



LATVIJAS BIZNESA BANKA

**JSC
LATVIAN BUSINESS BANK**

Annual report for 2003

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Annual Report for 2003*

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Management report

JSC Latvian Business Bank has successfully finished year 2003. The bank's main shareholder – JSC “Moscow Municipal bank – Bank of Moscow” (Bank of Moscow), Board of Directors and Supervisory Council implement the development policy of the bank, as a representative of Russian bank capital in Latvia. The main shareholder Bank of Moscow increased the bank's share capital to 7,4 million lats in 2003.

The Bank's assets have risen 1,6 times, loan portfolio – 1,3 times, investments in securities – 2 times (the growth ratio does not include assets that were transferred to “Managed assets”) in 2003. Rise in number of clients accounts 1,7 times, the increase in average balances in customer accounts 1,8 times and increase in customer account turnover 2,5 times indicate stable development of Bank.

The Bank continuously improves the quality of services provided and implements new services: servicing cash; payment cards, different loan and trade finance operations, currency and trust, dealing in securities. Bank provides services that use the advantage of branch network in Russia and the the subsidiary of Bank of Moscow Belorussian Company” Foreign Bank “Moscow - Minsk”. The Bank has bought significant participation in Estonian JSC “Eesti Krediidipank” and plans to expand its activities in Baltic financial markets.

Great attention in Bank's strategy and development plans is paid to improvement of risk management and control system. The Bank's risk management is based on the principle of cautiousness, general and timely analyses, forecasts and risk monitoring. The Bank constantly monitors its assets to ensure good quality. The Bank continuously improves its internal control system in accordance to characteristics and speed of Bank's development.

In 2003 the Bank finished reconstruction in its previous office premises in Old Riga and has started the commercial usage of it.

The proof of the Bank's development in 2003 is profit in amount of LVL 411 thousand - 4,2 times more than in 2002. All the profit will be used for the Bank's future development. In order to improve the servicing quality the Bank has made significant investments in development of client service. In 2003 bank has implemented the payment card issuance and service project, modernized Internet bank, introduced new software “Client - Bank”. The Bank develops remote banking systems not forgetting about local clients – the Bank opens new payment groups. One of the payment groups is located in custom warehouse in Riga, in 2003 the bank opened payment group in the center of the city. It is planned that in the Bank will open more payment groups and one of them will be opened in Riga, Moscow business and culture center in the nearest future. Reconstruction of existing upper storeys premises in Antonijas street 3 will allow the Bank to provide more qualitative and dynamical services and its technological development.

The Bank development plan for 2004 states the increase in assets more than 2 times, resources – 2,5 times, loan portfolio – 2,5 times. The base for future development is better financial solutions, provision of high technology services to existing and prospective clients and implementation of projects and schemes with Bank of Moscow. The Council and Board of the Bank thank their clients, partners and employees of JSC “Latvian Business Bank” and JSC “Moscow Municipal Bank – Bank of Moscow” for their investments in reaching the high results!

Andrej Borodin
Chairman of the Supervisory Council

Georgij Dragilev
Chairman of the Board

15 March 2004

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BOARD OF DIRECTORS

Georgijs Dragilev	Chairman of the Board
Inna Skorohodova	First Deputy Chairman of the Board – Vice-president
Andrej Kuzin	Member of the Board – First Vice-president
Aleksandr Komarov	Member of the Board – Vice-president
Natalija Kovalova	Member of the Board – Vice-president

SUPERVISORY COUNCIL

Andrej Borodin	Chairman of the Council	
Aleksej Sitnikov	Deputy Chairman of the Council	
Jelena Volkova	Member of the Council	
Dmitrij Akulinins	Member of the Council	
Janis Ozolins	Member of the Council	
Aleksej Sitnikov	Chairman of the Council	Left the position on 2 August 2003
Jelena Volkova	Deputy Chairman of the Council	Left the position in 2 August 2003
Vladimir Jevstignejev	Member of the Council	Left the position on 31 July 2003

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Statement of management's responsibility

JSC "Latvian Business Bank" (the Bank) management is responsible for preparing the annual report from the books of prime entry of the Bank that present fairly the state of financial affairs of the Bank as at the end of the year and about financial results and cash flows for the year then ended.

The Bank's management confirms that suitable accounting policies have been used and applied consistently and that reasonable and prudent judgements and estimates have been made in the preparation of the annual report on pages 7 to 31 for the year ended 31 December 2003. The management also confirms that applicable International Financial Reporting Standards have been used and that the annual report complies with the Regulations on the Preparation of Financial Statements of Banks issued by the Financial and Capital Market Commission.

The management is responsible for keeping proper accounting records, and 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 operating 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.

This annual report was approved and signed on behalf of the Bank on 15 March 2004:

Andrej Borodin
Chairman of the Supervisory Council

Georgij Dragilev
Chairman of the Board

INDEPENDENT AUDITORS' REPORT

To the shareholders of JSC "Latvian Business Bank":

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Bank as of 31 December 2003 and 2002 and the results of its operations and cash flows for the years then ended in accordance with International Financial Reporting Standards, the requirements of the Financial and Capital Market Commission and other legislation of the Republic of Latvia.

Deloitte & Touche Audits SIA
Licence No. 43

Ian Dent
Audit Director
Identity No: 051262-14673

Marija Rubcova
Sworn auditor
Certificate No. 54
Identity No: 020655-13069

Riga, Latvia
15 March 2004

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Statements of Profit and Loss Accounts for the years ended 31 December 2003 and 2002

	Notes	2003 LVL '000	2002 LVL '000
Interest income	3	1,110	1,614
Interest expenses	4	(170)	(1,015)
Commission income	5	495	260
Commission expenses	6	(79)	(119)
Profit from financial instruments	7	154	155
Other operating income		22	14
Administrative expenses	8	(945)	(728)
Depreciation and amortisation of intangible and tangible fixed assets	17	(107)	(78)
Other operating expenses		(9)	(5)
Provisions expense	13	(60)	-
Profit before corporate income tax		411	98
Corporate income tax	9	-	-
Net profit		411	98

The financial statements on pages 7 to 31 were approved by the Council and the Board on 15 March 2004 and signed on the Bank's behalf by:

Georgij Dragilevs
Chairman of the Board

Andrej Borodin
Chairman of the Supervisory
Council

Jelena Kapitonova
Chief Accountant

The accompanying notes are an integral part of this annual report.

