

**A/S Latvijas Krājbanka**

**Annual Report**

**for the year ended 31 December 2004**

**TABLE OF CONTENTS**

---

	<b>Page</b>
<b>Statement of the President</b>	<b>3</b>
<b>The Economic and Banking Environment</b>	<b>6</b>
<b>Supervisory Council and Management Board of the Bank</b>	<b>8</b>
<b>Statement of Responsibility of the Management</b>	<b>10</b>
<b>Financial Statements:</b>	
<b>Income Statement</b>	<b>11</b>
<b>Balance Sheet and Memorandum items</b>	<b>12</b>
<b>Statement of Changes in Shareholders' Equity</b>	<b>14</b>
<b>Cash Flow Statement</b>	<b>15</b>
<b>Notes to the Financial Statements</b>	<b>16</b>
<b>Auditors' Report</b>	<b>49</b>

A/S "Latvijas Krājbanka"  
Palasta 1, Rīga, LV-1050, Latvia  
Phone: (371) 7092 001  
Facsimile: (371) 7092 000  
Registration number: 40003098527

**STATEMENT OF THE PRESIDENT**

---

**Dear shareholders and customers of *Krājbanka*!**

In 1924 the Latvian Postal Service Savings Bank was founded, which can be justifiably considered as a predecessor and beginning of A/S "Latvijas Krājbanka" (hereinafter also referred to as the Bank or *Krājbanka*); therefore, the year 2004 for *Krājbanka* was under the 80th anniversary sign, increasing the number of products and services with outstanding offers and significant anniversary campaigns. At the same time a new historical period for the development of the Bank started in 2004 because from October 27 shares of *Krājbanka* were added to the Free list of Riga Stock Exchange and went public.

The progress of *Krājbanka* is reflected by the most significant decisions accepted in the Shareholders' meeting of the Bank, inter alia. The decision to include 9,085,412 ordinary bearer shares with voting rights (nominal value LVL 1 for each share) of A/S "Latvijas Krājbanka" in the regulated market starting their quotation in the Riga Stock Exchange, as well as authorization of the Council of *Krājbanka* to make decisions regarding the emissions of mortgage bonds and non-convertible bonds.

The Board of the Bank in its operation has observed and developed aims, values and principles, which have been included in the Bank's strategy for the last 5 years. The main of them – *Krājbanka* is a universal commercial bank with easy accessible customer service network around Latvia, which offers modern products and services based on the latest technologies. Accordingly in 2004, *Krājbanka* has brought forward the combined service for private persons as one of its priorities offering broad complex of services, including electronic payments and lending products in all service centres of the network.

In 2004, a change of the Bank's structure had been carried out with an aim to improve the efficiency of customer service - instead of branches there were 5 regions made with 74 customer service centres (CSCs). Retaining the CSCs network as the priority for providing customer service, the work of the CSCs is based on specific features of each region.

In 2004 the particular interest was paid to the improvement of selling skills of the Bank's products and services. In order to update the knowledge of employees, an e-assessment system was created, which allows the determination of employees' level of knowledge regarding bank products and services, and plan trainings more effectively. In 2004 a new tradition was established – organization of Development days, which involves specialists of different levels in exploration of the Bank's strategy and future perspectives.

In 2004, *Krājbanka* started issuing two new payment cards - *Cirrus* cards and smart card "Palm-size card". *Cirrus* card is a payment card with a magnetic stripe meant for collecting cash from automatic teller machines (ATM), but "Palm-size card" is a payment card based on *Visa Electron*, which is an original solution for cooperation with a band "Brainstorm", continuing traditions of *Online/Visa Electron*. The previous cooperation between *Krājbanka* and the band "Brainstorm" in collectively issuing of *Online card* can be evaluated as very successful. In three years *Online card* gained 33 thousand users, which is a significant indicator in payment card business in Latvia. Following the best traditions in eight months of 2004 *Krājbanka* already issued 12 000 "Palm-size cards".

Starting from September 2004, *Krājbanka* stopped issuing *Visa Electron* cards with magnetic stripe to the new customers and from September 1, 2004, began a complete transition to issuing *Visa Electron* smart cards, by 31.12.2004 in total issuing 57 thousand new and renewed *Visa Electron* and "Palm-size card" smart cards.

In 2004 *Krājbanka* continued its work for introducing smart cards and at the end of 2004 it started to issue *Visa Classic*, *Visa Business* and *Visa Gold* smart cards. These cards are meant for gradual replacement of already issued *Visa* credit cards with magnetic stripe. Till the end of 2004 *Krājbanka* had already issued more than 600 *Visa* smart cards.

In 2004 a project of issuing *MasterCard* smart cards had been started and the project of issuing *Maestro* smart cards had been continued. It is planned to start issuing *MasterCard* and *Maestro* smart cards in March 2005, thus ending the transition, which began in 2003, from cards with magnetic stripe to smart cards. Therefore *Krājbanka* will be the second bank in Latvia, which offers to its customers *Maestro* and *MasterCard* smart cards.

Until the end of the reporting year *Krājbanka* had issued 45 thousand new debit cards and more than 2 thousand credit cards. Special emphasis should be put on issuing debit cards to legal entities, because in 2004 there were issued twice as much debit cards to legal entities than in 2003. The number of issued credit cards has also

STATEMENT OF THE PRESIDENT

---

significantly increased – in comparison to 2003 the increase of credit cards issued in 2004 to private persons is 182%, but to legal entities - 141%.

In 2004 the development of consumer credits continued, which gained big popularity in 2003 - the circle of potential credit receivers was expanded, also the maximum size of principal was increased, thus making consumer credits even more attractive. The effectiveness of receiving consumer credits in terms of time is one of the most significant features of this product. The goal of *Krājbanka* is to ensure that the customer receives this service in one day – easily and fast. Some changes were made also in the terms of mortgage loans – the maximum ratio of loan was increased to the market value.

One of the events devoted to the anniversary of *Krājbanka* is the development of a new website. Retaining the previous address – [www.krajbanka.lv](http://www.krajbanka.lv), *Krājbanka*, starting from June 2004, addresses all visitors of the new website providing a broader choice of information and a range of new functional solutions for everyone who would like to learn more about *Krājbanka* and its services via Internet.

In the reporting year the Bank has continued the development of its electronic payment systems (EPS), providing more convenient service to the customers and offering a broader range of the Bank's products. Starting from July 2004, the customers of *Krājbanka* who use electronic payment systems – *Telephone bank*, *Online bank* and *Office bank* – can make timeless deposits (savings accounts and open deposits) also electronically. Starting from October 2004, for deposits made via EPS, *Krājbanka* offers higher deposit interest rates. Starting from May 2004, the Bank has approved EPS discount rates with an aim to stimulate and popularize the use of electronic payments.

During 2004 time deposit balances of private persons has increased by 26,6%, which is almost three times the respective growth in 2003. Such growth proves that customers trust *Krājbanka* and considers it as a reliable and stable bank.

According to the requirements of the Bank of Latvia and the European Union, starting from August 1<sup>st</sup>, 2004, customer accounts are disclosed in compliance with the IBAN standard. The introduction of IBAN in *Krājbanka* has improved the speed of payment processing, decreased the cost of payment execution, correction, cancellation and limited mistakes in customer payments. During the reporting period, the use of advantages of the double clearing from the Bank of Latvia was also introduced in *Krājbanka*, which ensures transfers of Latvian lats within Latvia in less than one day time, since the exchange of data with the Bank of Latvia is carried out twice a day.

The Bank's successful cooperation with Western Union company continued also in 2004 and resulted in launching a modern software program which allows *Krājbanka* to reduce time for customer service as well as supplement Western Union services with new opportunities.

In accordance with cooperation agreement signed with the State social insurance agency, in October 2004 *Krājbanka* started an active proposing of the investment plan (level 2) of the pension system in all customer service centres. As private persons have always been a substantial part of *Krājbanka's* customers, the new service provided in cooperation with the Bank's partner is a logical and necessary addition to the already existing product range offered to the Bank's customers. At the moment *Krājbanka* and *Astra Krājfondi* offer two investment plans (level 2) of the pension system – “Klasika” and “Ekstra”. The goal of both pension plans is to achieve the preservation and constant growth of deposits, which would allow to accumulate an additional capital and ensure larger pensions to the plan members. Until the end of 2004 there were 7,000 applications received in customer service centres of *Krājbanka* for participation in pension plans provided by *Astra Krājfondi*.

To ensure the sale of wider range of products and services, in 2004 *Krājbanka* in addition to its existing cooperation with insurance joint stock company A/S “BAN”, started a cooperation with A/S “BALTA” in order to provide real estate and travelling insurance services.

On November 30, 2004, *Krājbanka* signed a cooperation agreement with one of the biggest insurance holding companies in Austria – joint stock company “Grazer Wechselseitige Versicherung Aktiengesellschaft” (GRAWE). This fact can be reasonably considered as the beginning of a historic cooperation, since through the mediation of *Krājbanka* one of the largest insurance providers in Austria and the most experienced insurance company in Europe entered the Latvian insurance market. The cooperation includes providing life insurance services using *Krājbanka's* network of customer service centres in Latvia.

STATEMENT OF THE PRESIDENT

---

Along with Latvia joining the European Union (EU) and its attraction of financing for various projects, banks have an opportunity to function also as consultants and advisors for every entrepreneur who is interested in adoption of EU structural funds and is looking for a professional assistant to achieve this goal. Having developed this service area, in the first half of 2004 *Krājbanka* organized regional days where interested customers could meet experts and the leading specialists of the Bank, who answered questions and provided professional consulting services on the subject of EU structural funds.

With a decision of Latvian Quality Association, during the past year *Krājbanka* became a full-fledged member of this association. The decision to submit an application with a request to accept *Krājbanka* as a new member of the Latvian Quality Association is a natural and grounded continuation of the process started by the Bank in 2003 when it became the first commercial Bank in Latvia to receive ISO 9001:2000 quality management system certificate.

In the reporting year *Krājbanka* for the fifth time in a row invited active and inquisitive young people to participate in a Simulated Stock Exchange game. Using its membership status in the Association of European Savings Banks, *Krājbanka* has a possibility to provide the Simulated Stock Exchange game to Latvian pupils and coordinate its process.

On October 14, 2004 the Council of *Krājbanka* approved the results of an open contest "On rent of official premises for administrative departments of A/S Latvijas Krājbanka", acknowledging the offer of SIA "RED – PROJEKTS" as the best in the competition of five projects. The submitted offer intends to build a multistorey building for *Krājbanka's* administration by December 2006.

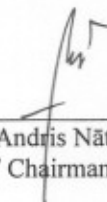
In total, evaluating year 2004, it should be admitted that the Bank in its operations showed goal-oriented growth tendencies, developing its operating routes, as well as implementing a number of activities related to the resource optimization and rational re-planning. Under the conditions of severe competition among banks, *Krājbanka* has fixed its market position, managing to attract attention of the society to activities of the Bank's image, which in the reporting year were carried out in cooperation with the band *Brainstorm*, making a campaign for youth "Get your own instrument!". Thus it can be said that the year 2004 was full of growth and development events, which is reflected in the Bank's positive financial indicators and strengthening of its image. In comparison with 2003, the Bank's net interest income, net commission income as well as profits have increased.

