



LATVIJAS BIZNESA BANKA

Joint stock Company AS "Latvijas Biznesa banka"

Financial Statements prepared in accordance with International Financial Reporting Standards and the financial reporting requirements of the Financial and Capital Market Commission for the years ended 31 December 2004 and 2003 and Independent Auditors' report.



MANAGEMENT REPORT

During 2004 joint stock company AS "Latvijas Biznesa banka" continued its development as a subsidiary of Russian commercial bank "Bank of Moscow" (publicly owned company). "Bank of Moscow" is constantly increasing the potential of AS "Latvijas Biznesa banka" by increasing its share capital: in 2003, share capital of AS "Latvijas Biznesa banka" reached LVL 7,4 million, by February 2005 – LVL 10,8 million. "Bank of Moscow" owns 99,87% of AS "Latvijas Biznesa banka" stock. "Bank of Moscow" is one of the biggest and the most stable Russian credit institutions: as of December 1, 2004 it is rated number four in the "Top 100 Russian banks by total assets" rating. At the end of 2004, international agency Fitch Ratings and Moody's Investors Service increased the long-term credit rating of "Bank of Moscow" to "BB+" and "Ba1" respectively.

The council and the board of AS "Latvijas Biznesa banka", which is a direct Russian bank capital representative in Latvia, is carrying out the development policy step by step. The bank develops the service of export and import, and transit operations, finances Latvian and international enterprises, supports the development of economical and cultural communication between Latvia and Russia. AS "Latvijas Biznesa banka" is offering its services by utilizing the wide network of "Bank of Moscow" branches and another subsidiary of "Bank of Moscow" in Byelorussia – "Moskva-Minsk". AS "Latvijas Biznesa banka" provides financial services to Russian public agencies in Latvia, pays out pensions to Russian pensioners. During the construction of Moscow cultural and business center in Riga, the bank acted as a financial agent to the government of Moscow. Currently a universal bank payment group operates in Moscow cultural and business center.

AS "Latvijas Biznesa banka" share capital in Estonian stock company "Eesti Krediidipank" provides clients with quality service in the Baltic financial market.

During 2004, the assets have increased 4,2 times, new customer assets – 7,7 times, credit portfolio – 1,7 times, the number of active customers has increased 1,8 times. According to the Latvian Association of Commercial Banks, the rating of AS "Latvijas Biznesa banka" has increased considerably: by the end of 2004, among 23 Latvian banks AS "Latvijas Biznesa banka" was number 16 by total assets, by total deposits – 15th. Retained earnings of 2004 will be completely reinvested in further development of the bank.

In 2004, AS "Latvijas Biznesa banka" continued raising the customer service level, widening services and improving their quality – in areas of payment service, international payment card service, international trade financing, factoring, mortgage, currency exchange transactions and marginal trade operations. In 2005 the bank is planning to offer its customers a wider range of security and other financial instrument services as well as trust operations. In 2004, express money transfer service using Unistream system was introduced. In 2005, express money transfer will include significantly larger geographical regions using not only Unistream but also other payment systems.

The customer service strategy of AS "Latvijas Biznesa banka" provides for, first, development of information technology, that provides fast and quality service at work, at home, in transit. Bank is making significant investments in the systems that provide remote access to the bank accounts and international payment cards, and allows their easy management. Bank increases its cooperation with retail network enterprises. Bank strives to provide comfort to its customers in the main office in Riga, Antonijas street 13. The first stage of reconstruction and expansion of the bank office will be done by the first half of 2005.

AS "Latvijas Biznesa banka" constantly maintains high financial security and liquidity level. The strategy of risk control and management is based on reasonable cautiousness, timely risk analysis, forecasting and monitoring principles. AS "Latvijas Biznesa banka" pays a lot of attention to the development and improvement of risk management and control systems that is especially important nowadays – when Latvia is introducing international standards and the regulations of international and state institution bank operations are being reinforced. In 2005, the Bank plans to increase co-operation with an international audit firm in different fields of operation, including improvement of AML policies and procedures.

Dear customers, partners and shareholders! On behalf of the council and the board, we thank you for your cooperation and hope for further cooperation in 2005!



Andrey Borodin
Chairman of the Supervisory Council



Georgij Dragilev
Chairman of the Board (President)

17 March 2005

As of the date of issuing these financial statements:

BOARD OF DIRECTORS

Georgij Dragilev	Chairman of the Board (President)
Inna Skorohodova	First Deputy Chairman of the Board (Vice President)
Andrey Kuzin	Member of the Board (First Vice President)
Alexander Komarov	Member of the Board (Vice President)
Natalia Kovalova	Member of the Board (Vice President)

During 2004 members of Board of Directors have not changed.

