

***A/s Māras Banka***

***Independent Auditors' report and Financial Statements  
prepared in accordance with International  
Financial Reporting Standards and the requirements of  
the Financial Capital Market Commission for the  
years ended 31 December 2003 and 2002***

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Māras Banka is a family business that has just completed its 7th year of operation.

2003 was a good year for banks in Latvia. The main reason is easy to identify. The banks issued many new loans. The Latvian economy grew at close to 7% but, loans grew by 25%.

2003 was an excellent year for Māras Banka. Here the main reason is also easy to identify. The market for personal loans, in particular mortgage loans, grew by 37%. Demand for Māras Banka's product was there. We specialize in retail mortgages and home improvement loans.

In 2003, Māras Banka's loan book grew by 40% to 21 million Ls. We are proud to report that this growth was not achieved at the cost of a commensurate increase in payment arrears. In fact, in both relative and absolute terms payments past due decreased. It is management's view that Māras Banka's loan portfolio is even healthier now, than it was at the start of the year.

Competition in the sector was intense and rates continued to fall. As most banks in Latvia have lately adopted Māras Banka's practice of not imposing penalties on customers for early loan repayment, customers have taken advantage of the favourable market conditions and banks have been forced to refinance old loans at new rates.

In lieu of all the competition and pressures on price, management is pleased to report to all shareholders that profits have not suffered but have reached our best result ever. In 2003, Māras Banka's after tax profit was 601,284 Ls., a Return on Owners Equity of 13%. After tax profit in 2002 was 432,618 Ls.

We believe that our success in growing the bottom line is a direct result of our approach to doing business. In essence, vis a vis the competition, we are like private bankers for the little guy. Our emphasis on customer service and our family-like approach holds real value to our clients. We have continued to focus on smaller loans which we see as less risky and are more profitable and we have passed on a number of larger loans, which in all honesty, are more fraught with risk and unfortunately provide only the very smallest of margins. Big banks like to issue one large loan rather than 20 small ones. It is much easier.

We have never forgotten about costs. We have and will spend on only those items that will help our customers. The Bank has 18 employees and in 2003 we yet again qualified for the government tax break for small business.

As always, humbly looking forward to 2004.

On behalf of the Bank:

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Chairman of the Council  
Nikolajs Sigurds Bulmanis

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Deputy Chairman of the Board  
Inga Gulbe

12 February 2004

**THE SUPERVISORY COUNCIL AND THE BOARD OF DIRECTORS OF THE BANK**

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As at the date of signing the financial statements:

**The Supervisory Council**

<i>Name, surname</i>	<i>Position</i>	<i>Date of appointment</i>
Nikolajs Sigurds Bulmanis	Chairman of the Council	20.02.2003
Jānis Ķuzāns	Deputy Chairman of the Council	12.11.1996
Marta Vītola	Member of the Council	12.11.1996
Laura Bulmane	Member of the Council	12.11.1996
Anna Muhka	Member of the Council	07.02.2000

During 2003 Vilis Vitols has left the position of Chairman of the Council.

**The Board of Directors**

<i>Name, surname</i>	<i>Position</i>	<i>Date of appointment</i>
Inga Gulbe	Deputy Chairman of the Board /Vice President/	02.11.1996
Inta Karsuma	Member of the Board /Chief accountant/	12.11.1996
Valda Auziņa	Member of the Board /Marketing department/	16.12.1997
Ilze Šulce	Member of the Board /Legal department/	17.02.2003

During 2003 Nikolajs Sigurds Bulmanis has left the position of Chairman of the Board, and Mareks Bažovskis has left the position of Member of the Board.

**STATEMENTS OF RESPONSIBILITY OF THE BANK'S MANAGEMENT**

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12 February 2004

The Management are responsible for preparing the financial statements from the books of prime entry of the Bank for each financial period that present fairly the state of affairs of the Bank as at the end of the financial period and the results of its operations and cash flows for that period according to the accounting principles set forth in International Financial Reporting Standards.

The Management confirms that suitable accounting policies have been used and applied consistently and reasonable and prudent judgments and estimates have been made in the preparation of the financial statements on pages 7 to 30 for the years 2003 and 2002. Management also confirms that applicable International Financial Reporting Standards have been used in preparing of the financial statements and that these financial statements have been prepared on a going concern basis and comply with the *Regulations on the Annual Reports of Banks* approved by the Financial and Capital Market Commission and other requirements of the Financial and Capital Market Commission in all material respects.

The Management is responsible for keeping proper accounting records, for taking reasonable steps to safeguard the assets of the Bank and to prevent and detect fraud and other irregularities. They are also responsible for managing the Bank in compliance with the Law On Credit Institutions and other legislation of the Republic of Latvia and with the regulations of the Bank of Latvia and the Financial and Capital Market Commission.

On behalf of the Bank:

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Chairman of the Council  
Nikolajs Sigurds Bulmanis

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Deputy Chairman of the Board  
Inga Gulbe

## **INDEPENDENT AUDITOR'S REPORT**

To the Shareholders of a/s "Māras Banka":

We have audited the accompanying balance sheets of a/s "Māras Banka" ("the Bank") as at 31 December 2003 and 2002, and the related statements of profit and loss, cash flows and changes in shareholders' equity for the years then ended. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2003 and 2002, and the results of its operations, cash flows and changes in shareholders' equity for the years then ended in accordance with International Financial Reporting Standards and the requirements of the Financial and Capital Market Commission.

Deloitte & Touche Audits SIA  
Licence no. 43

Ian Dent  
Director  
Identity no: 051262 - 14673

Marija Rubcova  
Sworn Auditor  
Certificate no.54  
Identity no: 020655 - 13069

Riga, Latvia  
12 February 2004

A/S MĀRAS BANKA

**STATEMENTS OF PROFIT AND LOSS  
FOR THE YEARS ENDED 31 DECEMBER 2003 AND 2002**

	Notes	2003 LVL	2002 LVL
Interest income	3	1,633,181	1,576,814
Interest expense	4	(680,851)	(719,425)
<b>NET INTEREST INCOME</b>		<b>952,330</b>	<b>857,389</b>
Income from securities		25,833	20,152
Commission income	5	280,684	182,434
Commission expense		(54,618)	(50,355)
Net gain from operations with foreign currencies and trading securities	6	137,136	29,564
Other operating income		29,078	411
<b>OPERATING INCOME</b>		<b>1,370,443</b>	<b>1,039,595</b>
Administrative expenses	7,8	(534,231)	(458,278)
Depreciation expense	15	(17,462)	(31,286)
Other administrative expenses		(28,897)	(31,324)
Provisions for possible credit losses	12	(134,720)	(54,137)
Release of previously established provisions	12	29,045	38,852
<b>NET PROFIT BEFORE TAXATION</b>		<b>684,178</b>	<b>503,422</b>
Corporate income tax	9	(82,894)	(70,804)
<b>PROFIT BEFORE TAXATION</b>		<b>601,284</b>	<b>432,618</b>
Earnings per share	22	17.2	12.4