In conclusion we would like to thank customers, cooperation partners, employees and shareholders of the Bank – all the people who actively used the *Krājbanka's* services in its anniversary year, made their professional investment in the Bank's development and together with us celebrated the important anniversary of the Bank. Having started the post-anniversary year, we are full of determination to work for improvement of *Krājbanka's* competitiveness in order to be able to ensure an individual and professional approach to every customer, to be a Bank available and close to people, which fully corresponds to the statement in the Bank's motto: *Latvijas Krājbanka – Your closest bank!*

Yours faithfully,



Ilmārs Razumovskis  
Chairman of the Council



Andris Nātriņš  
President/ Chairman of the Board

Riga,  
February 18, 2005

**Description of Economic and Banking Sector**

In 2004 Latvia was one of the fastest growing among EU member countries. According to the forecasts of the Ministry of Economics, the expected growth of GDP for 2004 is 8.5%. Especially fast-growing sectors were transport, construction and trade. The driving force for Latvian economic growth in 2004 was increase of internal demand and expansion of export opportunities.

In 11 months of 2004 the volume of Latvian exported goods exceeded exports for the same period in 2003 by 27%, which can be explained by joining the EU. The increase in import during the same period was a bit lower, reaching 25%. Among Latvian exported goods during this period dominated wood and its products, metals and their products, as well as light industry products. In turn the most significant imported items proved to be engineering production, chemicals and mineral substances.

The major trading partners of Latvia in 2004 were the EU countries. Trade deals with Germany, Lithuania, Sweden, Russia, Estonia and Great Britain constituted the main part of Latvian foreign trade turnover. During this period the growth of Latvian export to the EU countries was stimulated by a favorable exchange rate of euro. The negative balance of Latvian trade in goods in 2004 was partly covered by a positive balance in services trade (especially in transport field).

The relatively high deficit of the current account is considered to be one of the risks in the development of Latvian economy. However, its level is not crucial, as it is mainly covered by foreign direct investment and long-term loans, and in the course of time it may decrease as a result of rapid export growth.

The fiscal deficit of Latvian consolidated budget for 2004 constituted LVL 79 million, thus being in compliance with a restriction of the Maastricht agreement, stating that fiscal deficit must not exceed 3% of GDP. In 2004 the priorities of Latvian budget were the integration of Latvia in the EU and NATO, as well as improvement of living standards through the increase of social benefits, minimal pension and minimal salary.

The ratio of the state debt to GDP in 2004 is forecast at comparatively low level – about 13.5% of GDP.

In the period from 1998 until 2003 the growth of consumer prices in Latvia was close to the level of inflation in the developed countries. In 2004 Latvia experienced fast inflation increase. Its level in 2004 reached 7.3%. The inflation was influenced by the increase of the euro exchange rate (which made imports more expensive), growth of regulated prices, harmonization of indirect tax rates, growth of oil prices, as well as high and rapidly growing internal demand.

Over the last years, the number of economically active residents in Latvia has increased and the overall employment level keeps growing. At the same time the registered unemployment level in Latvia in 2004 was 8.5%, which is one of the highest figures in the EU. In comparison with 2003, in 2004 the registered unemployment in Latvia has decreased by 0.1%.

External reserves of the Bank of Latvia in 2004 grew by 31.5%. The coverage of cash in circulation and deposits in the Bank of Latvia by net external assets at the end of December 2004 constituted 108.6%. On December 30, 2004 Latvian currency was officially pegged to Euro (EUR 1 = LVL 0.7028), replacing pegging to the SDR basket. The Bank of Latvia undertook the unilateral provisions of the fluctuations of LVL/EUR exchange rate within the limits of +/-1% of the pegged rate. Latvia is planning to join the European Exchange Rate Mechanism (EERM) in 2005.

In the end of 2004 banking services in Latvia were provided by 22 banks and 1 branch of a foreign bank. There were also 5 representation offices of foreign banks with no right to provide financial services. Foreign shareholders owned about 57.8% of the total paid-up capital of the banks.

In the Latvian banking sector in 2004 all operational indicators grew – assets, capital and reserves, amounts of attracted deposits, issued credits and profit. In the total of deposits attracted by commercial banks, deposits by non-residents constituted (54% of total deposits); in turn, about 86.8% of all credits in banking sector were issued to residents.

According to the data of the Financial and Capital Market Commission, the largest amount of credits in Latvian commercial banking sector as at the end of 2004 was issued to trading companies. In comparison with 2003, the proportion of credits issued to the trade sector slightly decreased in 2004, but amounts of credits issued to other industries increased faster – e.g., real estate, construction, manufacturing, agriculture, etc. The growth of issued credits in several industries was connected with adoption of EU structural funds and a decrease in credit risk. The development of mortgage loans continued in 2004 and their ratio reached more than 33% of the total amount of credits issued by the commercial banks at the end of the year. During the last year the volume of mortgage loans issued by the commercial banks increased by 77.6%. In 2004 the ratio of short-term credits issued continued to decrease, while the ratio of long-term loans decreased.

In 2004 continued the development of legislation regulating activities of commercial banks. For example, in November the minimal capital adequacy requirement was decreased to 8%, thus assuring fair competition between local and foreign commercial banks. Trust to commercial banks was stimulated by the Deposit Guarantee Law, complying with which in 2004 the maximum amount of guaranteed compensation to one depositor for deposits in one bank constituted LVL 6,000. In order to limit inflation and thus also the internal demand and credit amounts in 2004, the Bank of Latvia used such instruments of monetary policy as increase of refinancing rates and the norm of obligatory reserves.

**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

There have been no changes in the Supervisory Council of the Bank during the period since 1 January 2004 through the date of signing the financial statements.



**MANAGEMENT BOARD**

<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/	04/02/2002/
	First Vice President	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

There have been no changes in the Management Board of the Bank during the period since 1 January 2004 through the date of signing the financial statements.

**A/S LATVIJAS KRĀJBANKA**

**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 48 are prepared in accordance with the source documents and present fairly the financial position of the Bank as at 31 December 2004, 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



---

Andrijs Nātriņš  
President/ Chairman of the Board

Riga,  
February 18, 2005

**A/S LATVIJAS KRĀJBANKA**  
**INCOME STATEMENT**  
**FOR THE YEAR ENDED 31 DECEMBER 2004**

	Notes	2004 LVL '000	2003 LVL '000
Interest income	4	10,714	9,895
Interest expense	4	(4,232)	(3,688)
<b>Net interest income</b>		<b>6,482</b>	<b>6,207</b>
Commission and fee income	5	6,040	5,209
Commission and fee expense	5	(1,005)	(762)
<b>Net commission and fee income</b>		<b>5,035</b>	<b>4,447</b>
Profit on sale of securities and foreign exchange trading	6	1,067	1,343
Other operating income	7	846	1,474
<b>Operating income</b>		<b>13,430</b>	<b>13,471</b>
Administrative expenses	8	(9,495)	(9,280)
Depreciation and amortisation expense	26	(1,734)	(2,227)
Other operating expenses	10	(222)	(344)
Impairment losses	11	(1,064)	(1,034)
Reversal of impairment losses	11	593	374
<b>Result before corporate income tax</b>		<b>1,508</b>	<b>960</b>
Corporate income tax	12	(206)	(98)
<b>Net profit for the year</b>		<b>1,302</b>	<b>862</b>
distributed as follows:			
<b>Net income for the year</b>		<b>1,302</b>	<b>862</b>
<b>Basic earnings per share</b> (in lats per share)	13	<b>0.143</b>	<b>0.095</b>
<b>Diluted earnings per share</b> (in lats per share)	13	<b>0.127</b>	<b>0.092</b>

The accompanying notes on pages 16 to 48 form an integral part of these financial statements.

The financial statements on pages 11 to 48 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,  
February 18, 2005

**A/S LATVIJAS KRĀJBANKA  
BALANCE SHEET AND MEMORANDUM ITEMS  
AS AT 31 DECEMBER 2004**

	Notes	31.12.2004 LVL '000	31.12.2003 LVL '000
<b>Assets</b>			
Cash and deposits with the central bank	14	25,462	14,751
Balances due from credit institutions and the central bank	15	18,941	22,106
<i>Demand deposits</i>		12,288	18,398
<i>Other balances due from credit institutions</i>		6,653	3,708
Loans and advances to non-banking customers	16-20	121,991	96,044
Investments in bonds and other fixed income securities	21	33,879	40,945
<i>Government bonds and other fixed income securities</i>		27,294	33,717
<i>Other bonds and other fixed income securities</i>		6,585	7,228
Shares and other non-fixed income securities available-for-sale	22	108	173
Investment in associate	23	121	-
Investment in subsidiary	24	5	-
Derivative assets	25	19	98
Intangible assets	26	853	1,028
Property and equipment	26	7,360	8,080
Other assets	27	2,545	2,941
Prepayments and accrued income	28	1,841	1,576
<b>Total assets</b>		<b>213,125</b>	<b>187,742</b>
<b>Assets under management</b>	39		

The accompanying notes on pages 16 to 48 form an integral part of these financial statements.

The financial statements on pages 11 to 48 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

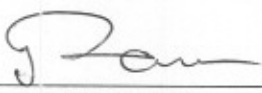
Riga,  
February 18, 2005


**A/S LATVIJAS KRĀJBANKA  
BALANCE SHEET AND MEMORANDUM ITEMS  
AS AT 31 DECEMBER 2004**

	Notes	31.12.2004 LVL '000	31.12.2003 LVL '000
<b><u>Liabilities</u></b>			
Balances due to the central bank and credit institutions	29	31,972	25,630
<i>Demand</i>		11,913	6,675
<i>Term</i>		20,059	18,955
Deposits from the public	30	157,991	141,757
<i>Demand deposits</i>		81,036	79,348
<i>Term deposits</i>		76,955	62,409
Derivative liabilities	25	46	59
Deferred income and accrued expenses	31	1,944	1,952
Provision for liabilities and charges	32	302	258
Deferred tax liability	33	643	526
Other liabilities	34	3,852	3,294
<b><u>Total liabilities</u></b>		<b>196,750</b>	<b>173,476</b>
Subordinated debt	35	3,403	2,600
<b><u>Shareholders' equity</u></b>			
Paid-in share capital	36-38	9,106	9,106
Share premium		1,323	1,323
Reserve capital and other reserves		626	626
Revaluation reserve		383	402
Retained earnings/(accumulated deficit)		232	(653)
Net income for the year		1,302	862
<b><u>Total shareholders' equity</u></b>		<b>12,972</b>	<b>11,666</b>
<b>Total liabilities and shareholders' equity</b>		<b>213,125</b>	<b>187,742</b>
<b>Liabilities under management</b>	39	8,493	10,063
<b><u>Memorandum items:</u></b>			
Commitments and contingencies	40	10,301	7,996

The accompanying notes on pages 16 to 48 form an integral part of these financial statements.