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Balance Sheets as of 31 December 2003 and 2002

	Notes	2003 LVL '000	2002 LVL '000
Assets			
Cash and balances due from the Central Bank	10	1,182	753
Due from other credit institutions		9,973	5,668
<i>demand deposits</i>	11	7,293	4,127
<i>other deposits</i>	12	2,680	1,541
Loans	13	5,877	11,552
Investments in debt securities and other fixed income securities	14	1,622	805
<i>state treasury bills</i>		950	589
<i>other fixed income securities</i>		672	216
Derivatives	16	8	-
Investments in associates	15	1,024	-
Intangible assets	17	110	41
Tangible fixed assets	17	947	863
Deferred expenses and accrued income		141	305
Other assets	23	187	61
Total assets		<u>21,071</u>	<u>20,048</u>
Liabilities			
Due to other credit institutions and the Central Bank		3,426	4,620
<i>demand deposits</i>	18	504	18
<i>term deposits</i>	19	2,922	4,602
Deposits		10,287	10,826
<i>demand deposits</i>	20	8,623	5,776
<i>term deposits</i>	21	1,664	5,050
Derivatives	16	10	-
Deferred income and accrued expenses		44	252
Other liabilities	23	14	2
Subordinated debt		184	202
Total liabilities		<u>13,965</u>	<u>15,902</u>
Shareholders' equity			
Share capital	24	7,400	4,900
Share premium		20	20
Capital reserve and other reserves		150	95
Accumulated deficit		(875)	(967)
Profit for the year		411	98
Total shareholders' equity		<u>7,106</u>	<u>4,146</u>
Total liabilities, shareholders' equity		<u>21,071</u>	<u>20,048</u>
Off - balance sheet items			
Guarantees		59	53
Off - balance sheet items		1,364	408
Total off-balance sheet items	25	<u>1,423</u>	<u>461</u>

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Council

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Chief Accountant

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Statements of Changes In Shareholders' Equity for the years ended 31 December 2003 and 2002

	Notes	Paid-in Share Capital	Share Premium	Capital reserve and other reserves	Accumulated deficit	Total
		LVL'000	LVL'000	LVL'000	LVL'000	LVL'000
At 31 December 2001		3,000	20	58	(967)	2,111
Share issue		1,900	-	37	-	1,937
Profit for the year		-	-	-	98	98
At 31 December 2002		4,900	20	95	(869)	4,146
Distribution of prior year profit		-	-	6	(6)	-
Share issue	24	2,500	-	49	-	2,549
Profit for the year		-	-	-	411	411
At 31 December 2003		7,400	20	150	(464)	7,106

The accompanying notes are an integral part of this annual report.

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Statements Of Cash Flows for the years ended 31 December 2003 and 2002

	Notes	2003 LVL'000	2002 LVL'000
<i>Cash flow from operating activities</i>			
Profit before taxation		411	98
Depreciation and amortisation of intangible and tangible fixed assets		107	78
Provisions for doubtful debts and off-balance sheet liabilities (decrease)		60	-
Foreign currency revaluation loss		4	6
Loss from sale of intangible and fixed assets		-	1
Increase of cash and cash equivalents before changes in assets and liabilities		582	183
Increase in accrued expenses and tangible deferred income		164	112
(Increase) in accrued income and deferred expenses		(208)	(143)
(Increase) in other assets		(126)	(42)
Increase in other liabilities		12	2
(Increase)/ decrease in short-term investment		(1,245)	29
(Increase) in due from other credit institutions		(573)	-
(Increase)/ decrease in loans		5,615	(6,935)
Increase / (decrease) in due to other credit institutions		(1,307)	1,307
Increase/ (decrease) in deposits		(539)	5,691
Increase of cash and cash equivalents as a result of operating activities		1,793	21
<i>Cash flow from investing activities</i>			
(Purchase) of intangible and fixed assets		(260)	(292)
(Acquisition) of investments in share capital		(1,024)	-
(Decrease) of cash and cash equivalents as a result of investing activities		(1,284)	(292)
<i>Cash flow from financing activities</i>			
Issues of shares and increase in subordinated capital		2,549	1,937
Repayment of subordinated debt		-	(1,967)
Increase / (decrease) of cash and cash equivalents as a result of financing activities		2,549	(30)
(Decrease) / increase in cash and cash equivalents		3,640	(118)
Opening balance of cash and cash equivalents	22	3,536	3,660
Foreign currency revaluation loss		(20)	(6)
Closing balance of cash and cash equivalents	22	7,156	3,536

The accompanying notes are an integral part of this annual report.

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Notes to the Financial Statements

1 General information

JSC Latvian Business Bank (the Bank) received its banking license issued by the Bank of Latvia on 18 May 1992. The legal address of the Bank is 3 Antonijas Street, Riga, Latvia. The operations performed by the Bank and its main types of activities are as follows:

- issue of loans to corporate clients and individuals, leasing and factoring services;
- performing placements, purchase, sale and holding of shares, bonds and other securities;
- trust operations, including securities transactions;
- foreign currency purchases and sales, also on behalf of customers;
- attracting funds of corporate clients and individuals;
- corporates and individuals checking account servicing;
- correspondent banking;
- cash and non-cash payments;
- issue of warranties, guarantees and other documents confirming obligations;
- servicing documentary operations, including the use of letters of credit and bank guarantees;
- payment card (debit and credit cards) issue and service;
- encashment operations;
- rent of individual safe vaults.

2 Accounting policies

(1) Basis of preparation

The annual report has been prepared on the historical cost basis of accounting, in accordance with International Financial Reporting Standards (IFRS) and the Financial and Capital Market Commission Regulations On the Annual Reports of Credit Institutions.

(2) Interest, Fees and Commissions

Interest income is recognised on the accrual basis. The Bank does not accrue interest income on loans overdue for ninety or more days.

Commissions, fees and other income are recognised in the period in which they occur.

(3) Foreign Currencies

Transactions denominated in foreign currency are translated into LVL at the official Bank of Latvia exchange rate on the date of the transaction, which approximates to the prevailing market rates. All assets and liabilities denominated in foreign currencies, including commitments to deliver or acquire foreign currencies under spot exchange rates, are translated at the rate of exchange on the balance sheet date. The applicable rates used for the principal currencies as at 31 December were as follows:

	2003	2002
USD	0.5410	0.5940
EUR	0.6740	0.6100
RUR	0.0184	0.0187

All resulting gains and losses arising from dealing activities are recorded in the income statement in the period in which they occur.