SUPERVISORY COUNCIL

Andrey Borodin	Chairman of the Council
Alexey Sitnikov	Deputy Chairman of the Council
Jelena Volkova	Member of the Council
Dmitrij Akulinin	Member of the Council
Janis Ozolins	Member of the Council

During 2004 members of Supervisory Council have not changed.



STATEMENT OF MANAGEMENT'S RESPONSIBILITY

JSC Latvian Business Bank's (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 financial results and cash flows for the years 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 83 to 107 for the years ended 31 December 2004 and 2003. The management also confirms that, in all material respects, 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. The management is 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.

Andrey Borodin
Chairman of the Supervisory Council

Georgij Dragilev
Chairman of the Board (President)

17 March 2005

INDEPENDENT AUDITORS' REPORT

To the shareholders of JSC AS "Latvijas Biznesa banka":

We have audited the accompanying balance sheets of JSC AS "Latvijas Biznesa banka" (the Bank) as of 31 December 2004 and 2003 and the related statements of profit and loss, changes in shareholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

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

Without qualifying our opinion, we draw attention to Note 2 (section 16) "Risk management", which describes the status of the implementation of the Bank's anti-money laundering procedures and controls, and the Financial and Capital Market Commission reviews of the Bank.

We have read the management report for the year ended 31 December 2004 as shown on pages 75-76 of the annual report and we have not identified any material discrepancies between the historical financial information presented in this report and the financial statements for the year ended 31 December 2004.

Deloitte & Touche Audits SIA

Licence No. 43



Ian Dent
Authorised person

Riga, Latvia
17 March 2005



Inguna Stasa
Sworn auditor
Certificate No. 145

STATEMENTS OF PROFIT AND LOSS ACCOUNTS FOR THE YEARS ENDED 31 DECEMBER 2004 AND 2003

		2004	2003
	Notes	LVL '000	LVL '000
Interest income	3	1,342	1,110
Interest expenses	4	(282)	(170)
Net interest income		1,060	940
Commission income	5	518	495
Commission expenses	6	(76)	(79)
Profit from financial instruments	7	102	154
Other operating income		38	22
Operating income		1,642	1,532
Administrative expenses	8	(1,135)	(945)
Depreciation and amortisation of intangible and tangible fixed assets	16	(136)	(107)
Other operating expenses		(57)	(9)
Release of provisions	13	16	–
Provisions for bad debts	13	(77)	(60)
Profit before corporate income tax		253	411
Corporate income tax	9	(53)	–
Net profit		200	411

The financial statements on pages 83 to 107 were signed on the behalf of the Bank on 17 March 2005 by:



Andrey Borodin
Chairman of the Supervisory Council



Georgij Dragilev
Chairman of the Board (President)



Jelena Kapitonova
Chief Accountant

- The accompanying notes are an integral part of these financial statements.

BALANCE SHEETS AS OF 31 DECEMBER 2004 AND 2003

		2004	2003
	Notes	LVL '000	LVL '000
Assets			
Cash and balances due from the Central Bank	10	1,989	1,182
Due from other credit institutions		70,982	9,973
<i>demand deposits</i>	11	44,016	7,293
<i>other deposits</i>	12	26,966	2,680
Loans	13	10,152	5,877
Investments in debt securities and other fixed income securities	14	1,960	1,622
<i>State treasury bills</i>		938	950
<i>other fixed income securities</i>		1,022	672
Shares and other securities with non- fixed income	14	181	
Derivatives ^a			8
Investments in associates	15	1,249	1,024
Intangible assets	16	99	107
Tangible fixed assets	16	1,166	950
Deferred expenses and accrued income		187	141
Other assets	22	261	187
Total assets		88,226	21,071
Liabilities			
Due to other credit institutions and the Central Bank		609	3,426
demand deposits	17	90	504
term deposits	18	519	2,922
Deposits		79,548	10,287
demand deposits	19	36,451	8,623
term deposits	20	43,097	1,664
Derivatives		-	10
Deferred income and accrued expenses		53	44
Other liabilities	22	502	14
Deferred income tax liability	9	32	-
Subordinated debt	25	176	184
Total liabilities		80,920	13,965
Shareholders' equity			
Paid in share capital		7,400	7,400
Share premium		20	20
Capital reserve and other reserves		150	150
Accumulated deficit		(464)	(875)
Profit for the year		200	411
Total shareholders' equity		7,306	7,106
Total liabilities, shareholders' equity		88,226	21,071
Off - balance sheet items			
Guarantees		5,385	59
Off - balance sheet items		2,280	1,364
Total off-balance sheet items	24	7,665	1,423

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 <hr style="border: 0; border-top: 1px solid black; margin: 5px 0;"/> <p>Andrey Borodin Chairman of the Supervisory Council</p>	 <hr style="border: 0; border-top: 1px solid black; margin: 5px 0;"/> <p>Georgij Dragilev Chairman of the Board (President)</p>	 <hr style="border: 0; border-top: 1px solid black; margin: 5px 0;"/> <p>Jelena Kapitonova Chief Accountant</p>
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STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE YEARS ENDED 31 DECEMBER 2004 AND 2003

	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 2002	4,900	20	95	(869)	4,146
Allocation of prior year profit	-	-	6	(6)	-
Share issue	2,500	-	49	-	2,549
Profit for the year	-	-	-	411	411
At 31 December 2003	7,400	20	150	(464)	7,106
Profit for the year	-	-	-	200	200
At 31 December 2004	7,400	20	150	(264)	7,306

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Andrey Borodin
Chairman of the Supervisory Council

Georgij Dragilev
Chairman of the Board (President)

Jelena Kapitonova
Chief Accountant

- The accompanying notes are an integral part of these financial statements.