*The accompanying notes on pages 11 to 30 form an integral part of these financial statements.*

The financial statements were approved by the Board of Directors and the Supervisory Council on 12 February 2004 and signed on their behalf by:

\_\_\_\_\_  
Chairman of the Council  
Nikolajs Sigurds Bulmanis

\_\_\_\_\_  
Deputy Chairman of the Board  
Inga Gulbe

A/S MĀRAS BANKA

**BALANCE SHEETS  
AS OF 31 DECEMBER 2003 AND 2002**

ASSETS	Notes	2003 LVL	2002 LVL (Restated Note 1)
Cash and balances due from the Bank of Latvia	10	627,202	1,350,293
Due from credit institutions	11	2,365,069	3,801,063
<i>Demand deposits</i>		2,365,069	714,383
<i>Other deposits</i>		-	3,086,680
Loans	12	20,776,549	15,165,188
Shares and other investments in non-fixed income securities	13	815,980	990,148
Investment in subsidiary	14	-	197,500
Fixed assets	15	25,320	31,869
Deferred expenses and accrued income	16	114,728	165,716
Other assets		499	3,129
<b>Total assets</b>		<b>24,725,347</b>	<b>21,704,906</b>
<b>LIABILITIES</b>			
Due to credit institutions	17	5,899,726	6,176,500
<i>Term deposits</i>		5,899,726	6,176,500
Customer deposit accounts	18	13,533,888	10,612,492
<i>Current accounts</i>		4,237,025	3,178,728
<i>Term deposits</i>		9,296,863	7,433,764
Deferred income and accrued expenses	19	83,852	83,231
Provision for other liabilities		1,474	2,472
Other liabilities	20	125,514	602
<b>Total liabilities</b>		<b>19,644,454</b>	<b>16,875,297</b>
<b>SHAREHOLDERS' EQUITY</b>			
Share capital	21	3,500,000	3,500,000
Reserves		979,609	896,991
Retained earnings		601,284	432,618
<b>Total shareholders' equity</b>		<b>5,080,893</b>	<b>4,829,609</b>
<b>Total liabilities and shareholders' equity</b>		<b>24,725,347</b>	<b>21,704,906</b>
<b>OFF-BALANCE-SHEET ITEMS</b>			
Guarantees issued		8,853	8,013
Undrawn credit lines		253,552	309,476

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Chairman of the Council  
Nikolajs Sigurds Bulmanis

\_\_\_\_\_  
Deputy Chairman of the Board  
Inga Gulbe

A/S MĀRAS BANKA

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY  
FOR THE YEARS ENDED 31 DECEMBER 2003 AND 2002

	Share Capital LVL	Reserves (restated) LVL	Retained earnings (restated) LVL	Total (restated) LVL
<b>As of 31 December 2001</b>				
<b>(as previously reported)</b>	<b>3,500,000</b>	<b>86,911</b>	-	<b>4,396,991</b>
Correction (see Note 1)	-	(38,856)	405,936	367,000
<b>As of 31 December 2001 (restated)</b>	<b>3,500,000</b>	<b>858,055</b>	<b>405,936</b>	<b>4,736,991</b>
Profit for the year	-	-	432,618	432,618
Dividends	-	-	(367,000)	(367,000)
Appropriations to reserves	-	38,936	(38,936)	-
<b>As of 31 December 2002</b>				
<b>(as previously reported)</b>	<b>3,500,000</b>	<b>979,609</b>	-	<b>4,479,609</b>
Correction (see Note 1)	-	(82,618)	432,618	350,000
<b>As of 31 December 2002 (restated)</b>	<b>3,500,000</b>	<b>896,991</b>	<b>432,618</b>	<b>4,829,609</b>
Profit for the year	-	-	601,284	601,284
Dividends	-	-	(350,000)	(350,000)
Appropriations to reserves	-	82,618	(82,618)	-
<b>As of 31 December 2003</b>	<b>3,500,000</b>	<b>979,609</b>	<b>601,284</b>	<b>5,080,893</b>

*The accompanying notes on pages 11 to 30 form an integral part of these financial statements.*

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Chairman of the Council  
Nikolajs Sigurds Bulmanis

\_\_\_\_\_  
Deputy Chairman of the Board  
Inga Gulbe

**STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED 31 DECEMBER 2003 AND 2002**

	Notes	2003 LVL	2002 LVL
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Profit before taxation		684,178	503,422
Depreciation of intangibles and fixed assets		17,462	31,286
Profit from the sale of equity investments		(65,204)	-
Provisions for bad debts		5,166	5,276
Currency exchange loss		4,310	27,464
Decrease/(increase) in deferred expenses and accrued income		27,796	48,265
Decrease in other assets		2,630	1,202
Increase/(decrease) in deferred income and accrued expenses		621	(2,047)
Increase/(decrease) in other liabilities		124,912	(85,401)
<b>Operating profit before changes in operating assets</b>		<b>801,871</b>	<b>529,467</b>
Increase in loans		(5,645,693)	(1,659,986)
Increase in due to credit institutions		(772,353)	2,179,942
Increase in customer deposit accounts		2,921,396	1,657,254
Taxes paid		(31,534)	(129,398)
<b>Net cash and cash equivalents (used in) provided by operating activities</b>		<b>(2,726,313)</b>	<b>2,577,279</b>
<b>CASH FLOWS FROM INVESTMENT ACTIVITIES</b>			
Change in fixed income securities		174,168	(954,148)
Purchase of fixed assets		(10,913)	(17,158)
Sale of equity investments and other long-term investments		262,704	-
<b>Net cash and cash equivalents provide by (used in) investment activities</b>		<b>425,959</b>	<b>(971,306)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Payment of dividends		(350,000)	(367,000)
<b>Net cash and cash equivalents used in financing activities</b>		<b>(350,000)</b>	<b>(367,000)</b>
<b>Net (decrease) increase in cash and cash equivalents</b>		<b>(2,650,354)</b>	<b>1,238,973</b>
<b>Cash and cash equivalents at the beginning of the year</b>		<b>4,642,298</b>	<b>3,430,789</b>
<b>Currency exchange loss</b>		<b>(4,310)</b>	<b>(27,464)</b>
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR</b>	23	<b>1,987,634</b>	<b>4,642,298</b>

The accompanying notes on pages 11 to 30 form an integral part of these financial statements.