The financial statements on pages 11 to 48 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,  
February 18, 2005

3

**A/S LATVIJAS KRĀJBANKA**  
**STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY**  
**FOR THE YEAR ENDED 31 DECEMBER 2004**

	<u>Paid-in share capital LVL '000</u>	<u>Share premium LVL '000</u>	<u>Treasury shares LVL '000</u>	<u>Reserve capital and other reserves LVL '000</u>	<u>Revaluation reserve LVL '000</u>	<u>Retained earnings/ (accumulated deficit) LVL '000</u>	<u>Total shareholders' equity LVL '000</u>
<b>Balance on 31 December 2002</b>	<b>9,106</b>	<b>1,323</b>	<b>(5)</b>	<b>626</b>	<b>1,364</b>	<b>(1,544)</b>	<b>10,870</b>
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
<b>Balance on 31 December 2003</b>	<b>9,106</b>	<b>1,323</b>	<b>-</b>	<b>626</b>	<b>402</b>	<b>209</b>	<b>11,666</b>
Change in revaluation reserve due to sold property	-	-	-	-	(23)	23	-
Deferred tax recognised in the revaluation reserve	-	-	-	-	4	-	4
Net profit for the year	-	-	-	-	-	1,302	1,302
<b>Balance on 31 December 2004</b>	<b>9,106</b>	<b>1,323</b>	<b>-</b>	<b>626</b>	<b>383</b>	<b>1,534</b>	<b>12,972</b>

The accompanying notes on pages 16 to 48 form an integral part of these financial statements.

The financial statements on pages 11 to 48 have been authorised by the Management of the Bank for approval and signed on its behalf by:



Ilmārs Razumovskis  
Chairman of the Council



Andriš Nātriņš  
President/ Chairman of the Board

Riga,  
February 18, 2005

**A/S LATVIJAS KRĀJBANKA**  
**CASH FLOW STATEMENT**  
**FOR THE YEAR ENDED 31 DECEMBER 2004**


	Notes	2004 LVL '000	2003 LVL '000
<b>Operating activities</b>			
Result before corporate income tax		1,508	960
Depreciation and amortisation		1,734	2,227
Impairment losses		581	777
Increase / (decrease) in provisions for liabilities and charges		44	(55)
Gain on revaluation of foreign currency		(84)	(25)
Gain on revaluation of investments		(306)	(1,008)
Loss / (gain) from disposal of fixed assets, net		(80)	44
<b>Increase in cash and cash equivalents before changes in assets and liabilities, as a result of ordinary operations</b>		<b>3,397</b>	<b>2,920</b>
Decrease in deferred income and accrued expenses		(8)	26
(Increase) in prepayments and accrued income		(265)	(336)
Net decrease / (increase) in derivative instruments		66	(71)
Decrease / (increase) in other assets		402	(212)
Increase in other liabilities		558	1,171
Increase in provision for liabilities and deferred tax		161	-
Decrease / (increase) investments		7,131	889
(Increase) in loans and advances to non-banking customers		(26,497)	(5,173)
Increase in balances due to the central bank and credit institutions		388	48
Increase / (decrease) in deposits from the public		16,234	20,567
<b>Net increase in cash and cash equivalents from operating activities</b>		<b>1,567</b>	<b>19,829</b>
<b>Cash inflow/ outflow from investing activities</b>			
(Purchase) of fixed and intangible assets		(1,256)	(1,008)
Proceeds from disposal of fixed and intangible assets		520	492
Investment in associate and subsidiary, net		(126)	757
<b>Increase in cash and cash equivalents from investing activities</b>		<b>(862)</b>	<b>241</b>
<b>Cash inflow from financing activities</b>			
Issue of shares and subordinated debt		803	400
(Repurchase)/sale of treasury shares		-	5
<b>Increase in cash and cash equivalents from financing activities</b>		<b>803</b>	<b>405</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>1,508</b>	<b>20,475</b>
<b>Cash and cash equivalents at the beginning of the year</b>		<b>11,275</b>	<b>(9,225)</b>
Profit/(loss) from revaluation of foreign currency positions, net		84	25
<b>Cash and cash equivalents at the end of the year</b>	42	<b>12,867</b>	<b>11,275</b>

The accompanying notes on pages 16 to 48 form an integral part of these financial statements.

The financial statements on pages 11 to 48 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,  
February 18, 2005

**A/S LATVIJAS KRĀJBANKA  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2004**

**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. 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 comparison with all commercial banks of Latvia, the Bank has one of the widest network of customers service centres (CSCs), which ensures fast and convenient client service in all Latvian cities and regions. As at 31 December 2004, the Bank had CSCs in all regions of Latvia:

<u>Region</u>	<u>Region(Branches)</u>	<u>Customer service centres</u>
Rīga	1 (-)	33 (36)
Vidzeme, except Rīga	1 (4)	12 (12)
Latgale	1 (2)	10 (8)
Kurzeme	1 (3)	9 (8)
Zemgale	1 (1)	5 (5)
<b>Total</b>	<b>5 (10)</b>	<b>69 (69)</b>

The comparatives for 2003 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 2004 and 2003, 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, including separate revaluation and adjustments of balance sheet items introduced 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 impairment for accrued interest income is automatically provided for.

Commissions are credited/charged to the income statement on the date of transaction.

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 published 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) published 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 2004	0.516000	0.703000	0.018600
As of 31 December 2003	0.541000	0.674000	0.018400

e) *Corporate income tax*

Corporate income tax at the rate of 15% (2003:19%) 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 liabilities arising from revaluation of fixed assets are disclosed in fixed assets revaluation reserve.

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) *Impairment 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.

Impairment losses are recognized in compliance with the International Financial Reporting Standards and 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 uncollectible amounts. When a loan or advance has been classified as non-performing or of high risk an impairment for possible credit losses is established for that specific loan or advance for the amount of outstanding balance, which is deemed uncollectible taking into consideration the client's credibility and collateral. The fair value of collateral is determined in accordance with the principle of prudence and based on the quality and liquidity of the collateral.

Impairment 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*

#### *Classification*

Held-to-maturity investments are financial assets with fixed or determinable payments and fixed maturity that the Bank has the intent and ability to hold to maturity.

Available-for-sale investments 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.

Trading investments are those acquired and sold within one day. These financial instruments are acquired for the purpose of short term profit taking or dealer margin.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### *Measurement*

Held-to-maturity investments are initially recognised at cost (including transaction costs) and subsequently remeasured at amortised cost less impairment losses. Amortised cost is calculated on the effective interest rate method. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortised based on the effective interest rate of the instrument.

Available-for-sale securities (shares, long-term investment in share capital) are initially recognized at cost (including 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.

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.

### *Derecognition*

A financial asset is derecognised when the Bank loses control over contractual rights that comprise that asset. This occurs when the rights are realised, expire or are surrendered. A financial liability is derecognised when it is extinguished.

Available-for-sale assets and assets that are sold or redeemed at maturity are derecognised and, in case of sale, corresponding receivables from the buyer for the payment are recognised as of the date the Bank commits to sell the asset. The Bank uses the specific identification method to determine the gain or loss on derecognition.

Held-to-maturity instruments and originated loans and receivables are derecognised on the day they are transferred by the Bank.

### *j) Investments in privatisation certificates*

Investments in privatisation certificates are stated at their market value determined in accordance with instructions of the Bank of Latvia.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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. 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 2004</u>	<u>Annual Rate 2003</u>
Buildings	2%	2%
Software	12.5%-20%	12.5%-20%
EDP equipment	25%	25%
Equipment and fixtures	10%-33.33%	10%-14.29%
Transport vehicles	10%	10%

Fixed assets 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.

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, set limits for credit cards accounts, issue overdrafts and financial guarantees, as well as commercial letters of credit. Such financial instruments are recorded in the financial statements when the respective contracts are concluded. The methodology for impairment for 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.

## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

### *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) Investments in associates*

Associates are those enterprises in which the Bank has significant influence, but not control, over the financial and operation policies. The financial statements include the Bank's share of the total recognized gains and losses of associates on an equity accounted basis, from the date that significant influence effectively commences until the date that significant influence effectively ceases. When the Bank's share of losses exceed the carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Bank has incurred obligations in respect of the associate.

### *u) Provisions*

A provision is recognised in the balance sheet when the Bank has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

### *v) 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 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 2004 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.

***Interest rate risk***

Interest rate risk is measured by the extent to which changes in market interest rates impact on margins and net interest income. To the extent the term structure of interest bearing assets differs from that of liabilities, net interest income will increase or decrease as a result of movements in interest rates.

***Liquidity risk***

The Bank maintains liquidity management with the objective of ensuring that funds will be available at all times to honour all cash flow obligations as they become due. The Bank's liquidity policy is reviewed and approved by the Management Board. See note 45 "Assets, liabilities and memorandum items by maturity profile".

***Foreign exchange rate risk***

The Bank has assets and liabilities denominated in several foreign currencies. Foreign currencies risk arises when the actual or forecasted assets in a foreign currency are either greater or less than the liabilities in that currency. The Bank's foreign currency policy is reviewed and approved by the Management Board. See note 44 "Currency analysis".

***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, since 2002 the Bank has established policies and procedures for the identification of unusual and suspicious transactions.

A/S LATVIJAS KRĀJBANKA  
 NOTES TO THE FINANCIAL STATEMENTS  
 FOR THE YEAR ENDED 31 DECEMBER 2004

4. INTEREST INCOME AND EXPENSE

	2004 LVL '000	2003 LVL '000
Interest income:		
- interest on loans and advances to non-banking customers	8,649	7,532
- interest on long-term bonds and other fixed income securities	1,695	2,314
- interest on balances due from credit institutions	358	49
- interest on short-term bonds and other fixed income securities	12	-
<b>Total interest income</b>	<b>10,714</b>	<b>9,895</b>
Interest expense:		
- interest on deposits from the public	(3,388)	(2,741)
- interest on balances due to credit institutions	(339)	(547)
- contributions to deposit guarantee fund	(303)	(242)
- interest on subordinated debt	(202)	(158)
<b>Total interest expense</b>	<b>(4,232)</b>	<b>(3,688)</b>
<b>Net interest income</b>	<b>6,482</b>	<b>6,207</b>

5. COMMISSION AND FEE INCOME AND EXPENSE

	2004 LVL '000	2003 LVL '000
Commission and fee income:		
- commission on money transfers	1,811	1,614
- commission on transactions with settlement cards	1,508	1,231
- account maintenance fee	679	869
- commission on transactions with privatisation certificates	692	517
- commission on granting of loans	796	471
- cash disbursement commission	350	289
- brokerage fee	74	76
- other commission and fee income	130	142
<b>Total commission and fee income</b>	<b>6,040</b>	<b>5,209</b>
Commission and fee expense:		
- commission on settlement cards	(505)	(428)
- correspondent bank service charges	(3)	(3)
- other commission and fee expense	(497)	(331)
<b>Total commission and fee expense</b>	<b>(1,005)</b>	<b>(762)</b>
<b>Net commission and fee income</b>	<b>5,035</b>	<b>4,447</b>

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.