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED 31 DECEMBER 2004 AND 2003

		2004	2003
	Notes	LVL'000	LVL'000
Cash flow from operating activities			
Profit before taxation		253	411
Depreciation and amortisation of intangible and tangible fixed assets	16	136	107
Provisions for doubtful debts and off-balance sheet liabilities (decrease)	13	77	60
Foreign currency revaluation loss	7	46	4
Loss from sale of intangible and fixed assets		3	-
Increase of cash and cash equivalents before changes in assets and liabilities		515	582
Increase in accrued expenses and tangible deferred income		7	164
(Increase) in accrued income and deferred expenses		(74)	(208)
(Increase) in other assets		(46)	(126)
Increase in other liabilities		467	12
(Increase) in short-term investments		(519)	(1,245)
Decrease / (increase) in due from other credit institutions		529	(573)
(Increase)/ decrease in loans		(4,352)	5,615
Decrease / (increase) in due to other credit institutions		519	(1,307)
Increase/ (decrease) in deposits		69,261	(539)
Increase of cash and cash equivalents as a result of operating activities		66,307	2,375
Cash flow from investing activities			
Purchase of intangible and fixed assets		(347)	(260)
Investment in subsidiary		(225)	(1,024)
(Decrease) of cash and cash equivalents as a result of investing activities		(572)	(1,284)
Cash flow from financing activities			
Issues of shares and increase in subordinated capital		-	2,549
Increase of cash and cash equivalents as a result of financing activities		-	2,549
Increase in cash and cash equivalents		65,735	3,640
Opening balance of cash and cash equivalents	21	7,156	3,536
Foreign currency revaluation loss		(54)	(20)
Closing balance of cash and cash equivalents	21	72,837	7,156


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Georgij Dragilev
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Jelena Kapitonova
Chief Accountant

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1. GENERAL INFORMATION

JSC AS "Latvijas Biznesa banka" (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;
- corporate 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;
- rent of individual safe vaults.

2. ACCOUNTING POLICIES

(1) Basis of preparation

These financial statements, in all material respects, have been prepared in accordance with International Financial Reporting Standards ("IFRS") and the financial reporting regulations of the Financial and Capital Market Commission. The financial statements are prepared under the historic cost convention as modified by the revaluation of certain assets to market value.

(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. Loan origination fees and related direct costs associated with the loan origination, if significant, are deferred over the estimated average life of the loans.

(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:

	2004	2003
USD	0.516	0.5410
EUR	0.703	0.6740
RUB	0.0186	0.0184

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 impairment losses.

The assets and off-balance sheet valuation committee on a regular basis, at least once in a quarter, or when necessary, performs an evaluation of all assets and off-balance sheet items that are exposed to credit risk. The Bank assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired.

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

- significant financial difficulty of the borrower;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becomes probable that the borrower will enter bankruptcy or other financial reorganisation.

The amount of loss recognised depends on sufficiency of the loan collateral.

(5) Financial assets available-for-sale

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-valued at fair value based on the quoted bid price. Changes in fair value are included in the statement of profit and loss as revaluation of financial instruments. Interest earned whilst holding available-for-sale securities is reported as interest income.

(6) Trading portfolio

The trading 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 at transaction date, however, at settlement date the value is adjusted based on changes in the value between transaction date and settlement date. Sales of financial assets are recognised at the settlement date.

(7) Investments in associates

An associate is the entity over which the Bank has significance influence but not control. Investments in associates are accounted for at cost. If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows. Dividends received from associates are included in the profit and loss statement.

(8) Leasehold improvements

Leasehold improvements represent the capital reconstruction of the leased building, the current office of the Bank, situated at the address 3 Antonijas Street, Riga. Leasehold improvements are amortised over the shorter period of remaining length of lease agreement or estimated useful life of improvements.

(9) Fixed assets

Fixed assets are stated at historical cost, less accumulated depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the profit and loss statement during the financial period in which they are incurred.

Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use.

Depreciation is calculated on the straight-line method to write off the cost of each asset to its 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.

(10) Income tax

Corporate income tax payable 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 2003 – 19% and beginning with 2004 – 15 %.