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Chairman of the Council  
Nikolajs Sigurds Bulmanis

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Deputy Chairman of the Board  
Inga Gulbe

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED 31 DECEMBER 2003 AND 2002

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

*(1) General information*

Māras Banka ("Bank") was registered on November 12, 1996 as a Joint Stock Company.

**Regulatory requirements** - The Bank is subject to the regulatory requirements of the Financial and Capital Markets Commission of Latvia. These requirements among others include capital adequacy, minimum equity requirements, liquidity, foreign currency position and loan concentration by individual customer, group of related customers, and individual related party customers.

A summary of significant accounting policies applied is as follows.

*(2) Basis of Preparation*

The financial statements presented include only the accounts of the Bank.

The financial statements have been prepared on the historical cost basis of accounting, in accordance with International Financial Reporting Standards (IFRS) and requirements of Financial and Capital Market Commission and general practices within the banking industry, unless otherwise noted below.

The financial statements are prepared on a fair value basis for 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. Other financial assets and liabilities and non-financial assets and liabilities are stated at amortized cost or historical cost.

The accompanying financial statements are presented in the national currency of Latvia, the Lat ("LVL").

**Use of Estimates** - The preparation of financial statements in conformity with IFRS and Regulations of Financial and Capital Market Commission require management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Cash and Cash Equivalents** – For the purpose of compliance with the regulations of the Financial and Capital Market Commission cash and cash equivalents in the statement of cash flows comprise cash and deposits with the Bank of Latvia and other credit institutions with a maturity of less than 3 months when purchased, less balances due to the Bank of Latvia and credit institutions with a maturity of less than 3 months.

For the purpose of compliance with International Financial Reporting Standards cash and cash equivalents comprise cash and deposits with the Bank of Latvia and other credit institutions with a maturity of less than 3 months when purchased.

**Revenue and expense recognition** - All major types of income and expense, including interest income and interest expense are recognised on accrual basis. Accrued interest is reported only for loans classified as standard or watch. Commission income is credited to statement of profit and loss on the transaction date.

*(3) Foreign Currencies*

Transactions denominated in foreign currencies are translated into LVL at the official Bank of Latvia exchange rate on the date of the transaction, which approximates the prevailing market rates. Monetary assets and liabilities, including unmatured commitments to deliver or acquire foreign currencies under spot exchange transactions, if any, are translated at the exchange rate on the balance sheet date.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED 31 DECEMBER 2003 AND 2002**


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The applicable rates used for the principal currencies as of 31 December were as follows:

	<b>2003</b>	<b>2002</b>
USD	0.541000	0.594000
EUR	0.674000	0.610000

All realised gains and losses are recorded in the profit and loss account in the period in which they arise. Unrealised gains and losses on exchange rate translation are credited or charged at foreign exchange rates prevailing at the year-end to the profit and loss account.

**(4) Financial instruments**
**Classification**

*Originated loans and receivables* are loans and receivables created by the Bank providing money to a customer other than those created with the intention of short-term profit taking. Originated loans and receivables comprise loans and advances to banks and customers other than purchased loans as well as bonds purchased at original issuance.

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

**Measurement**

Financial instruments are measured initially at cost, including transaction costs.

Subsequent to initial recognition all trading instruments and all available-for-sale assets are measured at fair value, except that any instrument that does not have a quoted market price in an active market and whose fair value cannot be reliably measured is stated at cost, including transaction costs, less impairment losses. Changes in fair value are recognized in the profit and loss statement.

All non-trading financial liabilities, originated loans and receivables and held-to-maturity assets are measured at amortized cost less impairment losses.

**(5) Loans**

Loans and advances are classified as originated loans and receivables.

Loans are stated in the balance sheet at the amount of the principal outstanding, less any provision for bad and doubtful loans. Provisions and releases from provisions during the period are reflected in the profit and loss statement.

The Bank provides commercial and consumer loans to customers throughout its market area. Management has considered risk in determining the balance of provisions and possible loan losses. Provision for loan losses as at the balance sheet date are established in accordance with International Financial Reporting Standards and represent the estimated amounts of probable losses that have been incurred at the balance sheet date. The value of the collateral held in connection with the loan is based on its estimated realisable value and is taken into account when estimating the required provision.

The provision for loan losses is composed of estimated balances for the following:

- specific provision for loans identified as non-performing
- specific provision for probable losses on credits identified as high risk

The level of the provision is based on estimates considering known relevant factors affecting loan collectability and collateral values. Ultimate losses may vary from the current estimates. These estimates are reviewed periodically, and as adjustments become necessary, they are reported in earnings in the period in which they become known.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED 31 DECEMBER 2003 AND 2002**

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At the end of 2003, general provisions for standard-level loans were reclassified to special provisions, after loans had been assessed for special provisions and the Bank recognised general provision only in the amount of 1,453 LVL. The total level of provisions for doubtful loans has decreased from 1.6% as at 31 December 2002 to 1.3% of the total credit portfolio as at 31 December 2003.

**(6) Fixed Assets**

Fixed assets are stated at historical cost, less accumulated depreciation. If the fair value 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 fair market value.

Leasehold improvements are capitalised and depreciated over the remaining lease contract period on a straight-line basis.

Depreciation is provided in equal monthly instalments, except for the month placed in service, over the expected useful lives as follows:

Leasehold improvements	5 years (Term of the lease agreement)
Furniture	20%
Computers	35%

Gains and losses on disposal of fixed assets are recognised in the profit and loss account in the year of disposal.

**(7) Corporate income tax**

Corporate income tax is assessed based on the taxable income for the period in accordance with Latvian tax legislation. The tax rates stated by Latvian tax legislation are as follows: year 2002 – 22%, 2003 – 19% and beginning with 2004 – 15 percent.

Deferred tax is provided on the liability method whereby deferred tax assets are recognized for deductible temporary differences and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax basis. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some proportion or all deferred tax assets will not be realized.

**(8) Reclassification**

Certain amounts in the previous year financial statements have been reclassified to conform to the current year presentation.

**(9) Investment in subsidiary**

Investment in subsidiaries is stated initially at cost and adjusted by post – acquisition changes in Bank's share of the net assets in subsidiary. The investment in subsidiary in 2002 was not recognised on the equity basis as the impact was not material to the financial statements.