	2004 LVL '000	2003 LVL '000
Profit from dealing with currency exchange	574	394
Profit from sale of available-for-sale securities	103	557
Profit from revaluation of securities, net	306	367
Profit/(loss) from revaluation of foreign currency positions, net	84	25
<b>Total profit on sale of securities and foreign exchange trading</b>	<b>1,067</b>	<b>1,343</b>

**A/S LATVIJAS KRĀJBANKA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2004**

**7. OTHER OPERATING INCOME**

	2004 LVL '000	2003 LVL '000
Penalties received	488	551
Gain from sale of investments	-	641
Income from cession	48	57
Rental income	57	49
Gain from sale of fixed assets	147	114
Other operating income	106	62
<b>Total other operating income</b>	<b>846</b>	<b>1,474</b>

A major part of penalties received are penalties for non-compliance with contract terms and conditions.

**8. ADMINISTRATIVE EXPENSES**

	2004 LVL '000	2003 LVL '000
Remuneration and related social security contributions (see Note 9)	5,399	5,494
Communication	548	531
Advertising and marketing	571	383
Rent of premises and land	606	492
EDP maintenance	456	479
Security	385	429
Repairs and maintenance of premises and buildings	257	231
Car maintenance	182	159
Office expense	230	159
Consulting and professional fees	73	82
Training and other personnel expenses	117	128
Property and real estate tax	44	63
Other administrative expense	627	650
<b>Total administrative expense</b>	<b>9,495</b>	<b>9,280</b>

**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.

	2004 LVL '000	2003 LVL '000
Remuneration to the Supervisory Council	47	46
Remuneration to the Management Board	202	246
Remuneration to other personnel	4,155	4,188
Social security contributions	995	1,014
<b>Total remuneration and related social security contributions</b>	<b>5,399</b>	<b>5,494</b>

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

	2004	2003
Members of the Management Board	5	5
Other management personnel	27	51
Staff personnel	828	887
<b>Total number of personnel employed</b>	<b>860</b>	<b>943</b>

During the year ended 31 December 2004 the Bank had an average number of personnel amounting to 907 (2003: 988).



A/S LATVIJAS KRĀJBANKA  
 NOTES TO THE FINANCIAL STATEMENTS  
 FOR THE YEAR ENDED 31 DECEMBER 2004

10. OTHER OPERATING EXPENSES

	2004 LVL '000	2003 LVL '000
Loss from fixed assets disposal	44	158
State duty on court claims	43	71
Other operating expense	135	115
<b>Total other operating expense</b>	<b>222</b>	<b>344</b>

11. IMPAIRMENT LOSSES

An analysis of impairment losses is presented as follows:

	Impairment losses for loan principal LVL'000	Impairment losses for accrued income LVL'000	Other impairment losses LVL'000	2004 Total LVL'000
Specific provision at the beginning of the year	1,526	282	135	1,943
Collective impairment provision at the beginning of the year	270	-	-	270
<b>Total provision at the beginning of the year</b>	<b>1,796</b>	<b>282</b>	<b>135</b>	<b>2,213</b>
Specific impairment charge for the year	779	202	8	989
Collective impairment charge for the year	75	-	-	75
<b>Total impairment charge for the year</b>	<b>854</b>	<b>202</b>	<b>8</b>	<b>1,064</b>
Reversal of specific impairment losses	(204)	(150)	(2)	(356)
Reversal of collective impairment losses	(13)	-	-	(13)
Recovery of assets previously written-off	(224)	-	-	(224)
<b>Total reversal of impairment losses</b>	<b>(441)</b>	<b>(150)</b>	<b>(2)</b>	<b>(593)</b>
<b>Net charge to the statement of income</b>	<b>413</b>	<b>52</b>	<b>6</b>	<b>471</b>
Foreign exchange movements	(6)	-	-	(6)
Net write-offs and recoveries of assets	143	(15)	(12)	116
Specific provision at the end of the year	2,014	319	129	2,462
Collective impairment provision at the end of the year	332	-	-	332
<b>Total provision at the end of the year</b>	<b>2,346</b>	<b>319</b>	<b>129</b>	<b>2,794</b>

The table below shows the division of the Bank's impairment 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:

LVL'000	31.12.2004				Net outstanding balance 31.12.2003
	Gross outstanding balance	Specific provisions	General provisions	Net outstanding balance	
Balances due from credit institutions	18,941	-	-	18,941	22,106
Loans and advances to non-banking customers	124,337	(2,014)	(332)	121,991	96,044
Bonds and other fixed income securities	33,879	-	-	33,879	40,945
Other assets	2,673	(128)	-	2,545	2,941
Accrued interest income	1,544	(319)	-	1,225	1,196
Other accrued income	330	(1)	-	329	102
Credit commitments	8,946	-	-	8,946	7,609
<b>Total</b>	<b>190,650</b>	<b>(2,462)</b>	<b>(332)</b>	<b>187,856</b>	<b>170,943</b>

The aggregated portfolio impairment losses on loans and advances to non-banking customers represents approximately 0.3 % (2003: 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 2004 was as follows:

	2004 LVL '000	2003 LVL '000
Deferred tax expense	121	98
Corporate income tax	85	-
<b>Corporate income tax for the reporting year</b>	<b>206</b>	<b>98</b>

The reconciliation of corporate income tax at the statutory rate of 15% (2003: 19%) and the actual corporate income tax expense was as follows:

Corporate income tax:

	2004 LVL'000	2003 LVL'000
Profit before taxes	1,508	960
Theoretical tax: 15% (2003: 19%)	226	182
Non-deductible expenses, net	13	16
Effect on change in CIT rate	(21)	(65)
Revaluation gain and gain from the sale of public securities	(46)	(44)
Prior year adjustment	30	80
Revaluation reserve	4	(71)
<b>Corporate income tax for the reporting year</b>	<b>206</b>	<b>98</b>

## 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.

	2004 LVL'000	2003 LVL'000
Profit after taxation (LVL'000)	1,302	862
Average number of shares in issue (thousand)	9,106	9,106
<b>Earnings per share</b>	<b>0.143</b>	<b>0.095</b>

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 or loss 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.

	2004	2003
Profit after taxation (LVL'000)	1,302	862
Interest for subordinated debt (LVL'000)	202	158
	<b>1,504</b>	<b>1,020</b>
Average number of shares in issue (thousand)	9,106	9,106
Potential shares in result of conversion of subordinated debt (thousand)	2,756	1,971
	<b>11,862</b>	<b>11,077</b>
<b>Diluted earnings per share (LVL)</b>	<b>0.127</b>	<b>0.092</b>

A/S LATVIJAS KRĀJBANKA  
 NOTES TO THE FINANCIAL STATEMENTS  
 FOR THE YEAR ENDED 31 DECEMBER 2004

14. CASH AND DEPOSITS ON DEMAND WITH THE CENTRAL BANK

	31.12.2004 LVL '000	31.12.2003 LVL '000
Cash	11,171	11,665
Deposits with the Bank of Latvia	14,291	3,086
<b>Total cash and deposits on demand with the central bank</b>	<b>25,462</b>	<b>14,751</b>

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 2004 the obligatory reserves were LVL 5,974 thousand (2003: LVL 3,605 thousand). In the reporting year, the Bank has been in conformance with the requirements on obligatory reserves.

15. BALANCES DUE FROM CREDIT INSTITUTIONS AND CENTRAL BANKS

	31.12.2004 LVL '000	31.12.2003 LVL '000
Due from credit institutions registered in OECD countries	7,616	12,891
Due from credit institutions registered in Latvia	10,971	9,116
Due from credit institutions registered in other non-OECD countries	354	99
<b>Total balances due from credit institutions</b>	<b>18,941</b>	<b>22,106</b>

As of 31 December 2004, the Bank had established correspondent relationships with 15 (2003: 14) credit institutions registered in the OECD area, 10 (2003: 11) credit institutions incorporated in non-OECD countries and 5 (2003: 2) Latvian credit institutions.

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

Maturity profile	Due from credit institutions registered in			Total 31.12.2004 LVL'000	Total 31.12.2003 LVL'000
	OECD LVL'000	Latvia LVL'000	Other countries LVL'000		
Correspondent accounts	2,892	23	354	3,269	2,236
Overnight deposits	4,542	4,477	-	9,019	16,662
Other demand deposits	-	-	-	-	17
<b>Total demand deposits</b>	<b>7,434</b>	<b>4,500</b>	<b>354</b>	<b>12,288</b>	<b>18,915</b>
Term deposits with credit institutions:					
- due within 1 month	129	6,471	-	6,600	3,000
- due within 1 - 3 months	53	-	-	53	191
<b>Total term deposits</b>	<b>182</b>	<b>6,471</b>	<b>-</b>	<b>6,653</b>	<b>3,191</b>
<b>Net due from credit institutions</b>	<b>7,616</b>	<b>10,971</b>	<b>354</b>	<b>18,941</b>	<b>22,106</b>

As at 31 December 2004 average interest rate for issued term deposits for credit institutions was 2.59% (2003: 1.94 %)

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).

**A/S LATVIJAS KRĀJBANKA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2004**

**16. LOANS AND ADVANCES TO NON-BANKING CUSTOMERS**

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

	31.12.2004 LVL '000	31.12.2003 LVL '000
Regular loans	104,189	81,480
Loans under reverse repurchase agreements	3,851	1,565
Utilised credit lines	13,457	11,623
<b>Total gross loans to non-banking customers</b>	<b>121,497</b>	<b>94,668</b>
Finance lease	946	1,641
Factoring	746	682
Overdrafts	131	75
Debit balances on settlement cards	1,017	774
<b>Total gross loans and advances to non-banking customers</b>	<b>124,337</b>	<b>97,840</b>
Less provision for possible credit losses (see Note 11)	(2,346)	(1,796)
<b>Total net loans and advances to non-banking customers</b>	<b>121,991</b>	<b>96,044</b>

Loans under *reverse repurchase* agreements are granted in exchange for Latvian government securities. As at 31 December 2004, the Bank had issued such loans in the amount of LVL 3,851 thousand (2003: 1,565 thousand). The nominal value of the Latvian government securities received by the Bank under the reverse repurchase agreements was LVL 3,420 thousand (2003: 1,545 thousand) and LHZB bonds of LVL 485 thousand (2003: nil).

**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	31.12.2004 LVL '000	31.12.2003 LVL '000
Accrual basis	122,314	95,702
Non-accrual basis	2,023	2,138
<b>Total gross loans and advances to non-banking customers</b>	<b>124,337</b>	<b>97,840</b>
Less provision (see Note 11)	(2,346)	(1,796)
<b>Total net loans and advances to non-banking customers</b>	<b>121,991</b>	<b>96,044</b>

As at 31 December 2004, the average interest rate charged on outstanding short-term loans was 6.64 % (2003: 8.24%), on long-term loans – 8.17% (2003: 8.18%) and on reverse repurchase agreements with Latvian government securities – 2.98% (2003: 2.97%).