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 purposes of the cash flow statement cash and cash equivalents comprise balances with less than three months' maturity, including cash and deposits with the Bank of Latvia and other credit institutions. In accordance with regulations of Financial and Capital Market Commissions balances due to the Bank of Latvia and credit institutions with a maturity of less than three months are deducted from cash and cash equivalents.

(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 for 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) 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 statements.

- prices of assets quoted on securities markets, where such instruments are traded;
- independent agency ratings;
- cash flows from financial assets which could 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;
- Credit Policy;
- Trust Operation Management Policy;
- Information System Security Policy;
- Deposit Policy;
- Anti-money Laundering Policy.

In order to address the issues related to Anti Money Laundering (referred to herein as AML) and the fight against international terrorism, the board is implementing within the Bank's internal policies the requirements of the legislation of the Republic of Latvia and regulations issued by Financial and Capital Market Commission (referred to herein as the Commission).

The Commission is an integrated supervisory institution for all financial services including banking, the stock market, and insurance activities. The Commission at least once a year conducts thorough inspections of every market participant in Latvia. These inspections also include reviews of banks' compliance with the national legislative requirements on Anti Money Laundering, as well as adoption of international best practices.

In 2004 the Commission carried out an inspection of the Bank and has identified areas of improvement in the Bank's AML, including know your client ("KYC") procedures and controls, and closely monitors the Bank in these areas. A subsequent review has been scheduled in the Bank by the Commission in 2005, the results and their further actions, if any, will be known only after the issuance of these financial statements. In 2005, the Bank has resolved to comply with all general recommendations received from the Commission applicable to the banking sector, and specific recommendations arising out of reviews of the Bank.

In 2004 the Bank started to change and improve its AML policies, procedures and technologies. This consisted of documenting its AML policies and setting up appropriate management departments and structures within the Bank. The Bank has created a special department – Compliance Department responsible for the analysis of customer activity with responsibility for compliance with the AML legislation and the Commission's regulations. The Bank has also created a Control Committee on Prevention of Laundering of Proceeds from Criminal Activity, with the task of co-ordinating the sharing of information between the various departments in the Bank. In 2005 the Bank is improving its activities with regard to client identification, identification of suspicious and unusual transactions and is taking actions to enhance the technical support in these activities.

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 is 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 the 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 settle unexpected cash requirements.

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 supervises the liquidity ratio and internal limits. The Bank has worked out and implemented a risk evaluation methodology by term and currency. The Bank's liquidity in 2004 was not less than 77%, 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 persons. 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 sets 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.

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 the Bank sets other limits to control currency risk.

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 foreign 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, sets 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 calculates and follows capital requirements relating to credit and currency risk, that are characteristic of the Banks trade portfolio in general. Core decisions about the acquisition of trade portfolio instruments and about transfer of 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 sets a maximum portfolio value – not more than 20% of the Bank's 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 controls 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 the respective Bank's structural units systematically perform the control and evaluation and minimize them.

3. INTEREST INCOME

	2004	2003
	LVL'000	LVL'000
Interest income from:		
Loans to customers	730	465
Placements with other banks	451	448
Investments in Latvian debt securities	42	34
Investments in CIS corporate securities	40	21
Investments in CIS debt securities	12	12
Investments in Latvian credit institution securities	15	15
Managed assets and liabilities	52	115
Total	1,342	1,110

4. INTEREST EXPENSES

	2004	2003
	LVL'000	LVL'000
Interest expenses on:		
Current and term deposit accounts	174	65
Deposits and loans from other credit institutions	22	57
Other expenses	86	48
Total	282	170

5. COMMISSION INCOME

	2004	2003
	LVL'000	LVL'000
Payment operations	257	206
Credit cards and loans	117	125
Trust operations	37	56
Other	107	108
Total	518	495

6. COMMISSION EXPENSES

	2004	2003
	LVL'000	LVL'000
Commissions paid to non-resident banks	65	70
Commissions paid to resident banks	11	9
Total	76	79

7. PROFIT FROM FINANCIAL INSTRUMENTS

	2004	2003
	LVL'000	LVL'000
Foreign exchange profit, net	79	127
<i>foreign currency trading</i>	125	147
<i>foreign currency revaluation</i>	(46)	(20)
Result from debt security revaluation	14	(15)
Profit from trading with securities	18	33
Revaluation of other financial instruments	(9)	9
Total	102	154

8. ADMINISTRATIVE EXPENSES

	2004	2003
	LVL'000	LVL'000
Remuneration of management and staff	578	412
Social security payments	129	92
Communications	73	67
Rent expenses	54	53
Services of Reuters, Reuters Dealing	44	50
Advertising and marketing	33	16
Other	224	255
Total	1,135	945

Remuneration and social security payments include employees' salaries, social security payments and other expenses. During the current accounting period, there were 86 employees (2003 - 69) including 6 members of the Board, 24 management and 56 other employees.