**(10) Restatement**

In order for the financial statements to comply with the requirements of the Financial and Capital Market Commission during 2003 the Bank changed the method of accounting for profit distribution. Currently profit distribution is reflected only in the next year's statement of changes in shareholders' equity and dividends payable are not reported as liabilities at the year end. In previous years profit distribution was reflected already in current reporting period. Prior period balances are restated.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED 31 DECEMBER 2003 AND 2002**

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**2. RISK MANAGEMENT**

The Bank has developed and follows risk management policies describing and regulating ways to minimize the risk of losses. The Board and Council have approved risk management policies. The Board supervises the risk management system but responsibility over implementation lies with business line managers. The risk management system is under continuous improvement in response to development of the Bank's activities and financial market.

***Interest rate foreign exchange and liquidity risk***

Interest rate risk arises due to potential adverse changes of interest payments on the Bank's local and foreign assets and payments for the Bank's liabilities.

The Board controls the operations of the Bank's units in charge of the management of interest rate risk and plans the Bank's future operations. The credit department controls the daily aspects of activities related to management of interest rate risk.

Foreign exchange risk management is governed by the Bank's Foreign exchange risk management policy. The accounting department of the Bank maintains control over limits of foreign exchange positions in order to avoid losses arising from adverse changes in exchange rates.

Liquidity risk management is determined by the Bank's Liquidity management policy, which includes treatment of the risk of untimely settlement of customer and creditor claims.

***Credit risk*** – The Bank has developed a credit policy regulating controls over credit risk. Credit risk includes untimely or incomplete settlement of debtor liabilities. The Board and Credit Committee manage the risk. The Credit department continuously monitors compliance with related procedures and limits. Other risks such as operational risk, counter party risk and credit risk as well as control over money market transactions with other banks and customers is the responsibility of the Resources and Investments Committee.

***Other risks related to operations*** – The Bank's operations might be exposed to other risks that may result in unexpected losses. The cause of such risks may be, for instance: human errors or fraud, disruption of information systems, insufficient internal control and procedures etc. The Board and respective structural units of the Bank manage these risks. The Bank maintains the resources necessary for continued operations.

**3. INTEREST INCOME**

	<b>2003</b>	<b>2002</b>
	<b>LVL</b>	<b>LVL</b>
Loans	1,587,645	1,504,746
Placements with other banks	45,536	72,068
<b>Total</b>	<b><u>1,633,181</u></b>	<b><u>1,576,814</u></b>

**4. INTEREST EXPENSE**

	<b>2003</b>	<b>2002</b>
	<b>LVL</b>	<b>LVL</b>
Deposits	435,116	415,605
Due to credit institutions	245,735	303,820
<b>Total</b>	<b><u>680,851</u></b>	<b><u>719,425</u></b>

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED 31 DECEMBER 2003 AND 2002**

**5. COMMISSION INCOME**

	<b>2003</b>	<b>2002</b>
	<b>LVL</b>	<b>LVL</b>
Loan issuance	194,313	111,590
Account maintenance and money transfers	82,242	67,530
Other	4,129	3,314
<b>Total</b>	<b><u>280,684</u></b>	<b><u>182,434</u></b>

**6. NET GAIN FROM OPERATIONS WITH FOREIGN CURRENCIES AND TRADING SECURITIES**

	<b>2003</b>	<b>2002</b>
	<b>LVL</b>	<b>LVL</b>
Profit from currency exchange operations, net	76,242	57,028
Loss from foreign currency revaluation, net	(4,310)	(27,464)
Profit from disposal of "Optimums Fondi"	65,204	-
<b>Total</b>	<b><u>137,136</u></b>	<b><u>29,564</u></b>

**7. SALARIES AND RELATED SOCIAL EXPENSES**

Salaries and related social expenses include compensation to employees and related social security and other benefits. In 2003 the Bank employed an average of 25 (2002: 23) employees.

	<b>2003</b>	<b>2002</b>
	<b>LVL</b>	<b>LVL</b>
Staff salaries	271,554	249,105
Social security expense	63,510	60,583
<b>Total</b>	<b><u>335,064</u></b>	<b><u>309,688</u></b>

**8. OTHER ADMINISTRATIVE EXPENSES**

	<b>2003</b>	<b>2002</b>
	<b>LVL</b>	<b>LVL</b>
Credit card issuance expenses	46,009	11,952
Sponsorship and marketing	39,449	35,393
Rent and other maintenance costs	35,389	39,940
Communication and office supplies	24,594	23,726
Professional fees	30,898	18,052
Other	22,828	19,527
<b>Total</b>	<b><u>199,167</u></b>	<b><u>148,590</u></b>

**9. CORPORATE INCOME TAX**

	<b>2003</b>	<b>2002</b>
	<b>LVL</b>	<b>LVL</b>
Current corporate income tax	83,892	74,196
Change in deferred tax	(998)	(3,392)
<b>Total</b>	<b><u>82,894</u></b>	<b><u>70,804</u></b>

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Comparison between profit according to the tax charge:

	<b>2003</b>	<b>2002</b>
	<b>LVL</b>	<b>LVL</b>
Profit before tax	684,178	503,422
Expected tax charge, applying current tax rate of 19% (2002:22%)	129,994	110,753
Tax effect of:		
Non-deductible expenses	455	864
Sponsorship	(19,800)	(58)
Tax allowances (small enterprise)	(27,348)	(170)
Effect of change in tax rate on deferred tax liability	(520)	(800)
Other	113	(294)
<b>Corporate income tax charge</b>	<b>82,894</b>	<b>70,804</b>

Deferred tax liabilities:

	<b>2003</b>	<b>2002</b>
	<b>LVL</b>	<b>LVL</b>
Deferred tax liabilities:		
temporary difference due to accelerated tax depreciation	1,692	2,472
Deferred tax assets:		
general provision	(218)	-
<b>Net deferred tax liabilities</b>	<b>1,474</b>	<b>2,472</b>

**10. CASH AND BALANCES DUE FROM THE BANK OF LATVIA**

	<b>2003</b>	<b>2002</b>
	<b>LVL</b>	<b>LVL</b>
Cash	315,618	824,572
Obligatory reserve held at the Bank of Latvia	311,584	525,721
<b>Total</b>	<b>627,202</b>	<b>1,350,293</b>

In accordance with Bank of Latvia regulations in 2003 and 2002 the Bank maintained 3% and 5% respectively of the average monthly balance (calculated at four intervals during each month) of the following total on deposit with the Bank of Latvia:

- + Due to other banks and customer deposits
- Due to other banks
- Amounts deposited with foreign subsidiaries (branches) of the Bank
- + Bonds and other debt securities issued by the Bank

The compulsory reserve is compared to the Bank's average monthly cash and correspondent account balance in Lats. The Bank's average cash and correspondent balance should exceed the compulsory reserve requirement.

