,489)
<i>Net long/(short) position on foreign exchange</i>	<i>(3,992)</i>	<i>2,785</i>	<i>2,104</i>	<i>(839)</i>	<i>58</i>
<i>Net long/(short) position</i>	<i>2,218</i>	<i>(1,111)</i>	<i>(746)</i>	<i>(303)</i>	<i>58</i>
<u>Contingent liabilities</u>					
Guarantees	169	94	114	-	377
Total contingent liabilities	169	94	114	-	377
<u>Financial commitments</u>					
Credit commitments	5,838	1,753	18	-	7,609
Operating lease commitments	10	-	-	-	10
Total financial commitments	5,848	1,753	18	-	7,619

The Latvian banking legislation requires that open positions in each foreign currency may not exceed 10% of the Bank's equity (see Note 41 for the definition of equity under the Bank of Latvia's regulations) and that the total net foreign currency open position may not exceed 20% of the equity.

As at 31 December 2003 Bank's total net foreign currency open position, that was decreased by 50% from the Bank's XDR modelling foreign currency open position and the opposite lats open position, was 1,435 thousand lats. As at 31 December 2003 the Bank has complied with the requirements of foreign currency open positions.

42. ASSETS, LIABILITIES AND MEMORANDUM ITEMS BY MATURITY PROFILE

Liquidity risk arises in the general funding of the Bank's activities and in the management of positions. It includes both the risk of being unable to fund assets at appropriate maturities and rates and the risk of being unable to liquidate an asset at a reasonable price and in an appropriate time frame.

Funds are raised using instruments including deposits, subordinated liabilities and share capital. The Bank strives to maintain a balance between continuity of funding and flexibility through the use of liabilities with a range of maturities. The Bank continually assesses liquidity risks by identifying and monitoring the changes in funding required to meet business goals.

In addition, the Bank holds a portfolio of liquid assets as part of its liquidity risk management strategy.

The relationship between the maturity of assets and liabilities, as well as memorandum items is indicative of liquidity risk and the extent to which it may be necessary to raise funds to meet outstanding obligations. The table below allocates the Bank's assets, liabilities and memorandum items to maturity Bankings based on the time remaining from the balance sheet date to the contractual maturity dates.

A/S LATVIJAS KRĀJBANKA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2003

42. ASSETS, LIABILITIES AND MEMORANDUM ITEMS BY MATURITY PROFILE
(continued)

	Over-due LVL'000	Within 1 month LVL'000	1 - 3 months LVL'000	3 - 6 months LVL'000	6 - 12 months LVL'000	1 - 5 years LVL'000	Over 5 years and undated LVL'000	Total LVL'000
Assets								
Cash and deposits with the central Bank	-	14,751	-	-	-	-	-	14,751
Balances due from credit institutions and central banks	-	21,915	191	-	-	-	-	22,106
Loans and advances to non-Banking customers	1,400	3,901	3,380	6,206	14,036	33,197	33,924	96,044
Bonds and other fixed income Securities	-	-	-	3,158	-	35,882	1,905	40,945
Derivative assets	-	92	-	6	-	-	-	98
Shares and other non-fixed income Securities	-	-	-	-	-	-	173	173
Fixed assets	-	-	-	-	-	-	9,108	9,108
Other assets	-	494	586	586	-	-	1,275	2,941
Prepayments and accrued income	66	624	295	150	72	-	369	1,576
Total assets	1,466	41,777	4,452	10,106	14,108	69,079	46,754	187,742

Liabilities and shareholders' Equity								
Balances due to the central bank and credit institutions	-	25,582	-	-	48	-	-	25,630
Deposits from the public	-	91,661	8,602	13,013	20,024	7,577	880	141,757
Derivative liabilities	-	59	-	-	-	-	-	59
Deferred income and accrued Expense	-	940	226	298	255	220	13	1,952
Provision for liabilities and charges	-	784	-	-	-	-	-	784
Other liabilities	-	3,294	-	-	-	-	-	3,294
Subordinate capital	-	-	-	-	-	-	2,600	2,600
Shareholders' equity	-	-	-	-	-	-	11,666	11,666
Total liabilities and shareholders' equity	-	122,320	8,828	13,311	20,327	7,797	15,159	187,742
Net liquidity gap	1,466	(80,543)	(4,376)	(3,205)	(6,219)	61,282	31,595	-
Contingent liabilities								
Total contingent liabilities	-	377	-	-	-	-	-	377
Financial commitments								
Credit commitments	-	7,609	-	-	-	-	-	7,609
Operating lease commitments	-	10	-	-	-	-	-	10
Total financial commitments	-	7,619	-	-	-	-	-	7,619

A/S LATVIJAS KRĀJBANKA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2003

43. REPRICING MATURITY OF ASSETS AND LIABILITIES

Asset-liability risk management activities are conducted in the context of the Bank's sensitivity to interest rate changes. In general, the Bank is liability sensitive because its interest-earning assets have a longer duration and reprice less frequently than interest-bearing liabilities. The Bank seeks to control this risk through the activities of the Bank's Treasury Department and Assets and Liabilities Management Committee.