(4) Loans

Loans are reflected at the principal amount outstanding less provisions for bad and doubtful loans.

The amount of special provisions is determined in accordance with the requirements set by the Financial and Capital Market Commission, taking into consideration a loan evaluation based on the financial position of the client and his solvency, compliance with provisions and terms of the loan agreement and sufficiency of the loan security.

The loan book value differs slightly from the value obtained under the discounted cash flow method, using effective rate. The difference is not material, because the Bank issues loans with variable and fixed interest rates, and variable interest rates on the long-term loans are adjusted at least annually.

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The assets and off-balance sheet revaluation committee on a regular basis, at least once in a quarter, or when necessary, performs a quality evaluation of the assets and off-balance sheet items that are exposed to credit risk, and classifies them using a conditional quality scale.

Based on the credit risk evaluation, the Bank classifies the assets and off-balance sheet items as standard, watch, substandard, doubtful and bad. For assets and off-balance items classified below standard, the Bank makes special provisions, which cannot be less than:

- watch – 10%;
- substandard – 30%;
- doubtful – 60%;
- bad – 100%.

The classification of assets and off-balance sheet items is performed in accordance with the evaluation requirements set by the Financial and Capital Market Commission.

(5) Financial assets available-for-sale

Financial assets available-for-sale include securities, which were purchased or re-classified from the long term investments held-to-maturity. Financial assets available-for-sale are recognised on balance sheet at their fair value. Financial assets available-for-sale are initially recognised at cost (which includes transaction costs) and are subsequently re-valuated at fair value based on the quoted bid price. Changes in fair value are included in the statement of profit and loss as re-valuation of financial instruments. Interest earned whilst holding available-for-sale securities is reported as interest income.

(6) Trade portfolio

The trade portfolio involves securities purchased by the Bank for short term profit taking as a result of short term price changes. These financial assets are initially recognised at their acquisition costs including transaction costs. Substantially they are measured at fair value determined by the quoted market prices. The purchase of the asset is accounted for transaction date, as at settlement date changes between value at transaction date and settlement date are accounted for. Sales of financial assets are disclosed at the settlement date.

(7) Investments in associates

Initially investments in associates are accounted for at their purchase value. If there is evidence of impairment special accruals are made. Expenses for provisions are accounted for in the profit and loss statement. If the value of previously impaired asset appreciates, accrued provisions are reduced through the profit and loss statement. Dividends received from associates are included in the profit and loss statement.

(8) Leasehold improvement

Leasehold improvements represent the capital reconstruction of the leased building, the current office of the Bank, situated at the address 3 Antonijas street, Riga.

(9) Fixed assets

Fixed assets are stated at historical cost, less accumulated depreciation. If the recoverable amount of an asset is lower than its carrying amount, it is written down immediately to its recoverable amount.

Depreciation is calculated on the straight-line method to write off the cost of each asset to their residual values over the expected useful lives as follows:

Buildings, leasehold improvements	20-50 years
Vehicles	5 years
Office equipment	5-10 years
Intangible assets	5 years

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

Notes to the Financial Statements

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(10) Income tax

Corporate income tax is calculated according to Latvian tax legislation.

Deferred income tax is provided for, using the liability method, for all temporary differences arising between the tax basis of assets and liabilities and their carrying values for financial reporting purposes. The currently enacted tax rates are used to determine deferred income tax. The principal temporary differences arise from application of different depreciation rates on fixed assets in finance accounting and for tax calculation purposes. Deferred tax assets relating to the carry forward of unused tax losses are recognised to the extent that it is probable that future taxable profit will be available against which the unused tax losses can be utilised. Where an overall deferred taxation asset arises, this is only recognised in the annual report where its recoverability is foreseen with reasonable certainty.

(11) Cash and cash equivalents

For the purpose of compliance with the regulations of the Financial and Capital Market Commission 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, 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.

(12) Financial instruments

Derivatives

In the normal course of business, the Bank is a party to foreign currency spot contracts. Gains or losses resulting from changes in rates of exchange on the date of the transaction are recognised in the statement of profit and loss as a profit or loss from revaluation of foreign currency position. In order to manage the currency and interest rate risk that arise in the normal course of business, finance, credit and investment operations the Bank uses derivatives like foreign exchange swaps, that are made by purchasing one currency and at the same time fixing the future rate of another currency, according to which the respective currency will be sold at the end of agreement. The derivatives are accounted for at their fair value as assets if the fair value is positive and in liabilities if negative. The principal amounts of derivatives are accounted as off-balance sheet liabilities and assets. Changes in fair value are accounted for in the profit and loss statement as revaluations of financial instruments.

(13) Other off-balance sheet instruments

In the ordinary course of business, the Bank is a party to off-balance sheet financial instruments, such as commitments to extend loans, financial guarantees and letters of credit. These financial instruments are recognised in the financial statements upon conclusion of the respective agreement.

(14) Financial Statement Estimates

The preparation of financial statements according to International Financial Reporting Standards requires the management to make estimates and assumptions that affect the reported amount of assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses for the reporting period. However, actual results could differ from those estimates.

(15) Fair value of financial assets and liabilities

Fair value represents the amount at which an asset could be exchanged or a liability settled on an arm's length basis. Where in the opinion of management, fair values of financial assets or liabilities differ materially from book values, the difference is separately disclosed in the notes to financial statement.

Notes to the Financial Statements

To evaluate the fair value of financial assets with reasonable certainty the Bank uses the following approach:

- prices of assets quoted on securities markets, where such instruments are traded;
- independent rating agency ratings;
- cash flows from financial assets can be predicted with reasonable certainty.

The fair value of foreign exchange swaps is evaluated based on market currency exchange rates.

(16) Risk management

Risk management is the Bank's priority. Risk is the possibility of losses in the form of additional expenses. The Bank has developed a system for the identification, supervision and management of the main financial risks. The Board of the Bank has approved this risk management system. The system is being constantly updated to take into account changes in market conditions and the development of the Bank's operations. Improvements are performed by developing new risk minimisation and hedging schemes setting the maximum risk limits. In order to supervise the limits the Bank has worked out and implemented a control mechanism, which ensures the implementation of the methods involving the evaluation of the Bank's contingency plan.