The correspondent account in the Bank of Latvia is non-interest bearing.

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**11. DUE FROM CREDIT INSTITUTIONS**

Balances due from credit institutions are composed as follows:

	<b>2003</b>	<b>2002</b>
	<b>LVL</b>	<b>LVL</b>
Latvian credit institutions	1,707,935	3,177,570
OECD area credit institutions	657,134	623,493
<b>Due from credit institutions</b>	<b><u>2,365,069</u></b>	<b><u>3,801,063</u></b>

Balances due from Latvian credit institutions were as follows:

	<b>2003</b>	<b>2002</b>
	<b>LVL</b>	<b>LVL</b>
Latvijas Unibanka	1,311,986	2,259,439
Hansabanka	312,621	315,505
Latvijas Krājbanka	59,852	595,273
Rietumu Banka	23,476	7,353
<b>Total</b>	<b><u>1,707,935</u></b>	<b><u>3,177,570</u></b>

Balances due from OECD area credit institutions were as follows:

	<b>2003</b>	<b>2002</b>
	<b>LVL</b>	<b>LVL</b>
Harris Bank International	430,453	527,421
Deutsche Bank	136,090	17,337
HSBC Bank	60,759	66,287
Midland Bank PLC	29,832	12,448
<b>Total</b>	<b><u>657,134</u></b>	<b><u>623,493</u></b>

In 2003 and 2002 the average interest rate on deposits due from other banks was 1.5% and 2.2%, respectively.

**12. LOANS**

Loans are composed as follows:

	<b>2003</b>	<b>2002</b>
	<b>LVL</b>	<b>LVL</b>
Private companies	3,361,529	3,439,059
<b>Total gross loans to corporate customers</b>	<b><u>3,361,529</u></b>	<b><u>3,439,059</u></b>
Personal loans	17,165,338	11,761,070
Non-profit organizations	29,347	30,483
Bank staff and their relatives	500,500	180,409
<b>Total gross loans to private individuals</b>	<b><u>17,695,185</u></b>	<b><u>11,971,962</u></b>
<b>Total loans to customers</b>	<b>21,056,714</b>	<b>15,411,021</b>
Provisions for loan losses	(280,165)	(245,833)
<b>Total loans, net</b>	<b><u>20,776,549</u></b>	<b><u>15,165,188</u></b>
Loans secured by deposits	(191,307)	(62,273)
<b>Credit risk exposure</b>	<b><u>20,585,242</u></b>	<b><u>15,102,915</u></b>

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The composition of the loan portfolio by industry profile is as follows:

	<b>2003</b>	<b>2002</b>
	<b>LVL</b>	<b>LVL</b>
Mortgage loans	17,252,379	11,784,260
Real estate, construction	1,568,115	1,501,567
Trade	1,058,871	1,231,447
Forestry	90,643	322,768
Transport and communications	1,166	12,941
Agriculture	5,867	2,904
Other industries	1,079,673	555,134
<b>Total loans</b>	<b><u>21,056,714</u></b>	<b><u>15,411,021</u></b>

LVL 191,307 of loans are secured by deposits.

The composition of the loan portfolio by geographic profile is as follows:

	<b>2003</b>	<b>2002</b>
	<b>LVL</b>	<b>LVL</b>
Residents of Latvia	21,023,639	15,384,885
Residents of OECD area	22,255	26,136
Other	10,820	-
<b>Total loans</b>	<b><u>21,056,714</u></b>	<b><u>15,411,021</u></b>
Provisions for loan losses	(280,165)	(245,833)
<b>Net loans</b>	<b><u>20,776,549</u></b>	<b><u>15,165,188</u></b>

The loan maturity analysis is as follows:

	<b>Up to 1</b>	<b>1 to 3</b>	<b>3 to 6</b>	<b>6 to 12</b>	<b>1 to 5</b>	<b>Over 5</b>	<b>Total</b>
	<b>month</b>	<b>months</b>	<b>months</b>	<b>months</b>	<b>years</b>	<b>years</b>	<b>LVL</b>
	<b>LVL</b>	<b>LVL</b>	<b>LVL</b>	<b>LVL</b>	<b>LVL</b>	<b>LVL</b>	<b>LVL</b>
<b>As of 31</b>							
<b>December 2002</b>							
Corporate customers	317,088	45,752	81,455	203,695	2,771,333	-	3,419,323
Private individuals	272,067	177,850	269,526	617,488	10,144,100	264,834	11,745,865
<b>Total</b>	<b><u>589,155</u></b>	<b><u>223,602</u></b>	<b><u>350,981</u></b>	<b><u>821,183</u></b>	<b><u>12,915,433</u></b>	<b><u>264,834</u></b>	<b><u>15,165,188</u></b>
<b>As of 31</b>							
<b>December 2003</b>							
Corporate customers	392,269	42,990	72,356	123,210	2,729,326	-	3,360,151
Private individuals	1,769,179	151,711	280,552	521,194	14,665,686	28,076	17,416,398
<b>Total</b>	<b><u>2,161,448</u></b>	<b><u>194,701</u></b>	<b><u>352,908</u></b>	<b><u>644,404</u></b>	<b><u>17,395,012</u></b>	<b><u>28,076</u></b>	<b><u>20,776,549</u></b>

During 2003 and 2002 the average interest rate for loans was 8.6% and 11.5%, respectively.

**NOTES TO THE FINANCIAL STATEMENTS  
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The following table provides an analysis of activity in the provision for credit losses:

	General provisions	Special provisions - principal LVL	Special provisions – accrued interest LVL	2003 LVL	2002 LVL
<b>31 December 2002</b>	-	<b>245,833</b>	<b>52,347</b>	<b>298,180</b>	<b>292,904</b>
Provisions for possible credit losses	71,248	25,470	38,002	134,720	44,358
Write-off of assets	-	(54,956)	(45,553)	(100,509)	(9,020)
Release of previously established provisions	-	(29,045)	-	(29,045)	(38,852)
Reclassification of general provisions	(69,795)	91,410	(21,615)	-	8,790
<b>31 December 2003</b>	<b>1,453</b>	<b>278,712</b>	<b>23,181</b>	<b>303,346</b>	<b>298,180</b>

**13. SHARES AND OTHER INVESTMENTS IN NON-FIXED INCOME SECURITIES**

	2003 LVL	2002 LVL
Latu reserves fonds	779,980	954,148
Unipensijas	36,000	36,000
	<b>815,980</b>	<b>990,148</b>

The Bank made an investment in the non-profit organisation, joint stock company, open pension fund Unipensijas on 25 February 2000, purchasing 9% of Unipensijas' outstanding shares.