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	31.12.2004 LVL '000	31.12.2003 LVL '000
Overdue	1,124	1,627
Falling due within:		
- 1 month	2,958	1,887
- 1 - 3 months	8,954	949
- 3 - 6 months	3,918	3,886
- 6 - 12 months	9,927	9,877
- 1 - 5 years	33,998	22,175
- more than 5 years	63,458	57,439
<b>Total gross loans and advances to non-banking customers</b>	<b>124,337</b>	<b>97,840</b>
Less provision for possible credit losses (see Note 11)	(2,346)	(1,796)
<b>Total net loans and advances to non-banking customers</b>	<b>121,991</b>	<b>96,044</b>

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

Customer profile	31.12.2004 LVL '000	31.12.2003 LVL '000
Privately held companies	76,510	69,981
Municipality owned enterprises	85	100
State owned enterprises	51	64
<b>Total gross loans and advances to corporate customers</b>	<b>76,646</b>	<b>70,145</b>
Municipal authorities	1,071	1,212
Public and religious institutions	4	15
Personnel employed by the Bank	2,234	1,558
Other private individuals	44,382	24,910
<b>Total gross loans and advances to non-banking customers</b>	<b>124,337</b>	<b>97,840</b>
Less provision (see Note 11)	(2,346)	(1,796)
<b>Total net loans and advances to non-banking customers</b>	<b>121,991</b>	<b>96,044</b>

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	31.12.2004 LVL '000	31.12.2003 LVL '000
Residents of Latvia	123,814	97,276
Residents of other non-OECD area countries	31	119
Residents of OECD countries	492	445
<b>Total gross loans and advances to non-banking customers</b>	<b>124,337</b>	<b>97,840</b>
Less provision for possible credit losses (see Note 11)	(2,346)	(1,796)
<b>Total net loans and advances to non-banking customers</b>	<b>121,991</b>	<b>96,044</b>

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

Geographical profile	31.12.2004 LVL '000	31.12.2003 LVL '000
Riga	80,924	62,725
Zemgale	15,770	14,006
Vidzeme, except Riga	10,553	8,673
Kurzeme	9,458	6,533
Latgale	7,632	5,903
<b>Total gross loans and advances to non-banking customers</b>	<b>124,337</b>	<b>97,840</b>
Less provision for possible credit losses (see Note 11)	(2,346)	(1,796)
<b>Total net loans and advances to non-banking customers</b>	<b>121,991</b>	<b>96,044</b>

**A/S LATVIJAS KRĀJBANKA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2004**

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	31.12.2004 LVL '000	31.12.2003 LVL '000
Retail trade and wholesale distribution	13,821	19,204
Manufacturing	13,094	10,860
Agriculture and forestry	9,734	6,606
Construction	3,681	6,025
Financial intermediaries	5,065	3,027
Hotels and restaurants	8,358	3,623
Electricity, gas and water utilities	1,165	944
Transport, warehousing and communications	3,842	4,612
Fishing	50	176
Other service industries	17,836	15,068
<b>Total gross loans and advances to corporate customers</b>	<b>76,646</b>	<b>70,145</b>

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.

**19. FINANCE LEASES BY TYPE OF LEASED ASSETS**

	31.12.2004 LVL '000	31.12.2003 LVL '000
Transport vehicles	499	828
Manufacturing equipment	249	494
Agricultural equipment	164	267
Other	34	52
<b>Total gross finance leases</b>	<b>946</b>	<b>1,641</b>

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

**20. UNEARNED INTEREST INCOME FROM FINANCE LEASES**

	2004 LVL '000	2003 LVL '000
Short-term unearned interest income	61	123
Long-term unearned interest income	36	101
<b>Total unearned interest income from finance leases</b>	<b>97</b>	<b>224</b>

**21. INVESTMENTS IN BONDS AND OTHER FIXED INCOME SECURITIES**

Available-for-sale	31.12.2004 LVL '000	31.12.2003 LVL '000
Government bonds and other fixed income securities:		
Latvian government bonds in local currency	8,720	30,739
Latvian government eurobonds	2,250	2,978
Mortgage bonds of Latvijas Hipotēku un Zemes banka	1,636	1,638
Bonds issued by credit and other financial institutions	3,677	3,253
Bonds issued by privately held companies	713	2,337
	<b>16,996</b>	<b>40,945</b>
<b>Held-to-maturity</b>		
Government bonds and other fixed income securities:		
Latvian government bonds in local currency	16,324	-
Bonds issued by privately held companies	559	-
	<b>16,883</b>	<b>-</b>
<b>Total investments in bonds and other fixed income securities</b>	<b>33,879</b>	<b>40,945</b>

**A/S LATVIJAS KRĀJBANKA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2004**

Maturity profile	31.12.2004 LVL '000			31.12.2003 LVL '000		
	Government securities	Other securities	Total	Government securities	Other securities	Total
Falling due within:						
- 1 month	-	-	-	-	-	-
- 1 - 3 months	3,621	-	3,621	-	-	-
- 3 - 6 months	1,075	-	1,075	1,535	1,623	3,158
- 6 - 12 months	456	-	456	-	-	-
- 1 - 5 years	20,487	6,010	26,497	30,885	4,997	35,882
- more than 5 years	1,655	575	2,230	1,297	608	1,905
<b>Total net bonds and other fixed income securities</b>	<b>27,294</b>	<b>6,585</b>	<b>33,879</b>	<b>33,717</b>	<b>7,228</b>	<b>40,945</b>

As at 31 December 2004, the average yield on outstanding investments in Latvian government securities in LVL was 3.86% (2003: 4.89%) and on investments in fixed income securities issued by other credit and financial institutions – 4.39 % (2003: 5.73%). The foreign currency denominated investments in fixed income securities as at 31 December 2004 had an average yield of 4.00% (2003: 5.55%) on Euro denominated securities and 6.05% (2003: 8.28%) on USD denominated securities.

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

	31.12.2004 LVL '000	31.12.2003 LVL '000
Equity shares of unlisted Latvian corporate entities	1	2
<b>Total equity shares</b>	<b>1</b>	<b>2</b>
Latvian privatisation certificates	107	171
<b>Total shares and other non-fixed income securities</b>	<b>108</b>	<b>173</b>

**23. INVESTMENT IN ASSOCIATE**

In 2004, the Bank purchased 120,000 newly issued shares (LVL 121 thousand) of a/s "Ieguldījumu sabiedrība "Astra fondi" representing 50% of the share capital. The investment in associate has not been accounted for using equity method as the effect on the Bank's financial statements is immaterial.

**24. INVESTMENT IN SUBSIDIARY**

In 2004, the Bank established a Limited Liability Company "Krājinvestīcijas" with a share capital of LVL 5,000. Limited Liability Company "Krājinvestīcijas" was registered with the Latvian Enterprise Registry on 30 June 2004. The financial results of this company are not consolidated into the Bank's financial statements as the effect on the Bank's financial statements is immaterial.

**25. DERIVATIVE ASSETS AND LIABILITIES**

	Notional amount LVL'000		Fair value LVL'000			
			Assets		Liabilities	
	31.12.2004	31.12.2003	31.12.2004	31.12.2003	31.12.2004	31.12.2003
Currency derivatives	81				6	
Currency swaps	5,914	7,021	17	98	40	38
	5,995	7,021	17	98	46	38
Equity and similar derivatives						
Forwards (sale)	1,406	1,348	2	-	-	21
	1,406	1,348	2	-	-	21
<b>Total derivatives</b>	<b>7,401</b>	<b>8,369</b>	<b>19</b>	<b>98</b>	<b>46</b>	<b>59</b>

A/S LATVIJAS KRĀJBANKA  
 NOTES TO THE FINANCIAL STATEMENTS  
 FOR THE YEAR ENDED 31 DECEMBER 2004

26. FIXED AND INTANGIBLE ASSETS

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

	31.12.2004 LVL '000	31.12.2003 LVL '000
Land and buildings	2,541	2,757
Leasehold improvements	621	740
Transport vehicles	241	385
Intangible assets	842	1,009
Office equipment:		
<i>EDP equipment and software</i>	1,174	1,055
<i>ATMs and similar card processing equipment</i>	1,164	1,337
<i>Other office equipment</i>	1,586	1,749
Total office equipment	3,924	4,141
<b>Total fixed and intangible assets excluding prepayments</b>	<b>8,169</b>	<b>9,032</b>
Prepayments for fixed assets	33	57
Prepayments for intangible assets	11	19
Prepayments for fixed assets and for intangible assets	44	76
<b>Total fixed assets at net book value including prepayments</b>	<b>8,213</b>	<b>9,108</b>

The following changes in the Bank's fixed and intangibles assets took place during the year ended 31 December 2004:

	Land and buildings LVL'000	Leasehold improvements LVL'000	Transport vehicles LVL'000	Office equipment LVL'000	Intangible assets LVL'000	Total fixed and intangible assets excluding prepayments LVL'000
<b>Historical cost/ Revalued</b>						
As at 31 December 2003	3,111	1,228	745	11,041	3,040	19,165
Additions	69	15	55	947	170	1,256
Disposals	(237)	(14)	(331)	(475)	(71)	(1,128)
<b>As at 31 December 2004</b>	<b>2,943</b>	<b>1,229</b>	<b>469</b>	<b>11,513</b>	<b>3,139</b>	<b>19,293</b>
<b>Depreciation</b>						
As at 31 December 2003	354	488	360	6,900	2,031	10,133
Charge for the year	108	130	54	1,131	311	1,734
Reversal due to disposals	(60)	(10)	(186)	(442)	(45)	(743)
<b>As at 31 December 2004</b>	<b>402</b>	<b>608</b>	<b>228</b>	<b>7,589</b>	<b>2,297</b>	<b>11,124</b>
<b>Net book value</b>						
As at 31 December 2003	2,757	740	385	4,141	1,009	9,032
<b>As at 31 December 2004</b>	<b>2,541</b>	<b>621</b>	<b>241</b>	<b>3,924</b>	<b>842</b>	<b>8,169</b>

The Bank revalued its land and buildings at 1999. Revaluation is made on the basis of valuations performed by independent external valuer. Increase in the carrying amount arising on revaluation of land and building of LVL 145,002 were credited to the revaluation reserve in shareholders equity.