9. TAXES

	2004	2003
	LVL'000	LVL'000
Taxes paid		
State social security payments	180	128
Personal income tax	126	88
Land and real estate tax	5	1
Taxes paid abroad for interest income	5	60
Penalties and fines paid, including	2	1
<i>penalties and fines paid to the state budget</i>	-	1
<i>penalties paid based on agreements</i>	2	-

• Corporate income tax

	2004	2003
	LVL'000	LVL'000
Current income tax	21	-
Deferred income tax	32	-
Total	53	-

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

	2004	2003
	LVL'000	LVL'000
Profit before taxes	253	411
Calculated theoretical corporate income tax expense - 15% (2003 -19%)	38	78

Tax effect of:

Non deductible expenses	7	12
Other	8	(3)
Tax losses utilised from previous years	-	(87)
Corporate income tax	53	-

• Deferred tax

	2004	2003
	LVL'000	LVL'000
Temporary difference on depreciation of fixed assets	(34)	(16)
Accrual for vacations	2	–
Temporary difference on tax losses brought forward	–	17
Deferred tax (liability)/ asset	(32)	1
Temporary differences for which no deferred tax asset is recognised	–	(1)
Recognised deferred tax (liability) / asset	(32)	–

10. CASH AND BALANCE DUE FROM THE CENTRAL BANK

	2004	2003
	LVL'000	LVL'000
Cash	373	111
Balance on demand from the Bank of Latvia	1,616	1,071
Total	1,989	1,182

11. DUE FROM OTHER CREDIT INSTITUTIONS - DEMAND DEPOSITS

	2004	2003
	LVL'000	LVL'000
Latvian credit institutions	57	2,538
Credit institutions registered in OECD countries	43,867	4,588
Credit institutions registered in non-OECD countries	92	167
<i>due from related parties</i>	72	162
Total	44,016	7,293

Demand deposits due from credit institutions registered in OECD countries as of 31 December 2004 includes due from Deutsche Bank Trust Company Americas (LVL'000 17 853), UBS (LVL'000 25 244) and West LB (LVL'000 402).

12. DUE FROM CREDIT INSTITUTIONS - OTHER DEPOSITS

	2004	2003
	LVL'000	LVL'000
Latvian credit institutions	–	1,025
Credit institutions registered in OECD countries	26,876	–
Credit institutions registered in non-OECD countries	90	1,655
<i>due from related parties</i>	–	1,114
Total	26,966	2,680

Due from credit institutions - other deposits in OECD countries as of 31 December 2004 include due from Moscow Narodny Bank Ltd. (Great Britain) - LVL'000 26 830 and Commerzbank AG (Germany) - LVL'000 46.

13. LOANS TO CUSTOMERS

	2004	2003
	LVL'000	LVL'000
Loans to enterprises, resident	4,491	2,336
Loans to private persons, resident	2,478	1,656
Loans to enterprises, non-resident	3,177	1,480
Loans to financial institutions, resident	110	484
Non-government organisations, servicing private persons, resident	13	10
Loans to private persons, non-resident	3	–
Loans to customers	10,272	5,966
Provisions for impairment losses	(120)	(89)
Loans to customers, net	10,152	5,877

A breakdown of loans, granted to enterprises and financial institutions by industry is as follows:

	2004	2003
	LVL'000	LVL'000
Transport	1,930	592
Trade	1,922	1,521
Manufacturing	1,791	294
Construction	828	303
Financial intermediary services	624	1,260
Other services	683	330
Total loans to enterprises and financial institutions	7,778	4,300

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

	2004	2003
	LVL'000	LVL'000
Provision for impairment losses as at the beginning of the year	89	30
Increase in provisions	77	60
Write off	(30)	–
Release of provisions	(16)	–
Foreign currency revaluation gain	–	(1)
Provision for impairment losses as at the end of the year	120	89

14. INVESTMENTS IN DEBT SECURITIES AND OTHER FIXED INCOME SECURITIES

14.1. Investment portfolio – debt securities available for sale

Debt securities:	2004	2003
	LVL'000	LVL'000
Latvian treasury bills	886	872
Other countries' credit institution securities	447	458
Latvian credit institution securities	210	214
Ukrainian government bonds	52	78
Total	1,595	1,622

14.2. Trading portfolio

	2004	2003
	LVL'000	LVL'000
Other countries' companies securities	365	–
Other countries' companies stocks	181	–
Total	546	–

15. INVESTMENTS IN ASSOCIATES

Name of enterprise	Industry	Stake %	Carrying amount of investment	Total equity of associate as of 31.12.2004.
		%	LVL'000	LVL'000
JSC "Eesti Krediidipank", Estonia	Financial services	28.17	1,024	4,770