	Within 1 month LVL'000	1-3 months LVL'000	3-6 months LVL'000	6-12 months LVL'000	1-5 years LVL'000	Over 5 years LVL'000	Non- interest bearing LVL'000	Total LVL'000
Assets								
Cash and deposits with the central bank	-	-	-	-	-	-	14,751	14,751
Balances due from credit institutions and central banks	21,971	135	-	-	-	-	-	22,106
Loans and advances to non-banking customers	3,871	72,743	4,222	8,158	3,889	3,161	-	96,044
Bonds and other fixed income securities	-	-	3,158	-	35,882	1,905	-	40,945
Shares and other non-fixed income securities	-	-	-	-	-	-	173	173
Derivative assets	-	-	-	-	-	-	98	98
Fixed assets	-	-	-	-	-	-	9,108	9,108
Other assets	983	-	-	-	-	-	1,958	2,941
Prepayments and accrued income	-	-	-	-	-	-	1,576	1,576
Total assets	26,825	72,878	7,380	8,158	39,771	5,066	27,664	187,742
Liabilities								
Balances due to the central Bank and credit institutions	25,582	-	-	48	-	-	-	25,630
Deposits from the public	91,662	9,220	12,976	19,944	7,256	699	-	141,757
Derivative liabilities	-	-	-	-	-	-	59	59
Other liabilities	33	-	-	-	-	-	3,261	3,294
Deferred income and accrued expense	-	-	-	-	-	-	1,952	1,952
Provision for liabilities and charges	-	-	-	-	-	-	784	784
Total liabilities	117,277	9,220	12,976	19,992	7,256	699	6,056	173,476
Subordinated debt	-	-	-	-	-	2,600	-	2,600
Shareholders' equity	-	-	-	-	-	-	11,666	11,666
Total liabilities and shareholders' equity	117,277	9,220	12,976	19,992	7,256	3,299	17,722	187,742
Total interest sensitivity gap	(90,452)	63,658	(5,596)	(11,834)	32,515	1,767	9,942	-

44. RELATED PARTIES

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

	31.12.2003	31.12.2002
	LVL '000	LVL '000
<i>Credit exposure to related parties:</i>		
Loans and advances to related parties:		
- Management	45	71
- related legal entities	957	966
- other related private individuals	102	50
Total loans and advances to related parties	1,104	1,087
Credit commitments to management	36	77
Credit commitments to related private individuals	31	30
Total credit exposure to related parties	1,171	1,194

As at 31 December 2003, the Bank had received funding from related corporate customers and private individuals totalling LVL 2 thousand (2002: 911 thousand) and 314 thousand (2002: 265 thousand), respectively. All deposits from related parties are attracted on market terms and conditions.



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AUDITORS' REPORT

To the shareholders of A/s Latvijas Krājbanka

We have audited the accompanying balance sheet of A/S Latvijas Krājbanka as of 31 December 2003 and the related profit and loss statement and the statements of changes in shareholders' equity and cash flows for the year then ended, as set out on pages 11 to 47. These financial statements are the responsibility of the Bank's management. Our responsibility is to issue a report on the financial statements based on our audit. The financial statements of A/S Latvijas Krājbanka as at and for the year 31 December 2002 were audited by other auditors, whose report thereon dated 15 February 2003 expressed an unqualified opinion on those statements.

We conducted our audit in accordance with International Standards on Auditing as promulgated by the International Federation of Accountants. The 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 present a true and fair view, in all material respects, of the financial position of A/S Latvijas Krājbanka as of 31 December 2003 and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards promulgated by the International Accounting Standards Board.

Patrick Querubin
SIA KPMG Latvia
Licence No 55
Rīga, Latvia
17 February 2004

Inga Lipšāne
Sworn Auditor
personal code 260560-10319
Certificate No. 112