27. OTHER ASSETS

	31.12.2004 LVL '000	31.12.2003 LVL '000
Balance due from brokerage firm	36	10
Collateral deposit for settlement card transactions	1,379	849
VAT prepayment	78	70
Unsettled bank card transactions	367	331
Receivable for the investment disposed	-	1,173
Other	813	642
<b>Gross total other assets</b>	<b>2,673</b>	<b>3,075</b>
Less provision (see Note 11)	(128)	(134)
<b>Total other assets</b>	<b>2,545</b>	<b>2,941</b>

28. PREPAYMENTS AND ACCRUED INCOME

	31.12.2004 LVL '000	31.12.2003 LVL '000
Accrued interest income	1,544	1,478
Prepayments	287	278
Other accrued income	330	103
<b>Total gross prepayments and accrued income</b>	<b>2,161</b>	<b>1,859</b>
Less provision (see Note 11)	(320)	(283)
<b>Total net prepayments and accrued income</b>	<b>1,841</b>	<b>1,576</b>

Accrued interest income mainly relates to accrued interest on government bonds and other fixed income securities, which as of 31 December 2004, amounted to LVL 693 thousand (2003: 859 thousand). Other accrued income includes income on custodian operations.

29. BALANCES DUE TO THE CENTRAL BANK AND CREDIT INSTITUTIONS

	31.12.2004 LVL '000	31.12.2003 LVL '000
Bank of Latvia – repurchase agreements	-	11,809
Due to credit institutions registered in Latvia– repurchase agreements	6,151	4,058
Due to credit institutions registered in Latvia	25,379	9,711
Due to credit institutions registered in OECD countries	3	-
Due to credit institutions registered in other non-OECD countries	439	52
<b>Total balances due to the Bank of Latvia and credit institutions</b>	<b>31,972</b>	<b>25,630</b>

As at 31 December 2004, the Bank had pledged Latvian government securities with a nominal value of LVL 23,770 thousand (2003: 20,918 thousand) and a carrying value of LVL 21,343 thousand (2003: 22,258 thousand) and Latvian government eurobonds with a nominal value of LVL 2,109 thousand and a carrying value of LVL 2,109 thousand. The Bank uses repurchase agreements with Latvian government securities as a source of short-term funding.

**A/S LATVIJAS KRĀJBANKA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2004**

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 credit institutions registered in			Total 31.12.2004 LVL'000	Total 31.12.2003 LVL'000
	Latvia LVL'000	OECD countries LVL'000	Other non- OECD countries LVL'000		
Correspondent accounts	198	-	3	201	74
Overnight deposits	11,708	-	-	11,708	19,564
Other deposits	1	3	-	4	-
<b>Total balances repayable on demand</b>	<b>11,907</b>	<b>3</b>	<b>3</b>	<b>11,913</b>	<b>19,638</b>
Term deposits from the Bank of Latvia and credit institutions:					
- due within 1 month	19,623	-	-	19,623	5,944
- due within 3 - 6 months	-	-	436	436	-
- due within 6 - 12 months	-	-	-	-	48
<b>Total term deposits from the Bank of Latvia and credit institutions</b>	<b>19,623</b>	<b>-</b>	<b>436</b>	<b>20,059</b>	<b>5,992</b>
<b>Total balances due to the Bank of Latvia and credit institutions</b>	<b>31,530</b>	<b>3</b>	<b>439</b>	<b>31,972</b>	<b>25,630</b>

As at 31 December 2004 average interest rate on term liabilities with credit institutions was 2.93 % (2003: 2.91%). As at 31 December 2004 the Bank had balances due to 3 (2003: 3) Latvian registered commercial banks and due to 6 (2003: 7) non-OECD region commercial institutions.

**30. DEPOSITS FROM THE PUBLIC**

Maturity profile	31.12.2004 LVL '000	31.12.2003 LVL '000
<b>Demand deposits</b>	<b>81,036</b>	<b>79,348</b>
Term deposits:		
- due within 1 month	16,924	12,314
- due within 1 - 3 months	10,883	8,602
- due within 3 - 6 months	15,334	13,013
- due within 6 - 12 months	23,006	20,024
- due within more than 1 year	10,808	8,456
<b>Total term deposits</b>	<b>76,955</b>	<b>62,409</b>
<b>Total deposits from the public</b>	<b>157,991</b>	<b>141,757</b>

As at 31 December 2004, the average interest rate granted on outstanding term deposits accepted from the public was 4.09% (2003: 4.28%).

Sector profile	31.12.2004 LVL '000	31.12.2003 LVL '000
Private individuals	120,128	98,750
Privately held companies	27,158	34,549
State owned enterprises	9,228	6,908
Municipal authorities	671	623
Public and religious institutions	803	620
Central governments	3	307
<b>Total deposits from the public</b>	<b>157,991</b>	<b>141,757</b>

A/S LATVIJAS KRĀJBANKA  
 NOTES TO THE FINANCIAL STATEMENTS  
 FOR THE YEAR ENDED 31 DECEMBER 2004

Geographical profile	31.12.2004 LVL '000	31.12.2003 LVL '000
Residents	141,414	111,531
Non-residents	16,577	30,226
<b>Total deposits from the public</b>	<b>157,991</b>	<b>141,757</b>

The total amount of deposits placed with the Bank by non-residents as at 31 December 2004 comprised deposits accepted from residents of the OECD and non-OECD area, that amounted to LVL 5,996 thousand (2003: 19,127 thousand) and LVL 10,581 thousand (2003: 11,099 thousand), respectively. The residence of companies is based on the countries where they were officially incorporated.

**31. DEFERRED INCOME AND ACCRUED EXPENSES**

	31.12.2004 LVL '000	31.12.2003 LVL '000
Deferred income	10	12
Accrued interest expense	1,433	1,285
Accrued remuneration costs and social security contributions	191	162
Other accrued expense	310	493
<b>Total deferred income and accrued expense</b>	<b>1,944</b>	<b>1,952</b>

**32. PROVISION FOR LIABILITIES AND CHARGES**

	31.12.2004 LVL '000	31.12.2003 LVL '000
Corporate income tax	85	-
Employee holiday pay	164	163
State duty on privatisation certificate transfers	53	95
<b>Total provision for liabilities and charges</b>	<b>302</b>	<b>258</b>

**33. DEFERRED TAX LIABILITY**

Deferred tax movement in the reporting period:

	31.12.2004 LVL '000	31.12.2003 LVL '000
Deferred tax liability at the beginning of the reporting period	526	357
Deferred tax expense	121	98
Revaluation reserve	(4)	71
<b>Deferred tax liability at the end of the reporting period</b>	<b>643</b>	<b>526</b>

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

	31.12.2004 LVL'000	31.12.2003 LVL'000
<i>Deferred tax liability:</i>		
-temporary difference on fixed asset carrying value for financial purposes and tax written down value	730	777
<i>Deferred tax asset:</i>		
-general provisions	(50)	(41)
-other provisions	(37)	(27)
-tax losses carried forward	-	(183)
<b>Provisions for deferred tax liability</b>	<b>643</b>	<b>526</b>

**34. OTHER LIABILITIES**

	<b>31.12.2004</b>	<b>31.12.2003</b>
	<b>LVL '000</b>	<b>LVL '000</b>
Money in transit	2,544	2,786
Unrealized losses from SPOT transactions	8	10
Financing received for payment of Banka Baltija compensations	-	31
Other liabilities	1,300	467
<b>Total other liabilities</b>	<b>3,852</b>	<b>3,294</b>

As at 31 December 2004 money in transit included customers' payments to be transferred with a valuation date in January 2005.

**35. SUBORDINATED DEBT**

As at 31 December 2004, the Bank's outstanding subordinated debt due to Macasyng Holding B.V. amounted to LVL 2,600 (2003: 2,600) thousand and due to B&B MARINE INSURANCE LIMITED amounted to LVL 803 (2003: nil ) thousand.

Agreements on subordinated debt have been concluded based on the decision to establish subordinated capital made by the shareholders meeting on 29 March 1999. According to the agreement, the borrower may receive the invested funds only at the end of the loan agreement or if the Bank is liquidated. The borrower has rights to apply for conversion of the subordinated capital into shares according to the Agreement and legislation. The share purchase price of 1.15 LVL is set in the Agreement for the conversion of the subordinated capital into shares.

On November 30, 2004, the Supreme Court of Latvia in the capacity of the court of appeal has declined the claim of shareholders a/s "Kālija Parks", a/s "Ventbunkers" and a/s "Ventamonjaks" against a/s "Latvijas Krājbanka", and amendments of three clauses of the agreement on subordinated capital of October 9, 2000 with "MACASYNG HOLDING B.V." (contractual amount LVL 1,800 thousand). The verdict has come into force but claimants have filed a cassation plaint. The proposed amendments do not concern significant conditions of the Agreement such as amount, interest, term, and rights of parties in relation to conversion of subordinated capital into shares. As a result, even an adverse verdict will not impact the Agreement or the Bank's operations in general.

**36. SHAREHOLDERS' EQUITY AND RESERVES**

As at 31 December 2004, the Bank's registered and paid share capital was LVL 9,106 thousand (2003: 9,106 thousand).

Share capital consists of 9,106,412 shares entitling to equal rights to dividends, liquidation quota and voting rights at the shareholders meeting.

Nominal value per share is LVL 1.

All shares are dematerialized in bearer's shares.

In accordance with extraordinary shareholders meeting decision on 26 September 2003 "On transformation of closed issue to public issue shares and public circulation" and based on the Financial and Capital Markets Commission decision No 294 (protocol No 51, point 11) "On Registration of JSC Latvijas Krājbanka Securities" as of 2 January 2004, 5,159,962 formerly closed issue shares were placed in public issue. On October 27, 2004, 9 085 412 ordinary bearer's shares with voting rights and nominal value of LVL 1 were listed in the free list of Riga Stock Exchange.

On December 4, 2004, in accordance with the Commercial Law the extraordinary shareholders meeting of a/s "Latvijas Krājbanka" decided to convert 21 000 ordinary shares without voting rights (reserve of Management Board) into bearer's shares with voting rights and issue them in public circulation.

On January 5, 2005 the above 21 000 ordinary bearer's shares with voting rights and nominal value of LVL 1 were registered with the Central Depository of Latvia and listed in the free list of Riga Stock Exchange as of

**A/S LATVIJAS KRĀJBANKA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2004**

January 10, 2005. After listing of additional shares, all 9 106 412 bearer's shares with voting rights are listed in the Free List of Riga Stock Exchange.

**37. PRINCIPAL SHAREHOLDINGS**

The Bank's principal shareholders as at 31 December 2004 and 2003 were as follows:

	31.12.2004		31.12.2003	
	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"	878	9.64	2,278	25.02
Arnolds Laksa	1,135	12.46	1,135	12.46
Stefans Rāzna	-	-	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	755	8.29
Kompānija "Hafra Limited"	629	6.90	446	4.90
Valts Vīgants	477	5.24	299	3.28
"Macasyng Holding B.V."	899	9.87	-	-
"Alkahn Power Company Sdn Bhd"	750	8.24	-	-
"Carbery Services Limited"	650	7.14	-	-
Republic of Latvia, held by Latvian Privatisation Agency	-	-	66	0.72
Directors' share	-	-	21	0.23
Other	1,319	14.49	1,497	16.45
<b>Total</b>	<b>9,106</b>	<b>100</b>	<b>9,106</b>	<b>100</b>

**38. 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:

	31.12.2004	31.12.2003	
	Ordinary shares Number ('000)	Ordinary Shares Number ('000)	Shares of the Management Board LVL'000
Andris Nātriņš	4.8	-	4.2
Uģis Latsons	4.2	-	4.2
Valts Vīgants	477.0	299	4.2
Gints Bukovskis	4.2	-	4.2
Olga Lomaša	4.9	-	4.2
<b>Total Management Board</b>	<b>495.1</b>	<b>299</b>	<b>21</b>

**A/S LATVIJAS KRĀJBANKA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2004**

**39. ASSETS AND LIABILITIES UNDER MANAGEMENT**

As at 31 December 2004, the following funds were under the trust management of the Bank:

	31.12.2004 LVL '000	31.12.2003 LVL '000
Loans to non-banking customers	8,493	10,063
<b>Total funds under trust management</b>	<b>8,493</b>	<b>10,063</b>

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.