16. INTANGIBLE AND TANGIBLE FIXED ASSETS

	Leasehold improvements	Vehicles	Office Equipment	Land and buildings	Intangible assets	Advance payments and construction in progress	Total
	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000	LVL'000
Historical cost							
31 December 2003	408	58	348	391	198	11	1,414
Additions	–	19	60	–	34	–	113
Disposals	–	–	(10)	–	(1)	–	(11)
Advance payments	–	–	–	–	–	234	234
31 December 2004	408	77	398	391	231	245	1,750
Accumulated depreciation							
31 December 2003	22	17	181	46	91	–	357
Disposals	8	14	54	18	42	–	136
Depreciation for the year	–	–	(7)	–	(1)	–	(8)
31 December 2004	30	31	228	64	132	–	485
Net book value							
31 December 2003	386	41	167	345	107	11	1,057
31 December 2004	378	46	170	327	99	245	1,265

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

17. DEMAND DEPOSITS OF CREDIT INSTITUTIONS AND CENTRAL BANKS

	2004	2003
	LVL'000	LVL'000
Credit institutions registered in OECD countries	–	500
Credit institutions registered in non-OECD countries	90	4
<i>Including due from related parties</i>	1	–
Total	90	504

18. TERM DEPOSITS OF CREDIT INSTITUTIONS AND CENTRAL BANKS

	2004	2003
	LVL'000	LVL'000
Term deposit of the Bank of Latvia	–	1,050
Term deposit of Latvian credit institutions	–	1,872
Term deposit of non-OECD credit institutions	519	–
Total	519	2,922

19. DEMAND DEPOSITS

	2004	2003
	LVL'000	LVL'000
Private enterprises, non-resident	34,836	7,378
Private enterprises, resident	715	945
Private persons, resident	439	95
Central government, non-resident	123	74
Private persons, non resident	179	64
Financial institutions, resident	91	60
Non-government organisations, servicing private persons, resident	62	4
Local government, non-resident	6	3
Total	36,451	8,623

20. TERM DEPOSITS

	2004	2003
	LVL'000	LVL'000
Private enterprises, non-resident	41,443	1,125
Financial institutions, resident	433	254
Non-government organisation, servicing private persons, resident	350	140
Private persons, resident	812	78
Private persons, non-resident	44	38
Private enterprises, resident	15	29
Total	43,097	1,664

21. CASH AND CASH EQUIVALENTS

	2004	2003
	LVL'000	LVL'000
Cash and demand deposits with the Bank of Latvia	1,989	1,182
Demand deposits with other credit institutions up to 3 months	70,938	9,400
Due to other credit institutions up to 3 months	(90)	(3,426)
Total	72,837	7,156

22. OTHER ASSETS AND LIABILITIES

	2004	2003
	LVL'000	LVL'000
Accounts receivable from non-banks, non-residents	227	133
Taxes paid in advance (prepaid tax)	1	26
Advances paid to non-banks, residents	26	17
Accounts receivable from non-banks, residents	6	9
Advances paid to employees	1	2
Total other assets	261	187
Accounts payable to non-banks, residents	392	13
Accounts payable to non-banks, non-residents	78	1
Corporate income tax payable	21	–
Accrual for vacation	11	–
Total other liabilities	502	14

23. SHARE CAPITAL

The authorised, issued and paid share capital on 31 December 2004 was LVL'000 7 400 and comprised of 148,000 ordinary shares with a par value of LVL 50 each.

On 18 October 2004 shareholders made the decision to increase share capital to LVL'000 10 830. On 22 October 2004 shareholder decision to increase share capital and to carry out the seventh share issue was registered in the Latvian Republic Enterprises' Register. On 10 February 2005 Joint stock Commercial Bank Bank of Moscow (open joint stock company) paid up all newly issued shares. This increase in share capital will be reflected in the 2005 financial statements.

24. OFF-BALANCE SHEET ITEMS

	2004	2003
	LVL'000	LVL'000
Guarantees	5,385	59
Loan commitments	2,280	1,364
Total	7,665	1,423

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

25. SUBORDINATED DEBT

	2004	2003
	LVL'000	LVL'000
Bank of Moscow	176	184
Total	176	184

Bank of Moscow has provided subordinated debt in the form of non interest bearing deposit repayable on 16 April 2009. The subordinated debt is denominated in USD.

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 or liabilities of the Bank. These assets and liabilities are not reflected in the Bank's balance sheet.