During 2002 the Bank made an investment in open investment fund "Latu rezerves fonds", offered by JSC "Optimus fondi" in cooperation with "Latvijas Unibanka". The profitability of this fund during 2003 was approximately 2.8% per year.

**14. INVESTMENT IN SUBSIDIARY**

	2003 LVL	2002 LVL
Optimus fondi	-	197,500
	<b>-</b>	<b>197,500</b>

The Bank made a contribution to the share capital of the joint stock company Optimus fondi on 18 December 2000, acquiring 98.75% of its shares.

The joint stock company Optimus fondi is engaged in the management of Unipensijas' funds. During 2003 the investment was sold and profit amounting to 65,204 LVL was reported.

NOTES TO THE FINANCIAL STATEMENTS  
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## 15. FIXED ASSETS

LVL	Office Equipment	Leasehold Improvements	Total Fixed Assets
<b>Historical cost</b>			
<b>31 December 2002</b>	<b>55,534</b>	<b>10,321</b>	<b>65,855</b>
Additions	10,913	-	10,913
Disposals	(27,040)	(3,022)	(30,062)
<b>31 December 2003</b>	<b>39,407</b>	<b>7,299</b>	<b>46,706</b>
<b>Accumulated depreciation</b>			
<b>31 December 2002</b>	<b>27,978</b>	<b>6,008</b>	<b>33,986</b>
Charge for the year	15,480	1,982	17,462
Disposals	(27,040)	(3,022)	(30,062)
<b>31 December 2003</b>	<b>16,418</b>	<b>4,968</b>	<b>21,386</b>
<b>Net book value</b>			
<b>31 December 2002</b>	<b>27,556</b>	<b>4,313</b>	<b>31,869</b>
<b>31 December 2003</b>	<b>22,989</b>	<b>2,331</b>	<b>25,320</b>

The assets stated above are held for the Bank's own use.

## 16. DEFERRED EXPENSES AND ACCRUED INCOME

	2003 LVL	2002 LVL
Accrued interest income, net	94,830	94,091
<i>Accrued interest income, gross</i>	<i>118,011</i>	<i>146,438</i>
<i>Loss provisions for interest income (Note 12)</i>	<i>(23,181)</i>	<i>(52,347)</i>
Deferred expenses	1,537	446
Tax overpaid	18,261	70,619
Other accrued income	100	560
<b>Total</b>	<b>114,728</b>	<b>165,716</b>

## 17. DUE TO CREDIT INSTITUTIONS

	2003 LVL	2002 LVL
To Latvijas Unibanka	5,712,226	5,864,000
To Latvijas Hipotēku un Zemes banka	187,500	312,500
<b>Total</b>	<b>5,899,726</b>	<b>6,176,500</b>

Due to Latvijas Unibanka consists of a long-term loan of LVL 1,500,000 and USD 6,786,000 maturing in 2005 and a deposit of USD 1,000,000 maturing in 2004.

During 2003 and 2002 the average interest rate for due to credit institutions was 4.1% and 6.8%, respectively.

Loans are secured with commercial pledge over all assets of the Bank.

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**18. DEPOSITS**

	<b>2003</b>	<b>2002</b>
	<b>LVL</b>	<b>LVL</b>
Deposits:		
Private persons	8,781,560	7,016,746
Non - residents	3,070,766	2,285,711
Private companies	1,474,326	1,045,256
Public and religious organizations	207,236	264,487
State companies	-	292
<b>Total</b>	<b><u>13,533,888</u></b>	<b><u>10,612,492</u></b>

During 2003 and 2002 the average weighted interest rate for deposits was 3.5% and 4.2%, respectively.

**19. DEFERRED INCOME AND ACCRUED EXPENSES**

	<b>2003</b>	<b>2002</b>
	<b>LVL</b>	<b>LVL</b>
Accrued interest expense	33,020	42,654
Annual bonuses for staff	39,510	27,436
Other	11,322	13,141
<b>Total</b>	<b><u>83,852</u></b>	<b><u>83,231</u></b>

**20. OTHER LIABILITIES**

	<b>2003</b>	<b>2002</b>
	<b>LVL</b>	<b>LVL</b>
Money in transit	116,513	-
Other	9,001	602
<b>Total</b>	<b><u>125,514</u></b>	<b><u>602</u></b>

**21. SHARE CAPITAL**

On 30 October 1996 the Bank issued share capital consisting of 35,000 common shares. The nominal value per share is LVL 100. All shares issued are outstanding and fully paid.

The largest shareholders of the Bank as of 31 December 2003 and 2002 are as follows:

	<b>Paid capital (LVL)</b>	<b>As % of total paid capital</b>	<b>As % of all voting rights</b>
Vilis Vītols	1,294,700	37	37
Marta Vītola	1,294,800	37	37
Laura Bulmane	455,000	13	13
Nikolajs Sigurds Bulmanis	455,000	13	13
Other	500	-	-
<b>Total</b>	<b><u>3,500,000</u></b>	<b><u>100</u></b>	<b><u>100</u></b>

**NOTES TO THE FINANCIAL STATEMENTS  
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**22. EARNINGS PER SHARE**

Earnings per share are computed by dividing net earnings by the weighted average of the number of shares of common stock outstanding.

	<b>2003</b>	<b>2002</b>
<b>Net profit (LVL)</b>	<b>601,284</b>	<b>432,618</b>
Weighted average common stock outstanding	35,000	35,000
<b>Earnings per common share (LVL)</b>	<b><u>17.18</u></b>	<b><u>12.36</u></b>

Dividends for the year 2002 have been paid in the amount of 350,000 LVL.

**23. CASH AND CASH EQUIVALENTS**

Cash and cash equivalents in accordance with the requirements of the Financial and Capital Markets Commission of Latvia:

	<b>2003</b>	<b>2002</b>
Cash and due from the Bank of Latvia	627,202	1,350,293
Balances due from credit institutions with maturity up to 3 months	2,365,069	3,801,063
Balances due to credit institutions with maturity up to 3 months	(1,004,637)	(509,058)
<b>Total</b>	<b><u>1,987,634</u></b>	<b><u>4,642,298</u></b>

Cash and cash equivalents in accordance with IFRS:

	<b>2003</b>	<b>2002</b>
	<b>LVL</b>	<b>LVL</b>
Cash and due from the Bank of Latvia	627,202	1,350,293
Balances due from credit institutions with maturity up to 3 months	2,365,069	3,801,063
<b>Total</b>	<b><u>2,992,271</u></b>	<b><u>5,151,356</u></b>

In accordance with IFRS cash and cash equivalents used in operating activities is 2,230,734 LVL (2002: cash provided by operating activities 3,086,337 LVL).