In order to achieve its objectives the Basic principles are set in the following Supervisory Council approved policies:

- Liquidity management policy;
- Risk transaction management policy;
- Currency risk management policy;
- Country risk management policy;
- Investment risk management policy;
- Trading portfolio management policy;
- Loan policy;
- Trust operation management policy;
- Information system security policy;
- Deposit policy;
- Anti-money laundering policy.

Management of Assets and Liabilities

Depending on their type, volume and risk level, decisions about transactions according to approved policies and procedures are made by the Board of Directors, the Assets and Liabilities management committee, the Credit committee or the Bank's personnel. Decisions on participation in risk transactions are made taking into consideration an evaluation of all the related risks in accordance with the Bank's procedures. The monitoring of Assets and Liabilities operations, risk and limit supervision even at the planning stage are performed by the Assets and Liabilities management committee. The Assets and off-balance sheet liability revaluation committee on a regular basis, at least once in a quarter, or when necessary, performs a quality evaluation of the assets and off-balance sheet items. In the event of a decrease in quality a decision about additional provisions is made. Financial risk management and control functions according to policies and procedures are made in general by the Financial risk management and control and Analysis and Planning department and for separate transactions – by Bank's structural units.

1. Liquidity risk.

Liquidity is the Bank's ability to pay for its liabilities on a timely basis without losses. Liquidity risk arises when the term structure of assets and liabilities becomes imbalanced. As a result additional expenses might occur due to the necessity of attracting expensive funds or selling its assets at a lower price. In order to reduce liquidity risk the Bank controls the balance between the terms of assets and liabilities and creates a highly liquid asset reserve to

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settle unexpected cash requirements.

Notes to the Financial Statements

The Assets and Liabilities management committee evaluates liquidity on a timely basis setting liquidity risk management guidelines, and regularly evaluates external liquidity resources and makes decisions about attracting stable and diversified financial funds for reasonable prices. The committee forecasts the probable attracted fund level, necessary for resource financing from the money market. Based on an analysis performed by the Assets and Liabilities management committee set the asset allocation by type, currency and term. Short term liquidity management attracting funds and their allocation in accordance to set limits and decisions is performed by the Finance department. The Correspondent relationship, international settlement and payment department together with the Finance department perform a cash flow analysis and management through the Bank's correspondent account on daily basis and control the reserve limit in the Bank of Latvia. Where necessary but at least once a month the Bank manages a liquidity risk by setting internal liquidity net position limits for each term group of assets and liabilities. Financial risk management and control and the Bank's performance and planning department continuously supervise the liquidity ratio and internally set limits. The Bank has worked out and implemented a risk evaluation methodology by term and currency. The Bank's liquidity in 2003 was not less than 58%, and the regulatory requirement is 30%.

2. Interest rate risk.

Interest rate risk – the probability of the risk that interest expense exceeds the received interest income. The Assets and Liabilities management committee where necessary but at least once a month evaluates asset and liabilities in terms of interest rate group and terms, and sets interest rates (separately for each currency) for term deposits of legal entities and private individuals. The Credit committee where necessary but at least once a month sets the base rate for loans to non-banks.

3. Credit risk.

Credit risk is the probability of losses that arises if a counterparty cannot or refuses to settle his liabilities with the Bank in full or on a timely basis. The management of credit risk involves the evaluation of credit risk in the initiation stage of transactions and risk control during the deal. Loans are issued in accordance with criteria set in the Bank's procedures and policies: incl. Obtaining overall information about the borrower or counterparty, their solvency and the quality of collateral. Credit risk is evaluated taking into consideration the relationship of the borrower or counterparty with the Bank or the Bank's other clients. If such a relationship exists credit risk is evaluated for all related groups. To reduce the probability of losses it is possible to include special conditions in agreements or it is possible to use different instruments to minimize the risk. The credit history and existence of international ratings are taken into account when evaluating credit risk. To minimize credit risk different restrictions are set in the Loan policy. Based on a deep counterparty analysis Bank set up transaction limits for credit risk with correspondent banks and other counterparties. The Bank continuously follows up the creditworthiness of the client and how he complies with his responsibilities. The credit policy allows the Bank to meet capital adequacy requirements (proportion of equity, assets and off-balance sheet liabilities weighted values) not less than 43%, and the regulatory requirement is 10%.

4. Currency risk.

Currency risk is the probability of losses from changes in currency exchange rates. To optimize currency risk the Bank where necessary but at least once a month sets limits for each open position and the overall currency position setting the maximum allowed losses from revaluations of currency (STOP-LOSS) for the Bank, separately to each dealer and the maximum speculative deal value per day. Where necessary Bank sets other limits to control currency risk. As a result the Bank was able to meet its regulatory requirements: the total foreign currency position in 2003 at the end of each month was less than 3% (regulatory requirement not more than 20%).

Notes to the Financial Statements

5. Country risk.

Country risk is the probability of losses that a non-resident counterparty cannot perform his duties due to independent circumstances such as political, economical, social factors that exist in non-resident country. The evaluation of country risk is performed by financial risk management and control and the Bank's performance analysis and planning department together with the structural unit responsible for certain transactions taking into consideration the country ratings stated by international rating agencies (Moody's, Fitch Ratings etc.) and the evaluation of country economical, political and social factors. Despite the removal of the limitation relating to deals with non-residents in zone B from regulatory bodies, the Board of Directors has set up limits for deals with non-residents in zone B in order to minimize country risk. The Bank where necessary but at least once a month set up limits for each non-resident country.

6. Market (trade) risk.

Market risk is the probability of revaluation losses due to changes in market prices of financial instruments, goods and derivatives influenced by currency, interest rate and other factors. The Bank has started its trade portfolio in November 2003. The total trade portfolio value has not exceeded 4% of total Bank assets and off-balance sheet items. The Financial and Capital Market Commission allowed the Bank not calculate and follow regulations for capital relating to trade portfolio risk. Bank calculates and follows capital requirements relating to credit and currency risk, that are characteristics of the Banks trade portfolio in general. Core decisions about the acquisition of trade portfolio instruments and about transfer financial instruments from the investment portfolio to the trade portfolio are made by the Assets and Liabilities management committee. In order to minimize risk the Trade portfolio management policy set a maximum portfolio value – not more than 20% of the Banks portfolio as well as types of financial instruments and liquidity limitations that can be included in the trade portfolio. Where necessary but at least once a month the Bank reduces risk by setting total trade portfolio limits such as the trade portfolio position and maximum allowed losses arising from the revaluation of financial instruments in the trade portfolio (STOP-LOSS).