The following assets are under the management of the Bank:

Assets under management	2004	2003
	LVL'000	LVL'000
Russian Federation eurobonds	12,995	4,726
Loans and accrued interest under management, non-resident	4,122	1,447
Belarusian state treasury bills	1,225	1,086
Loans and accrued interest under management, resident	898	1,197
Credit institutions (non-resident liabilities under management)	410	2,490
Other	12	20
Total	19,662	10,966

Liabilities under management	2004	2003
	LVL'000	LVL'000
Due to nonbanks - nonresidents	14,270	9,755
Deposits and calculated interest of banks - nonresidents	3,807	-
Deposits and calculated interest of nonbanks - nonresidents	1,575	-
Trust department funds	10	12
Due to banks - nonresidents	-	1,199
Total	19,662	10,966

27. ASSETS PLEDGED

	Value of deals
	LVL'000
Letter of credit against Commerzbank AG Frankfurt	44
Total	44

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's 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:

	2003	Increase	Decrease	2004
	LVL'000	LVL'000	LVL'000	LVL'000
Loans to related parties	726	–	(692)	34
<i>incl. Board members</i>	117	–	(96)	21
Interest received on loans	40	–	(27)	13
Due from letters of credit	573	–	(573)	–
Related parties deposits	186	–	(1)	185
Demand deposits	162	–	(90)	72
Demand liabilities	–	50	–	50
Gain/(Loss) on foreign exchange deals	(18)	30	–	12
Interest received on Nostro account balances and overnights	271	–	(263)	8
Remuneration to related parties	130	45	–	175
<i>incl. Members of Supervisory Council and Board</i>	99	35	–	134
State social security payments	25	9	–	34
Managed assets	1,449	–	(1,413)	36
Investments in associated companies	1,024	225	–	1,249
Average rate on issued loans	7.5%			8.1%

29. MATURITY ANALYSIS

The remaining period to maturity of assets and liabilities at 31 December 2004 and 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	Other	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	1,989	-	-	-	-	-	-	1,989
Due from other credit institutions and Central banks	70,938	-	-	-	44	-	-	70,982
Loans to customers	953	1,543	1,925	1,114	4,588	29	-	10,152
Investments in debt securities	1,960	-	-	-	-	-	-	1,960
Shares and other securities with non-fixed income	181	-	-	-	-	-	-	181
Investments in associates	-	-	-	-	-	-	1,249	1,249
Accrued income and other assets	431	4	-	-	13	-	-	448
Intangible and tangible fixed assets	-	-	-	-	-	-	1,265	1,265
Total assets	76,452	1,547	1,925	1,114	4,645	29	2,514	88,226
Liabilities								
Due to credit institutions and Central Banks	90	-	3	-	516	-	-	609
Deposits	77,531	426	945	340	306	-	-	79,548
Accrued expenses and deferred income	499	10	10	3	65	-	-	587
Subordinated debt	-	-	-	-	176	-	-	176
Shareholders' equity	-	-	-	-	-	-	7,306	7,306
Total liabilities	78,120	436	958	343	1,063	-	7,306	88,226
Off-balance sheet items								
Off-balance sheet items *	2,165	5	10	-	165	-	-	2,345
Total liquidity position: On 31 December 2004	(3,833)	1,106	957	771	3,417	29	-	-
Total liquidity position: On 31 December 2003	1,366	(1,038)	1,170	833	1,789	142	-	-

* except guarantees and letter of credits that are secured by deposits

30. CURRENCY ANALYSIS

An analysis of assets and liabilities denominated in foreign currencies as of 31 December 2004 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	1,758	136	70	21	4	1,989
Due from other credit institutions and Central	2	69,372	1,329	68	211	70,982
Loans to customers	3,025	4,512	2,615	–	–	10,152
Investments in debt securities	1,097	351	512	–	–	1,960
Shares and other securities with non-fixed income	–	181	–	–	–	181
Investment in associates	1,249	–	–	–	–	1,249
Accrued income and other assets	160	268	20	–	–	448
Intangible and tangible fixed assets	1,265	–	–	–	–	1,265
Total assets	8,556	74,820	4,546	89	215	88,226
Liabilities						
Due to credit institutions and Central banks	–	591	18	–	–	609
Deposits	1,202	73,648	4,431	89	178	79,548
Accrued expenses and deferred income	171	17	399	–	–	587
Subordinated debt	–	176	–	–	–	176
Shareholders' equity	7,306	–	–	–	–	7,306
Total liabilities	8,679	74,432	4,848	89	178	88,226
Off-balance sheet items						
Claims on foreign exchange swaps	128	–	281	–	–	409
Liabilities on foreign exchange swaps	–	410	–	–	–	410
Position in foreign currencies as of 31 December 2004	X	(22)	(21)	–	37	X
Guarantees and other liabilities*	220	6,761	684	–	–	7,665
Position in foreign currencies as of 31 December 2003	X	98	(74)	(10)	2	X

*according to FCMC regulations these positions are not taken into the position calculation

Long position (+)	37
Short position (-)	(43)
Total position (+ -).....	43

The total open position in foreign currencies constitutes 0.7 % of capital (2003: 1.7%)

In accordance with the law "On Credit institutions" open position in foreign currency can not exceed: in one currency 10% form regulatory capital and in all foreign currencies 20% from regulatory capital.

As of 31 December 2004 and 2003 The Bank complies with the requirements of the Financial and Capital Market Commission for limitation of open positions in foreign currencies.