**NOTES TO THE FINANCIAL STATEMENTS  
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**24. FOREIGN CURRENCY EXPOSURE**

The analysis of assets and liabilities as of 31 December 2003 according to the currencies in which they are denominated is as follows:

	<b>31 December 2003 exchange rate</b>	<b>LVL '000 Assets</b>	<b>LVL '000 Liabilities</b>	<b>LVL'000 Net Exposure</b>	<b>Net exposure as % of regulatory capital</b>
USD	0.5410	8,468	8,469	(1)	0.02
EUR	0.6740	1,043	1,080	(37)	0.73
GBP	0.9600	5	6	(1)	0.02
AUD	0.4020	12	8	4	0.08
CAD	0.4120	15	11	4	0.08
CHF	0.4320	25	22	3	0.06
DKK	0.0905	11	-	11	0.22
SEK	0.0740	6	-	6	0.12
EEK	0.0431	2	-	2	0.04
LTL	0.1950	8	-	8	0.16
<b>Total</b>		<b>9,595</b>	<b>9,596</b>		
<b>Total long position</b>				<b>38</b>	
<b>Total short position</b>				<b>(39)</b>	
					<b>0.77</b>

According to Bank of Latvia requirements as of 31 December 2003 the total open position in foreign currencies should not exceed 20% of regulatory capital, and no individual open position should exceed 10%.

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**25. LIQUIDITY RISK**

The table below provides an analysis of assets and liabilities by maturity groups based on the remaining period from the balance sheet date to the contractual maturity date. The remaining period to maturity of assets and liabilities at 31 December 2003 was as follows:

	Up to 1 month LVL'00	1 to 3 months LVL'00	3 to 6 months LVL'00	6 to 12 months LVL'00	1 to 5 years LVL'00	Greater than 5 years LVL'00	Total LVL'00
	0	0	0	0	0	0	0
<b>Assets</b>							
Cash and balances due from the Bank of Latvia	627	-	-	-	-	-	627
Due from credit institutions	2,365	-	-	-	-	-	2,365
Loans	2,162	195	353	644	17,395	28	20,777
Investments in non- fixed income securities	780	-	-	-	-	36	816
Fixed assets	-	-	-	-	-	25	25
Deferred expenses and accrued income	95	18	-	2	-	-	115
Other assets	1	-	-	-	-	-	1
<b>Total assets</b>	<b>6,030</b>	<b>213</b>	<b>353</b>	<b>646</b>	<b>17,395</b>	<b>89</b>	<b>24,726</b>
<b>Liabilities</b>							
Due to credit institutions	541	464	438	902	3,555	-	5,900
Customer deposit accounts	5,397	2,154	885	1,239	3,859	-	13,534
Deferred income and accrued expenses	21	41	1	2	19	-	84
Other liabilities	126	-	-	-	-	-	126
Provisions for other liabilities	-	-	-	-	1	-	1
<b>Total liabilities</b>	<b>6,085</b>	<b>2,659</b>	<b>1,324</b>	<b>2,143</b>	<b>7,434</b>	<b>-</b>	<b>19,645</b>
<b>Liquidity risk</b>	<b>(55)</b>	<b>(2,446)</b>	<b>(971)</b>	<b>(1,497)</b>	<b>9,961</b>	<b>89</b>	<b>5,081</b>

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**26. INTEREST RATE RISK**

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The length of time for which the rate of interest is fixed on a financial instrument therefore indicates to what extent it is exposed to interest rate risk.

The table reflects allocation of assets and liabilities of the Bank as of 31 December 2003 based on remaining period from reporting date till interest rate repricing date.

	Up to 1 month LVL '000	1 to 3 months LVL '000	3 to 6 months LVL '000	6 to 12 months LVL '000	1 to 5 years LVL '000	Grea- ter than 5 years LVL '000	Non- interest bearin g funds LVL '000	Total LVL '000
<b>Assets</b>								
Cash and balances due from the Bank of Latvia	-	-	-	-	-	-	627	627
Due from credit institutions	2,365	-	-	-	-	-	-	2,365
Loans	2,162	17,273	62	162	1,118	-	-	20,777
Investments in non-fixed income securities	780	-	-	-	-	-	36	816
Fixed assets	-	-	-	-	-	-	25	25
Deferred expenses and accrued income	-	-	-	-	-	-	115	115
Other assets	-	-	-	-	-	-	1	1
<b>Total assets</b>	<b>5,307</b>	<b>17,273</b>	<b>62</b>	<b>162</b>	<b>1,118</b>	<b>-</b>	<b>804</b>	<b>24,726</b>
<b>Liabilities</b>								
Due to credit institutions	541	464	438	902	3,555	-	-	5,900
Customer deposit accounts	5,397	2,154	885	1,239	3,859	-	-	13,534
Deferred income and accrued expenses	21	41	1	2	19	-	-	84
Provisions for other liabilities	-	-	-	-	-	-	1	1
Other liabilities	-	-	-	-	-	-	126	126
Shareholders' equity	-	-	-	-	-	-	5,081	5,081
<b>Total liabilities and shareholders' equity</b>	<b>5,959</b>	<b>2,659</b>	<b>1,324</b>	<b>2,143</b>	<b>7,433</b>	<b>-</b>	<b>5,208</b>	<b>24,726</b>
<b>Off balance sheet items</b>	<b>263</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>263</b>
<b>Total liabilities, shareholders' equity and off balance sheet items</b>	<b>6,222</b>	<b>2,659</b>	<b>1,324</b>	<b>2,143</b>	<b>7,433</b>	<b>-</b>	<b>5,208</b>	<b>24,989</b>
<b>Interest rate risk</b>	<b>(915)</b>	<b>14,614</b>	<b>(1,262)</b>	<b>(1,981)</b>	<b>(6,315)</b>	<b>-</b>	<b>(4,404)</b>	<b>(263)</b>

NOTES TO THE FINANCIAL STATEMENTS  
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## 27. GEOGRAPHIC CONCENTRATION OF ASSETS AND LIABILITIES