The Financial risk management and control and the Bank's performance analysis and planning department control the limits on a daily basis. The Management is informed about each case when it has not followed regulations and the Bank's internal limits. Where necessary the Financial risk management and control and the Bank's performance analysis and planning departments together with other structural units work out and submit to the Banks management suggestions on how to improve the situation.

During its operations the Bank may identify other types of risks that can result from unexpected losses. The sources of such risk are: alternative profit, operational risk, information system deficiencies etc. The Bank's Assets and Liabilities management committee and respective Bank's structural units systematically perform the control and evaluation and minimize them.

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Notes to the Financial Statements

3 Interest income

	2003	2002
	LVL'000	LVL'000
Interest income from:		
Loans to customers	465	1,306
Placements with other banks	448	252
Investments in Latvian debt securities	34	11
Investments in CIS corporate securities	21	-
Investments in Latvian credit institution securities	15	17
Investments in CIS debt securities	12	22
Investments in other countries credit institution securities	-	4
Managed assets and liabilities	115	2
Total	<u>1,110</u>	<u>1,614</u>

4 Interest expenses

	2003	2002
	LVL'000	LVL'000
Interest expense on:		
Current and term deposit accounts	65	658
Deposits and loans from other credit institutions	57	350
Other expenses	48	7
Total	<u>170</u>	<u>1,015</u>

Compared to 2002 the interest expense on trust agreements are accounted for as net interest income in "Interest income" in 2003. Interest expense on trust agreements were accounted for as Interest expense on deposits in 2002.

5 Commission income

	2003	2002
	LVL'000	LVL'000
Commission income from services to non-residents	338	193
Commission income from services to residents	157	67
Total	<u>495</u>	<u>260</u>

6 Commission expenses

	2003	2002
	LVL'000	LVL'000
Commissions paid to non-resident banks	70	10
Commissions paid to resident banks	9	50
Commissions paid for services from non-residents	-	59
Total	<u>79</u>	<u>119</u>

7 Profit from financial instruments

	2003	2002
	LVL'000	LVL'000
Foreign exchange profit, net	127	103
<i>foreign currency trading</i>	147	109
<i>foreign currency revaluation</i>	(20)	(6)
Result from debt security revaluation	(15)	52
Profit from trading with securities	33	-
Revaluation of other financial instruments	9	-
Total	<u>154</u>	<u>155</u>

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8 Administrative expenses

	2003	2002
	LVL'000	LVL'000
Remuneration to management and staff	412	312
Social security payments	92	76
Communications	67	61
Taxes paid abroad	60	26
Rent expense	53	56
Services of Reuters, Reuters Dealing	50	52
Professional fees	44	16
Advertising and marketing	16	19
Transportation	10	3
Payment card expense	10	-
Utility services	9	7
Business trip	9	6
Information	9	5
Training	7	6
Purchase of low cost inventory	6	4
Land and real estate tax	1	2
Other	90	77
Total	945	728

Remuneration and social security payments include employees' salaries, social security payments and other expenses. During the current accounting period, there were 69 employees (2002 - 51) including 5 members of the Board, 29 management and 35 other employees.

9 Taxes

	2003	2002
	LVL'000	LVL'000
Taxes paid		
State social security payments	128	104
Personal income tax	88	68
Land and real estate tax	1	2
Taxes paid abroad for interest income	60	26
Penalties and fines paid, including	1	6
<i>penalties and fines paid to the state budget</i>	<i>1</i>	<i>5</i>
<i>penalties paid based on agreements</i>	<i>-</i>	<i>1</i>

Corporate income tax

	2003	2002
	LVL'000	LVL'000
Calculated corporate income tax	-	-
Calculated deferred tax	-	-
Total	-	-

Comparison of corporate income tax expense based on the regulatory tax rate and actual tax expense

	2003	2002
	LVL'000	LVL'000
Profit before taxes	411	98
Calculated theoretical corporate income tax expense - 19%		
(2002 -22%)	78	22
<u>Tax effect</u>		
Increase of taxable income	40	29
Decrease in taxabale income	(31)	(31)
Tax losses carried forward	(87)	(20)
Corporate income tax	-	-

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Deferred tax	2003 LVL'000	2002 LVL'000
Temporary difference on depreciation of fixed assets	(16)	(9)
Temporary difference on tax losses brought forward	17	10
Deferred tax assets	1	1
Temporary differences for which no deferred tax asset is recognised	(1)	(1)
Deferred tax	-	-

The profit for the reporting period has to be adjusted according to the Law on Corporate income taxes. The losses in 1998 and profit in 1999 lead to adjusted losses. Latvian tax legislation allows for the carrying forward of tax losses arising in prior fiscal periods to reduce taxable income in future periods for a maximum of five years. The outstanding losses mature as follows

	Amount LVL'000	Expiry Year
Tax loss reported for the financial year 1998	578	2003
Tax loss reported for the financial year 1999	115	2004
Total	693	

10 Cash and balance due from the Central Bank

	2003 LVL'000	2002 LVL'000
Cash	111	343
Balance on demand from the Bank of Latvia	1,071	410
Total	1,182	753

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

11 Due from other credit institutions demand deposits

	2003 LVL'000	2002 LVL'000
Latvian credit institutions	2,538	132
Credit institutions registered in OECD countries	4,588	2,942
Credit institutions registered in non-OECD countries, <i>due from related parties</i>	167 162	1,053 225
Total	7,293	4,127

12 Due from credit institutions other deposits

	2003 LVL'000	2002 LVL'000
Latvian credit institutions	1,025	662
Credit institutions registered in non-OECD countries, <i>due from related parties</i>	1,655 1,114	879 463
Total	2,680	1,541

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13 Loans to customers

	2003	2002
	LVL'000	LVL'000
Loans to enterprises, residents	2,336	3,854
Loans to private individuals, residents	1,656	1,361
Loans to enterprises, non-residents	1,480	4,693
Loans to financial institutions, residents	484	1,668
Non-government organisations, servicing private persons	10	-
Loans to private persons, non-residents	-	6
Loans to customers	5,966	11,582
Provisions for loans losses	(89)	(30)
Loans to customers, net	5,877	11,552

Loans to residents are secured by real estate and other pledge, loans to non-resident enterprises are secured by securities. Due to the requirements of the Financial and Capital Market Commission some changes were made in the structure of loan portfolio: Loans secured by deposits were transferred to managed assets. The volume of Loans secured by deposits as of 31 December 2002 was TLVL 9,864.