**40. COMMITMENTS AND CONTINGENCIES**

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

	31.12.2004 LVL '000	31.12.2003 LVL '000
Contingent liabilities		
Outstanding guarantees	1,179	377
Irrevocable letters of credit	147	-
<b>Total contingent liabilities</b>	<b>1,326</b>	<b>377</b>
Financial commitments		
Credit commitments	8,946	7,609
Operating lease commitments	29	10
<b>Total contingent liabilities and financial commitments</b>	<b>10,301</b>	<b>7,996</b>

Credit commitments include unused credit limits granted on settlement cards, which as at 31 December 2004 amounted to LVL 1,765 (2003: 1,563) thousand.

The following table provides an analysis of the Bank's memorandum items outstanding as at 31 December 2004 by geographical profile:

Place of residence	OECD area LVL'000	Latvia LVL'000	Other countries LVL'000	Total 31.12.2004 LVL'000
Contingent liabilities				
Outstanding guarantees	68	1,111	-	1,179
Irrevocable letters of credit	-	147	-	147
<b>Total contingent liabilities</b>	<b>68</b>	<b>1,258</b>	<b>-</b>	<b>1,326</b>
Financial commitments				
Credit commitments	409	8,477	60	8,946
Operating lease commitments	-	29	-	29
<b>Total contingent liabilities and financial commitments</b>	<b>477</b>	<b>9,764</b>	<b>60</b>	<b>10,301</b>

The following table provides an analysis of the Bank's memorandum items outstanding as at 31 December 2004 by client type:

**A/S LATVIJAS KRĀJBANKA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2004**

	Private companies LVL'000	Private individuals LVL'000	Total 31.12.2004 LVL'000
Contingent liabilities			
Outstanding guarantees	1,150	29	1,179
Irrevocable letters of credit	147	-	147
<b>Total contingent liabilities</b>	<b>1,297</b>	<b>29</b>	<b>1,326</b>
Financial commitments			
Credit commitments	6,024	2,922	8,946
Operating lease commitments	29	-	29
<b>Total contingent liabilities and financial commitments</b>	<b>7,350</b>	<b>2,951</b>	<b>10,301</b>

**42. CASH AND CASH EQUIVALENTS**

The table below provides a breakdown of cash and cash equivalents as at 31 December 2004

	31.12.2004 LVL '000	31.12.2003 LVL '000
Cash and deposits with the Bank of Latvia	25,462	14,751
Balances due from credit institutions	18,941	22,106
Balances due to credit institutions	(31,536)	(25,582)
<b>Total cash and cash equivalents</b>	<b>12,867</b>	<b>11,275</b>

**43. 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 2004 was 12.4% (2003: 12.3%), 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 11.6% (2003: 11.5%). In accordance with the changes to the Law on Credit Institutions in 2004, capital adequacy ratio for banks in 2004 was 8%.

According to the requirements of Financial and Capital Markets Commission, credit institutions must 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 2004, 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 2004**

The Bank's equity to be utilised in the calculation of the capital adequacy ratio as at 31 December 2004 has been calculated as follows:

Description	Amounts in LVL 000's	Total per tier LVL 000's
<b>Tier 1</b>		
- 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)	232	
- audited profit for the year (not subject to dividend distribution)	1,302	
<b>Less</b>		
- intangible assets (as defined by the Finance and Capital Market Commission)	(853)	
<b>Total Tier 1</b>		<b>11,736</b>
<b>Tier 2</b>		
- subordinated debt	3,403	
- revaluation reserve	268	
<b>Total Tier 2</b>		<b>3,671</b>
<b>Decrease of equity</b>		
- Significant investment in other credit and financial institutions	(121)	
<b>Equity to be utilised for the capital adequacy calculation in accordance with the guidelines of the Finance and Capital Market Commission</b>		<b>15,286</b>
<b>Additional Tier 1</b>		
- intangible assets	853	
<b>Total Tier 1 under the Basle Agreement</b>		<b>12,589</b>
<b>Additional Tier 2</b>		
- general provisions for possible credit losses (restricted to 1.25% of risk weighted assets)	332	
<b>Total Tier 2 under the Basle Agreement</b>		<b>4,003</b>
<b>Equity to be utilised for the capital adequacy calculation under the Basle Agreement (restricted*)</b>		<b>16,592</b>



**A/S LATVIJAS KRĀJBANKA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2004**

**43. 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>	<b>Credit equivalent</b>	<b>Balance in LVL 000's</b>	<b>Risk Weighting</b>	<b>Risk Weighted Assets</b>
<b>Assets</b>				
Cash and deposits on demand with the Bank of Latvia		25,462	0%	-
Balances due from A area governments		27,847	0%	-
Loans and advances secured by A area government securities or A area government guarantees		11,669	0%	-
Loans and advances secured by deposits		1,303	0%	-
Loans to self-governments within A area		1,157	20%	231
Demand deposits with credit institutions within A area		10,929	20%	2,186
Fixed income securities of credit institutions within A area		4,276	20%	855
Loans and advances secured by A area credit institution securities		494	20%	99
Loans and advances fully secured by mortgage registered with the Land book		9,649	50%	4,825
Prepayments and accrued income		1,143	50%	572
Fixed income securities of credit institutions within B area		1,037	100%	1,037
Due from credit institutions within the B area		354	100%	354
Private securities		1,272	100%	1,272
Other loans and advances to customers		105,522	100%	105,522
Shares and other non-fixed income securities		108	100%	108
Investments in associated and related entities not deducted from equity		5	100%	5
Fixed assets		7,360	100%	7,360
Other assets		2,545	100%	2,545
<b>Total assets</b>		<b>212,132</b>		<b>126,971</b>
<b>Memorandum items</b>				
Outstanding guarantees secured by deposits	100%	102	0%	-
Outstanding guarantees	100%	1,077	100%	1,077
Credit commitments secured by deposits	50%	626	0%	-
Credit commitments secured by Latvian government guarantees	50%	74	0%	-
Other items, not included in the weighting	50%	8,275	100%	4,138
Interest derivate instruments with the initial term of over 14 days				
4 to 5 years	4%	1,055	20%	8
9 to 10 years	9%	352	20%	6
Foreign currency exchange transactions with an initial term over 14 days				
0%	2%	-	0%	-
20%	2%	148	20%	1
100%	2%	262	100%	5
<b>Total risk weighted assets and memorandum items</b>				<b>132,206</b>
<b>Foreign currency open positions subject to capital charge</b>				<b>-</b>
<b>Capital Adequacy Ratio</b>				<b>11.6%</b>

**A/S LATVIJAS KRĀJBANKA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2004**

**43. 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:

<i>Capital Adequacy Calculation Under the Basle Agreement</i>				
	<b>Credit equivalent</b>	<b>Balance in LVL 000's</b>	<b>Risk Weighting</b>	<b>Risk Weighted Assets</b>
<i>Assets</i>				
Cash and deposits on demand with the Bank of Latvia		25,462	0%	-
Balances due from A area governments		27,847	0%	-
Loans and advances secured by A area government securities or A area government guarantees		11,669	0%	-
Loans and advances secured by deposits		1,303	0%	-
Loans to self-governments within A area		1,157	20%	231
Demand deposits with credit institutions within A area		10,929	20%	2,186
Loans and advances secured by A area credit institution securities		494	20%	99
Fixed income securities of credit institutions within A area		4,276	20%	855
Loans and advances fully secured by mortgage registered with the Land book		9,649	50%	4,825
Prepayments and accrued income		1,143	100%	1,143
Fixed income securities of credit institutions within B area		1,037	100%	1,037
Private securities		1,272	100%	1,272
Due from credit institutions within the B area		354	100%	354
Other loans and advances to customers		105,854	100%	105,854
Shares and other non-fixed income securities		108	100%	108
Investments in associated and related entities not deducted from equity		5	100%	5
Fixed assets		7,360	100%	7,360
Intangible assets		853	100%	853
Other assets		2,545	100%	2,545
<b>Total assets</b>		<b>213,317</b>		<b>128,727</b>

**A/S LATVIJAS KRĀJBANKA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2004**

**43. CAPITAL ADEQUACY (continued)**

<i>Capital Adequacy Calculation Under the Basle Agreement</i>				
	Credit equivalent	Balance in LVL 000's	Risk Weighting	Risk Weighted Assets
<b>Memorandum items</b>				
Outstanding guarantees secured by deposits	100%	102	0%	-
Outstanding guarantees	100%	1,077	100%	1,077
Credit commitments secured by deposits	50%	626	0%	-
Credit commitments secured by Latvian government guarantees	50%	74	0%	-
Other items, not included in the weighting	50%	8,275	100%	4,138
Interest derivate instruments with the initial term of over 14 days				
4 to 5 years	4%	1,055	20%	8
9 to 10 years	9%	352	20%	6
Foreign currency exchange transactions with an initial term over 14 days				
0%	2%	-	0%	-
20%	2%	148	20%	1
100%	2%	262	100%	5
				<b>133,962</b>
<b>Total risk weighted assets and memorandum items</b>				
<b>Foreign currency open positions subject to capital charge</b>				
<b>Capital Adequacy Ratio</b>				
				<b>12.4%</b>

**44. CURRENCY ANALYSIS**

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 2004 by currency profile:

	LVI LVL'000	USD USD'000	EUR EUR'000	Other currencies LVL'000	Total LVL'000
<b>Assets</b>					
Cash and deposits on demand with the central bank	21,831	1,911	888	832	25,462
Balances due from credit institutions and central banks	3,003	3,030	12,326	582	18,941
Loans and advances to non-banking customers	81,886	22,364	17,741	-	121,991
Bonds and other fixed income securities	28,804	2,088	2,987	-	33,879
Shares and other non-fixed income securities	234	-	-	-	234
Derivative assets	17	-	2	-	19
Fixed and intangible assets	8,213	-	-	-	8,213
Other assets	910	1,632	1	2	2,545
Prepayments and accrued income	1,631	123	87	-	1,841
<b>Total assets</b>	<b>146,529</b>	<b>31,148</b>	<b>34,032</b>	<b>1,416</b>	<b>213,125</b>