	Latvia LVL'000	Venezuela LVL'000	OECD LVL'000	Other countries LVL'000	Total LVL'000
<b>Assets</b>					
Cash and balances due from the Bank of Latvia	627	-	-	-	627
Due from credit institutions	1,708	-	657	-	2,365
Loans	20,744	-	22	11	20,777
Investments in non-fixed income securities	816	-	-	-	816
Fixed assets	25	-	-	-	25
Deferred expenses and accrued income	115	-	-	-	115
Other assets	1	-	-	-	1
<b>Total assets</b>	<b>24,036</b>	<b>-</b>	<b>679</b>	<b>11</b>	<b>24,726</b>
<b>Liabilities</b>					
Due to credit institutions	5,900	-	-	-	5,900
Customer deposit accounts	10,463	789	2,269	13	13,534
Deferred income and accrued expenses	80	2	2	-	84
Provision for other liabilities	1	-	-	-	1
Other liabilities	126	-	-	-	126
Shareholders' equity	5,081	-	-	-	5,081
<b>Total liabilities and shareholders' equity</b>	<b>21,651</b>	<b>791</b>	<b>2,271</b>	<b>13</b>	<b>24,726</b>
<b>Off-balance sheet items</b>	<b>260</b>	<b>-</b>	<b>3</b>	<b>-</b>	<b>263</b>

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**28. CAPITAL ADEQUACY**

Based upon the Financial and Capital Market Commission (FCMC) regulations and guidelines set by the Basle Committee the Bank's equity to be utilized in the capital adequacy ratio as of 31 December 2003 and 2002 has been calculated as follows:

	<b>2003</b>	<b>2002</b>
	<b>LVL'000</b>	<b>LVL'000</b>
<b>Tier 1</b>		
Paid in share capital	3,500	3,500
Reserves	980	897
Audited profit	601	433
<b>Total first tier</b>	<b>5,081</b>	<b>4,830</b>
<b>Equity to be utilized in the capital adequacy ration calculation</b>	<b>5,081</b>	<b>4,830</b>

The Bank's capital adequacy ratio based upon the Financial and Capital Market Commission regulations as of 31 December 2003 and 2002 was 22.9% and 26.2%, respectively. The FCMC requires all Latvian banks to maintain a capital adequacy ratio above 10% of risk-weighted assets.

The Bank's capital adequacy ratio based on the guidelines of the Basle Agreement as of 31 December 2003 and 2002 was 30.9% and 28.4% respectively, which is above the recommended minimal capital to risk weighted ratio of 8%.

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According to the FCMC methodology:

	2003 LVL'000	2002 LVL'000
<b>0% risk weighted assets – group 1</b>		
Cash and due from the Bank of Latvia	627	1,350
Loans secured by term deposits	191	62
<b>Total group 1</b>	<b>818</b>	<b>1,412</b>
Weighted value	-	-
<b>20% risk weighted assets – group 2</b>		
Placements with OECD credit institutions	657	623
Placements at call with credit institutions of the Republic of Latvia	1,708	91
<b>Total group 2</b>	<b>2,365</b>	<b>714</b>
Weighted value	473	143
<b>50% risk weighted assets – group 3</b>		
Due from the credit institutions registered in the Republic of Latvia, except due on demand	-	3,087
Loans, fully secured by mortgage on residential property	-	-
Deferred expenses and accrued income	115	166
<b>Total group 3</b>	<b>115</b>	<b>3,253</b>
Weighted value	58	1,627
<b>100% risk weighted assets - group 5</b>		
Loans	20,586	15,103
Non-fixed income securities and equity investments	816	1,188
Fixed assets	25	32
Other assets	1	3
<b>Total group 5</b>	<b>21,428</b>	<b>16,326</b>
Weighted value	21,428	16,326
<b>Off-balance sheet liabilities (100% risk)</b>	<b>262</b>	<b>317</b>
Weighted value	262	317
<b>Total assets and off-balance sheet items</b>	<b>24,988</b>	<b>22,022</b>
Total weighted value of assets and off-balance sheet items (B)	22,221	18,413
<b>Shareholders' equity (A)</b>	<b>5,081</b>	<b>4,830</b>
Capital adequacy ratio (A / B *100)	22.9%	26.2%
Minimum capital adequacy ratio per the Financial and Capital Market Commission requirements	10%	10%

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According to Basle Capital Accord

	2003 LVL'000	2002 LVL'000
<b>0% risk weighted assets – group 1</b>		
Cash and due from the Bank of Latvia	627	1,350
Loans secured by term deposits	191	62
<b>Total group 1</b>	<b>818</b>	<b>1,412</b>
Weighted value	-	-
<b>20% risk weighted assets – group 2</b>		
Placements with OECD credit institutions	657	623
Placements at call with credit institutions of Republic of Latvia	1,708	91
<b>Total group 2</b>	<b>2,365</b>	<b>714</b>
Weighted value	473	143
<b>50% risk weighted assets – group 3</b>		
Loans fully secured by mortgage on residential property	11,649	6,027
<b>Total group 3</b>	<b>11,649</b>	<b>6,027</b>
Weighted value	5,825	3,014
<b>100% risk weighted assets - group 5</b>		
Other due from the commercial banks registered in the Republic of Latvia	-	3,087
Loans	8,937	9,076
Non-fixed income securities and equity investments	816	1,188
Fixed assets	25	32
Other assets	1	3
Accrued expenses and deferred income	115	166
<b>Total group 5</b>	<b>9,894</b>	<b>13,552</b>
Weighted value	9,894	13,552
<b>Off-balance sheet liabilities (100% risk)</b>	<b>262</b>	<b>317</b>
Weighted value	262	317
<b>Total assets and off-balance sheet items</b>	<b>24,988</b>	<b>22,022</b>
Total weighted value of assets and off-balance sheet items (B)	16,454	17,026
<b>Capital base (A)</b>	<b>5,081</b>	<b>4,830</b>
Capital adequacy ratio (A / B *100)	30.9%	28.4%
Minimum capital adequacy ratio	8%	8%

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**29. RELATED PARTIES**

Related parties are defined as shareholders, employees, members of the supervisory board, members of the management board, their close relatives, and companies in which they have a controlling interest.

Lending to, deposits, guarantees and borrowings from related parties during the period are set out below.

	<b>2003</b>	<b>Average</b>	<b>2002</b>	<b>Average</b>
	<b>LVL</b>	<b>interest rate</b>	<b>LVL</b>	<b>interest rate</b>
		<b>%</b>		<b>%</b>
Loans to shareholders and other related parties	685,714	7.2	581,574	9.3
Deposits from shareholders and related parties	2,857,673	6.3	2,718,998	6.4

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