A breakdown of loans, granted to resident enterprises by industry is as follows:

	2003	2002
	LVL'000	LVL'000
Trade	1,211	462
Financial intermediary services	766	4,562
Manufacturing	294	73
Construction	130	211
Transport	89	148
Other services	330	66
Total loan to enterprises and financial institutions	2,820	5,522

The following table provides a reconciliation of the current period provision for loan losses to the prior year balance:

	2003	2002
	LVL'000	LVL'000
Provision for loan losses as at the beginning of the year	30	30
Provision made	60	-
Foreign currency revaluation gain	(1)	-
Provision for loans losses as at the end of the year	89	30

As of 31 December 2003 the Bank was in compliance with the Financial and Capital Market Commission requirements concerning loan concentration with one customer, groups of related customers, and individual related parties.

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14 Investments in debt securities and other fixed income securities

	2003	2002
	LVL'000	LVL'000
Debt securities:		
Latvian treasury bills	872	212
Other countries' credit institution securities	458	-
Latvian credit institution securities	214	216
Ukrainian government bonds	78	-
Russian Federation government bonds	-	377
Total	<u>1,622</u>	<u>805</u>

Investments in fixed income securities are classified to available-for-sale category in 2003. The securities are disclosed in balance sheet at their fair value. The Bank will hold the securities until their maturity or until a decision on their sale is made.

15 Investments in associates

Name of enterprise	Industry	Stake %	Balance value of investment LVL'000
JSC "Eesti Krediidipank", Estonia	Financial services	22.51	1,024

16 Derivatives

The principal amount and fair value of foreign exchange swaps in 2003 was as follows:

	Fair value	
	LVL'000	
	Asstes	Liabilities
Foreign exchange swaps	<u>1,191</u>	<u>8 (10)</u>

The positive value of foreign exchange swaps are accounted for in the asset part of balance item "Derivatives". The negative value of foreign exchange swaps are accounted for in the liabilities part of balance item "Derivatives".

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17 Intangible and tangible fixed assets

	Leashold improve- ments LVL'000	Vehicles LVL'000	Office Equipmen t LVL'000	Land and buildings LVL'000	Intangible assets LVL'000	Total LVL'000
Historical cost						
31 December 2002	408	18	301	347	104	1,178
Disposals	-	-	(24)	-	-	(24)
Additions	5	40	74	44	97	260
31 December 2003	413	58	351	391	201	1,414
Accumulated depreciation						
31 December 2002	14	10	156	31	63	274
Disposals	-	-	(24)	-	-	(24)
Depreciation for the year	8	7	49	15	28	107
31 December 2003	22	17	181	46	91	357
Net book value						
31 December 2002	394	8	145	316	41	904
31 December 2003	391	41	170	345	110	1,057

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

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18 Demand deposits of credit institutions and Central banks

	2003	2002
	LVL'000	LVL'000
Credit institutions registered in OECD countries	500	-
Credit institutions registered in non-OECD countries	4	18
Total	504	18

19 Term deposits of credit institutions and Central banks

	2003	2002
	LVL'000	LVL'000
Term deposit of the Bank of Latvia	1,050	899
Term deposit of Latvian credit institutions	1,872	594
Term deposit of non-OECD credit institutions	-	3,109
Total	2,922	4,602

20 Demand deposits

	2003	2002
	LVL'000	LVL'000
Private enterprises, non-residents	7,378	4,662
Private enterprises, residents	945	845
Private persons, residents	95	75
Central government, non-residents	74	98
Private persons, non residents	64	36
Financial institutions, residents	60	16
Non-government organisations, servicing private persons	4	37
Local government, non-residents	3	7
Total	8,623	5,776

21 Term deposits

	2003	2002
	LVL'000	LVL'000
Private enterprises, non-residents	1,125	4,785
Financial institutions, residents	254	100
Non-government organisation, servicing private persons	140	100
Private persons, residents	78	15
Private persons, non-residents	38	-
Private enterprises, residents	29	50
Total	1,664	5,050

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22 Cash and cash equivalents

	2003	2002
	LVL'000	LVL'000
(a) Calculation according to FCMC requirements		
Cash and demand deposits with the Bank of Latvia	1,182	753
Demand deposits with other credit institutions up to 3 months	9,400	5,668
Due to other credit institutions up to 3 months	(3,426)	(3,313)
Latvian treasury bills	-	212
Latvian credit institution securities	-	216
Total	7,156	3,536
(b) Calculation according to IFRS requirements		
Cash and demand deposits with the Bank of Latvia	1,182	753
Demand deposits with other credit institutions up to 3 months	9,400	5,668
Total	10,582	6,421

23 Other assets and liabilities

	2003	2002
	LVL'000	LVL'000
Accounts receivable from non-banks, non-residents	133	4
Taxes paid in advance (prepaid tax)	26	40
Advances paid to non-banks, residents	17	14
Accounts receivable from non-banks, residents	9	1
Advances paid to employees	2	1
Advances paid to non-banks, non-residents	-	1
Total other assets	187	61
Accounts payable to non-banks, residents	13	-
Accounts payable to non-banks, non-residents	1	1
Negative value of unfinished currency exchange agreements	-	1
Total other liabilities	14	2

24 Share capital

The authorised, issued and paid share capital on 31 December 2003 was TLVL 7 400 and comprised of 148,000 ordinary shares with a par value of LVL 50 each.

On 23 March 2003 the shareholders made the decision to increase share capital to TLVL 7 4000. On 22 April 2003 the sixth share issue was registered in the Latvian Republic Enterprises' Register, and on 26 August 2003 the shares were paid up by JSC "Moscow Municipal bank – Bank of Moscow".

25 Off-balance sheet items

The management of the Bank believes that there are no claims or commitments the Bank has entered into, which have not been taken into account in preparing the financial statements.