**A/S LATVIJAS KRĀJBANKA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2004**

**44. CURRENCY ANALYSIS (cont.)**

	LVI LVL'000	USI USD'000	EUJ EUR'000	Othe currency: LVL'000	Tota LVL'000
<b>Liabilities and shareholders' equity</b>					
Balances due to the central bank and credit institutions	12,167	11,080	8,703	22	31,972
Deposits from the public	113,039	23,620	20,962	370	157,991
Derivative liabilities	46	-	-	-	46
Deferred income and accrued expense	1,621	167	156	-	1,944
Provision for liabilities and charges	945	-	-	-	945
Other liabilities	1,616	1,314	737	185	3,852
Subordinated debt	3,403	-	-	-	3,403
Shareholders' equity	12,972	-	-	-	12,972
<b>Total liabilities and shareholders' equity</b>	<b>145,809</b>	<b>36,181</b>	<b>30,558</b>	<b>577</b>	<b>213,125</b>
<i>Net long/ (short) position on balance sheet</i>	720	(5,033)	3,474	839	-
<b>Off-balance sheet claims arising from foreign exchange</b>					
Spot foreign exchange receivable	349	2,653	4,394	1,939	9,335
Forward foreign exchange receivable	-	81	-	-	81
Forward foreign exchange receivable, SWAP	3,131	2,426	176	181	5,914
<b>Total foreign exchange receivable</b>	<b>3,480</b>	<b>5,160</b>	<b>4,570</b>	<b>2,120</b>	<b>15,330</b>
<b>Off-balance sheet liabilities arising from foreign exchange</b>					
Spot foreign exchange payable	4,186	141	4,945	35	9,307
Forward foreign exchange payable	-	-	-	87	87
Forward foreign exchange payable, SWAP	86	94	3,163	2,594	5,937
<b>Total foreign exchange payable</b>	<b>4,272</b>	<b>235</b>	<b>8,108</b>	<b>2,716</b>	<b>15,331</b>
<i>Net long/(short) position on foreign exchange</i>	(792)	4,925	(3,538)	596	(1)
<i>Net long/(short) position</i>	(72)	(108)	(64)	243	(1)
<b>Contingent liabilities</b>					
Guarantees	693	125	361	-	1,179
Other off-balance liabilities	-	-	147	-	147
<b>Total contingent liabilities</b>	<b>693</b>	<b>125</b>	<b>508</b>	<b>-</b>	<b>1,326</b>
<b>Financial commitments</b>					
Credit commitments	4,530	1,837	2,579	-	8,946
Operating lease commitments	29	-	-	-	29
<b>Total financial commitments</b>	<b>4,559</b>	<b>1,837</b>	<b>2,579</b>	<b>-</b>	<b>8,975</b>

The Latvian banking legislation requires that open positions in each foreign currency may not exceed 10% of the Bank's equity (see Note 43 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.

According to the FCMC regulations effective as of January 1, 2003 in order to comply with the above requirements, the Bank is permitted to decrease net open positions of the XDR currency basket and the Bank's net currency position by 50% from the Bank's XDR net open position of modelling currencies and the corresponding net open positions in LVL.

As at 31 December 2004, the Bank has not utilized the option to reduce the Bank's net open positions of the XDR currency basket and the corresponding net currency position by 50% of the Bank's net open position of the ZDR model currencies and the corresponding net open position in lats. The Bank's total net open currency position at 31 December 2004 was 284 thousand lats or 2% of equity. As at 31 December 2004, the Bank is in compliance with the requirements for the net open currency position.

In line with Latvia's preparations for accession to the European Economic and Monetary Union, on 31 December 2004 the Bank of Latvia changed the pegging of the lat from XDR and determined a fixed pegged rate of 1 EUR = 0.702804 LVL effective as of 1 January 2005.

Effective 1 January 2005, there are no restrictions for the corresponding parts of the net open positions in Euro and Lats as stated in the FCMC normative acts on changes to the LVL pegging to EUR set by the Bank of Latvia.

**45. 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 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 2004**

**45. 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
<b>Assets</b>								
Cash and deposits with the central Bank	-	25,462	-	-	-	-	-	25,462
Balances due from credit institutions and central banks	-	18,888	53	-	-	-	-	18,941
Loans and advances to non-Banking customers	608	4,475	11,963	6,638	15,192	43,406	39,709	121,991
Bonds and other fixed income Securities	-	-	3,614	1,083	456	26,496	2,230	33,879
Derivative assets	-	4	15	-	-	-	-	19
Shares and other non-fixed income Securities	-	-	-	-	-	-	234	234
Fixed and intangible assets	-	-	-	-	-	-	8,213	8,213
Other assets	-	829	-	-	-	-	1,716	2,545
Prepayments and accrued income	177	676	230	91	55	-	612	1,841
<b>Total assets</b>	<b>785</b>	<b>50,334</b>	<b>15,875</b>	<b>7,812</b>	<b>15,703</b>	<b>69,902</b>	<b>52,714</b>	<b>213,125</b>
<b>Liabilities and shareholders' Equity</b>								
Balances due to the central bank and credit institutions	-	31,536	-	436	-	-	-	31,972
Deposits from the public	-	97,960	10,883	15,334	23,006	9,840	968	157,991
Derivative liabilities	-	40	6	-	-	-	-	46
Deferred income and accrued Expense	-	779	233	293	286	331	22	1,944
Provision for liabilities and charges	-	945	-	-	-	-	-	945
Other liabilities	-	3,381	471	-	-	-	-	3,852
Subordinate capital	-	-	-	-	-	-	3,403	3,403
Shareholders' equity	-	-	-	-	-	-	12,972	12,972
<b>Total liabilities and shareholders' equity</b>	<b>-</b>	<b>134,641</b>	<b>11,593</b>	<b>16,063</b>	<b>23,292</b>	<b>10,171</b>	<b>17,365</b>	<b>213,125</b>
<b>Net liquidity gap</b>	<b>785</b>	<b>(84,307)</b>	<b>4,282</b>	<b>(8,251)</b>	<b>(7,589)</b>	<b>59,731</b>	<b>35,349</b>	<b>-</b>

**A/S LATVIJAS KRĀJBANKA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2004**

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

<b>Contingent liabilities</b>								
Total contingent liabilities	-	1,326	-	-	-	-	-	1,326
<b>Financial commitments</b>								
Credit commitments	-	8,946	-	-	-	-	-	8,946
Operating lease commitments	-	29	-	-	-	-	-	29
<b>Total financial commitments</b>	-	10,301	-	-	-	-	-	10,301

**46. REPRICING MATURITY OF ASSETS AND LIABILITIES BASED ON INTEREST RATE CHANGES**

Interest rate risk represents the impact of changes in the market rates on the Bank's financial position. Daily banking activities involve interest rate risk influenced by repayment terms of assets and liabilities related to interest income and expenses or date of revision of interest rates. The Bank seeks to control this risk through the activities of the Bank's Treasury Department and Assets and Liabilities Management Committee.

	Withi 1 month LVL'00	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
<b>Assets</b>								
Cash and deposits with the central bank	14,291	-	-	-	-	-	11,171	25,462
Balances due from credit institutions and central banks	18,941	-	-	-	-	-	-	18,941
Loans and advances to non-banking customers	4,427	95,665	4,453	9,357	6,683	773	633	121,991
Bonds and other fixed income securities	-	3,614	1,629	456	25,950	2,230	-	33,879
Shares and other non-fixed income securities	-	-	-	-	-	-	234	234
Derivative assets	-	-	-	-	-	-	19	19
Fixed and intangible assets	-	-	-	-	-	-	8,213	8,213
Other assets	1,468	-	-	-	-	-	1,077	2,545
Prepayments and accrued income	-	-	-	-	-	-	1,841	1,841
<b>Total assets</b>	<b>39,127</b>	<b>99,279</b>	<b>6,082</b>	<b>9,813</b>	<b>32,633</b>	<b>3,003</b>	<b>23,188</b>	<b>213,125</b>

<b>Liabilities</b>								
Balances due to the central Bank and credit institutions	31,536	-	436	-	-	-	-	31,972
Deposits from the public	97,960	11,704	15,252	22,884	9,439	752	-	157,991
Derivative liabilities	-	-	-	-	-	-	46	46
Other liabilities	-	-	-	-	-	-	3,852	3,852
Deferred income and accrued expense	-	-	-	-	-	-	1,944	1,944
Provision for liabilities and charges	-	-	-	-	-	-	945	945
<b>Total liabilities</b>	<b>129,496</b>	<b>11,704</b>	<b>15,688</b>	<b>22,884</b>	<b>9,439</b>	<b>752</b>	<b>6,787</b>	<b>196,750</b>
<b>Subordinated debt</b>	-	-	-	-	-	3,403	-	3,403
<b>Shareholders' equity</b>	-	-	-	-	-	-	12,972	12,972
<b>Total liabilities and shareholders' equity</b>	<b>129,496</b>	<b>11,704</b>	<b>15,688</b>	<b>22,884</b>	<b>9,439</b>	<b>4,155</b>	<b>19,759</b>	<b>213,125</b>
<b>Total interest sensitivity gap</b>	<b>(90,369)</b>	<b>87,575</b>	<b>(9,606)</b>	<b>(13,071)</b>	<b>23,194</b>	<b>(1,152)</b>	<b>3,429</b>	<b>-</b>

**A/S LATVIJAS KRĀJBANKA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2004**

**47. 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.

	31.12.2004 LVL '000	31.12.2003 LVL '000
<b><i>Credit exposure to related parties:</i></b>		
Loans and advances to related parties:		
- Management	149	45
- related legal entities	746	957
- other related private individuals	12	102
<b>Total loans and advances to related parties</b>	<b>907</b>	<b>1,104</b>
Credit commitments to related legal entities	121	-
Credit commitments to management	64	36
Credit commitments to other related private individuals	5	31
<b>Total credit exposure to related parties</b>	<b>1,097</b>	<b>1,171</b>

As at 31 December 2004, the Bank had received funding from related corporate customers and private individuals totalling LVL 4 thousand (2003: 2 thousand) and 936 thousand (2003: 314 thousand), respectively. All deposits from related parties are attracted on market terms and conditions.





**KPMG Latvia SIA**  
Balasta dambis 1a  
Riga LV 1048  
Latvia

Phone +371 7038000  
Fax +371 7038002  
Internet: www.kpmg.lv

## **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 2004 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 48. 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. In addition, it is our responsibility to assess whether the accounting information included in the Report of the Board of Management is consistent with the financial 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. Our work with respect to the Report of the Board of Management was limited to the aforementioned scope, and did not include a review of any information other than drawn from the financial statements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present a true and fair view, in all material respects, of the financial position of A/S "Latvijas Krājbanka" as of 31 December 2004 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. The Report of the Board of Management is consistent with the financial statements.

KPMG Latvia SIA  
Licence No 55  
Riga, Latvia  
18 February 2005

Patrick Querubin  
Partner

Inga Lipšāne  
Sworn Auditor  
Certificate No. 112