	2003	2002
	LVL'000	LVL'000
Guarantees	59	53
Loan commitments	1,364	408
Total	1,423	461

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Notes to the Financial Statements

26 Asset and liabilities under management

The Bank, under trust, manages the assets of its clients. The Bank earns commissions for these services. The Bank is not subject to credit and currency risks related to these transactions. Assets and other liabilities that the Bank manages are not assets of the Bank. These assets are not reflected in the balance sheets of Bank.

The following assets are under the management of the Bank:

Assets under management	2003	2002
	LVL'000	LVL'000
Russian Federation eurobonds	4,726	3,508
Credit institutions non-resident liabilities under management	2,490	61,509
Loans and accrued interest under management, non-residents	1,447	2,977
Loans and accrued interest under management, residents	1,197	-
Belarussian state treasury bills	1,086	224
Lukoil shares	17	-
Broker companies' liabilities under management	3	53
Total	10,966	68,271

Liabilities under management	2003	2002
	LVL'000	LVL'000
Liabilities to non-banks, non-residents	9,755	65,296
Liabilities to credit institutions, non-resident	1,199	2,975
Funds of trust department	12	-
Total	10,966	68,271

27 Assets pledged

Latvian treasury bills and Latvian Mortgage and Land Bank debt instruments owned by the Bank are pledged against Repo liabilities to the Bank of Latvia.

	Value of deals	Nominal value of treasury bills pledged
	LVL'000	LVL'000
Claim on issued letter of credit to Company "Foreign bank "Moscow-Minsk""	573	-
Repo deals with the Bank of Latvia,	1,050	995
<i>including Latvian treasury bills owned by the Bank</i>	<i>850</i>	<i>812</i>
<i>including Latvian credit institution debt instruments</i>	<i>200</i>	<i>183</i>
Total	1,623	995

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28 Related party transactions

Related parties are shareholders, members of the Council and the Board, the audit committee, the head of the internal audit department and employees of the department, other Bank employees, who are authorised to perform planning, management and control over the credit institution's activity, as well as their close relatives, and companies in which they have a controlling interest. Related parties are companies over which Bank has significant influence.

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

	2002	Increase	Decrease	2003
	LVL'000	LVL'000	LVL'000	LVL'000
Loans to related parties including	485	241	-	726
<i>Board members</i>	<i>16</i>	<i>101</i>	-	<i>117</i>
Interest received on loans including	8	32	-	40
Due from letters of credit	-	573	-	573
Shareholder's deposits	202	-	(16)	186
Demand deposits	225	-	(63)	162
Gain/(Loss) on foreign exchange deals including	2	-	(20)	(18)
Interest received on Nostro account balances and overnights	125	146	-	271
Remuneration to management, including <i>Members of Supervisory Council and Board of Directors</i>	124	6	-	130
	<i>80</i>	<i>19</i>	-	<i>99</i>
State social security payments	28	-	(3)	25
Managed assets	-	1,449	-	1,449
Investments in associated companies	-	1,024	-	1,024

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29 Maturity analysis

The remaining period to maturity of assets and liabilities at 31 December 2003 was as follows:

	Up to 1 month	From 1 month to 3 months	From 3 months to 6 months	From 6 months to 1 year	Over 1 year and undated	Overdue	Pledged	Total
	LVL '000	LVL '000	LVL '000	LVL '000	LVL '000	LVL '000	LVL '000	LVL '000
Assets								
Cash and balances due from								
Central banks	1,182	-	-	-	-	-	-	1,182
Due from other credit institutions								
and Central banks	8,827	573	573	-	-	-	-	9,973
Loans to customers	1,088	705	1,042	1,014	1,886	142	-	5,877
Investments in debt securities	627	-	-	-	-	-	995	1,622
Derivatives	8	-	-	-	-	-	-	8
Investments in associates	-	-	-	-	1,024	-	-	1,024
Accrued income and other assets	221	1	6	-	100	-	-	328
Intangible and tangible fixed assets	-	-	-	-	1,057	-	-	1,057
Total assets	11,953	1,279	1,621	1,014	4,067	142	995	21,071
Liabilities								
							Loan against pledge	
Due to credit institutions and Central								
banks	504	1,872	-	-	-	-	1,050	3,426
Deposits	9,250	425	445	165	2	-	-	10,287
Derivatives	10	-	-	-	-	-	-	10
Accrued expenses and deferred	42	9	6	1	-	-	-	58
income								
Subordinated debt	-	-	-	-	184	-	-	184
Shareholders' equity	-	-	-	-	7,106	-	-	7,106
Total liabilities	9,806	2,306	451	166	7,292	-	1,050	21,071
Off-balance sheet items								
Off-balance sheet items *	781	11	-	15	11	-	-	818
Total liquidity position:								
On 31 December 2003	1,366	(1,038)	1,170	833	(3,236)	142	(55)	-
Total liquidity position:								
On 31 December 2002	(94)	(3,316)	137	4,733	(8,545)	-	-	-

* *except guarantees and documentary transactions that are secured by deposits*

30 Revaluation maturity analysis

The Bank faces interest rate risk arising as a result of differences between the maturity or interest re-fixing dates of respective interest sensitive assets and liabilities. The Bank seeks to control these risks through the activities of Asset and Liability management committee. In the opinion of the Management, the re-pricing maturity structure of assets and liabilities is not materially different from the contractual maturity structure of assets and liabilities set out in Note 29 (above).

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31 Currency analysis

An analysis of assets and liabilities denominated in foreign currencies as of 31 December 2003 is as follows:

	LVL	USD	EUR	RUB	Other currencies	Total
	LVL '000	LVL '000	LVL '000	LVL '000	LVL '000	LVL '000
Assets						
Cash and balances due from Central banks	1,101	49	19	-	13	1,182
Due from other credit institutions and Central banks	3,537	3,127	1,061	690	1,558	9,973
Loans to customers	2,688	2,688	501	-	-	5,877
Investments in debt securities	1,086	391	145	-	-	1,622
Derivatives	8	-	-	-	-	8
Investment in associates	-	-	-	-	1,024	1,024
Accrued income and other assets	144	170	14	-	-	328
Intangible and tangible fixed assets	1,056	1	-	-	-	1,057
Total assets	9,620	6,426	1,740	690	2,595	21,071
Liabilities						
Due to credit institutions and Central banks	2,450	545	-	-	431	3,426
Deposits	1,240	4,985	1,800	700	1,562	10,287
Derivatives	10	-	-	-	-	10
Accrued expenses and deferred income	24	19	14	-	1	58
Subordinated debt	-	184	-	-	-	184
Shareholders' equity	7,106	-	-	-	-	7,106
Total liabilities	10,830	5,733	1,814	700	1,994	21,071
Off-balance sheet items						
Claims on foreign exchange swaps	1,191	-	-	-	-	1,191
Liabilities on foreign exchange swaps	-	595	-	-	599	1,194
Position in foreign currencies as of 31 December 2003	(19)	98	(74)	(10)	2	(3)
Guarantees and other liabilities*	232	604	13	574	-	1,423
<i>*according to FCMC regulations these positions are not taken into the position calculation</i>						
Long position (+)						100
Short position (-)						(84)
Total position (+ -)						100

The total open position in foreign currencies constitutes 1.7 % of capital (2002: 2.2%)

According to the Law on credit institutions, the total foreign currency position with credit institutions cannot exceed 20% of equity. The Bank complies with the requirements of the Financial and Capital Market Commission for limitation of open positions in foreign currencies.

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32 Geographical analysis of assets, liabilities and off-balance sheet items

A geographical analysis of assets, liabilities and off-balance sheet items as of 31 December 2003 is as follows:

	Latvia	OECD region	Non OECD region	Total
	LVL '000	LVL '000	LVL '000	LVL '000
Assets				
Cash and balances due from Central banks	1,182	-	-	1,182
Due from other credit institutions and Central banks	3,584	4,588	1,801	9,973
Loans to customers	4,397	803	677	5,877
Investments in debt securities	1,086	-	536	1,622
Derivatives	8	-	-	8
Investment in associates	-	-	1,024	1,024
Accrued income and other assets	151	89	88	328
Intangible and tangible fixed assets	1,057	-	-	1,057
Total assets	11,465	5,480	4,126	21,071
Liabilities				
Due to credit institutions and Central banks	3,422	-	4	3,426
Deposits	1,606	7,415	1,266	10,287
Derivatives	10	-	-	10
Accrued expenses and deferred income	30	23	5	58
Subordinated debt	-	-	184	184
Total liabilities	5,068	7,438	1,459	13,965
Off-balance sheet items				
Guarantees and other liabilities	784	626	13	1,423

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33 Capital adequacy

As of December 31, 2003, the capital adequacy ratio of the Bank according to the Basle Agreement methodology was 51%.

Based on the Financial and Capital Market Commission (FCMC) responsible for supervision of Latvian banks methodology for the calculation of capital adequacy, banks are required to keep a ratio of 10% of risk-weighted assets. The capital adequacy ratio of the Bank according to the Financial and Capital Market Commission methodology was 51%.

	LVL'000	Risk level	FCMC Weighted assets LVL'000	Risk level	Basle Agreement Weighted assets LVL'000
Assets					
Cash and balances due from the Central Bank	1,182	0%	-	0%	-
Debt securities*	1,668	-	656	-	656
<i>Latvian treasury bills</i>	902	0%	-	0%	-
<i>debt securities issued by Latvian credit institutions</i>	220	50%	110	50%	110
<i>OECD country debt securities (except in national currency of these countries)</i>	79	100%	79	100%	79
<i>Non-OECD corporative debt securities</i>	467	100%	467	100%	467
Due from credit institutions *	9,982	-	3,768	-	3,768
<i>due from credit institutions registered in OECD countries</i>	4,588	20%	918	20%	918
<i>due from Latvian credit institutions</i>	3,566	-	1,022	-	1,022
<i>demand balances</i>	2,538	20%	508	20%	508
<i>other balances</i>	1,028	50%	514	50%	514
<i>due from credit institutions registered in non-OECD countries</i>	1,828	100%	1,828	100%	1,828
Loans to customers *	5,919	-	4,843	-	4,946
<i>Loans secured with Latvian treasury bills</i>	760	0%	-	0%	-
<i>loans secured with term deposits with fixed terms</i>	213	0%	-	0%	-
<i>loans secured with mortgages secured in the Land Register</i>	206	50%	103	100%	206
<i>other loans</i>	4,740	100%	4,740	100%	4,740
Accrued income and deferred expenses, which cannot be allocated to an exact deal partner *	44	50%	22	50%	22
Other assets	195	100%	195	100%	195
Fixed assets	947	100%	947	100%	947
Intangible assets **	110	-	-	100%	110
Significant stake in other credit institution ***	1,024	-	-	-	-
Total weighted assets	21,071	-	10,431	-	10,644
* accrued interest income, that can be related to a certain transaction partner are transferred to the related position					
**elements that reduce 1st Tier capital					
*** elements that reduce equity					
Other commitments to clients	661	-	56	-	56
<i>Commitments related to documentary operations that are secured with deposits placed with the Bank</i>	602	0%	-	0%	-
<i>Guarantees, secured with deposits placed with the Bank</i>	3	0%	-	0%	-

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<i>Other guarantees</i>	56	100%	56	100%	56
Notes to the Financial Statements					
Undrawn facilities****	762	-	380	-	382
<i>Counterparties with 50% risk</i>	5	25%	1	50%	3
<i>Counterparties with 100% risk</i>	757	50%	379	50%	379
Agreements for future purchases of assets	1,950	-	450	-	450
<i>Counterparties with 0% risk</i>	1,050	0%	-	0%	-
<i>Counterparties with 50% risk</i>	900	50%	450	50%	450
Foreign exchange derivatives with term less than 1 year – credit equivalent			8		8
Total weighted assets and liabilities			<u>11,325</u>		<u>11,540</u>
Bank portfolio credit risk capital demand			<u>1,133</u>		<u>1,154</u>
Foreign currency risk capital demand			-		-
**** <i>weighted value is calculated with risk correction</i>					
Equity					
1st tier capital			6,585		6,695
2nd tier capital			184		184
Reduction of Equity			1,024		1,024
3rd tier capital used			-		-
3rd tier capital unused			192		192
Total equity			<u>5,745</u>		<u>5,855</u>
Capital adequacy ratio			<u>51%</u>		<u>51%</u>
Minimum capital adequacy ratio			<u>10%</u>		<u>8%</u>
3rd tier capital ratio unused			<u>2%</u>		<u>2%</u>
Capital adequacy ratio in 2002			<u>58%</u>		<u>56%</u>