31. 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 2004 and 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	1,989	–	–	1,989
Due from other credit institutions and Central Banks	57	70,744	181	70,982
Loans to customers	6,972	1,002	2,178	10,152
Investments in debt securities	1,097	364	499	1,960
Shares and other securities with non-fixed income	–	–	181	181
Investment in associates	–	–	1,249	1,249
Accrued income and other assets	166	145	137	448
Intangible and tangible fixed assets	1,265	–	–	1,265
Total assets as of 31.12.2004	11,546	72,255	4,425	88,226
Total assets as of 31.12.2003	11,465	5,480	4,126	21,071
Liabilities				
Due to credit institutions and Central Banks	–	–	609	609
Deposits	2,918	16,069	60,561	79,548
Accrued expenses and deferred income	565	9	13	587
Subordinated debt	–	–	176	176
Total liabilities as of 31.12.2004	3,483	16,078	61,359	80,920
Total assets as of 31.12.2003	5,068	7,438	1,459	13,965
Off-balance sheet items as of 31.12.2004:				
Guarantees and other liabilities	1,840	515	5,310	7,665
Off-balance sheet items as of 31.12.2003:				
Guarantees and other liabilities	784	626	13	1,423

32. INTEREST RATE RISK TERM STRUCTURE

	Against interest rate changes sensitive assets/ liabilities and off-balance positions							Assets/ liabilities and off-balance positions, which aren't sensitive against interest rate changes
	Total	with remaining term						
		Up to 1 month	1-3 months	3-6 months	6-12 months	1-5 years	Over 5 years	
	LVL '000	LVL '000	LVL '000	LVL '000	LVL '000	LVL '000	LVL '000	LVL '000
Trade portfolio (total of long positions)	365	365	-	-	-	-	-	181
Investment portfolio, including	84,754	74,544	1,501	2,184	1,240	3,715	1,570	3,335
<i>cash and deposits in Central Bank</i>	1,616	1,616	-	-	-	-	-	373
<i>due from Latvian credit institutions and foreign Central Banks*</i>	71,391	71,391	-	-	-	-	-	-
<i>Loans</i>	10,152	1,537	1,400	2,184	1,092	2,944	995	-
<i>Debt securities and other securities with fixed income</i>	1,595	-	101	-	148	771	575	-
<i>Other assets</i>	-	-	-	-	-	-	-	2,962
Total assets and long position off-balance positions as of 31.12.2004	85,119	74,909	1,501	2,184	1,240	3,715	1,570	3,516
Total assets and long position off-balance positions as of 31.12.2003	19,937	12,843	1,563	1,305	832	2,238	1,156	2,238
Banks' portfolio, including	80,567	80,567	-	-	-	-	-	8,069
<i>Liabilities to credit institutions and Central Banks *</i>	1,019	1,019	-	-	-	-	-	-
<i>Deposits</i>	79,548	79,548	-	-	-	-	-	-
<i>Other liabilities</i>	-	-	-	-	-	-	-	7,893
<i>Subordinated debt</i>	-	-	-	-	-	-	-	176
Short off-balance positions, which are sensitive to interest rate changes **	2,345	2,165	5	10	-	165	-	-
Total liabilities and short off-balance positions as of 31.12.2004	82,912	82,732	5	10	-	165	-	8,069
Total liabilities and short off-balance positions as of 31.12.2003	15,722	15,685	11	-	15	11	-	7,358
Interest rate risk net position (gap)	2,207	(7,823)	1,496	2,174	1,240	3,550	1,570	X
Interest rate risk total position as of 31.12.2004	X	(7,823)	(6,327)	(4,153)	(2,913)	637	2,207	X
Interest rate risk total position as of 31.12.2003	X	(2,842)	(1,290)	15	832	3,059	4,215	X
Influence on year net interest income *** in 2004	(46)	(75)	12	14	3	X	X	X
Influence on year net interest income *** in 2003	(4)	(27)	12	8	2	X	X	X

* including demands/ liabilities from unfinished currency exchange present agreements, accounted on off-balance

** ignored off-balance liabilities, which are secured with bank deposits

***influence on year net interest income calculation, signing on that interest rate increase is 1% over total assets and liabilities

Bank's assets, liabilities and off-balance sheet items are grouped according to minimal remaining repayment, performance terms or remaining term till next interest rate revision.

33. CAPITAL ADEQUACY

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 8% of risk-weighted assets. The capital adequacy ratio of the Bank according to the Financial and Capital Market Commission methodology was 21%.

	Financial and Capital Market Commission		
	Risk level	Weighted assets	
	LVL'000	LVL'000	
Assets			
Cash and balances due from the Central Bank	1,989	0%	–
Debt securities*	2,188	–	–
<i>Latvian treasury bills</i>	917	0%	–
<i>debt securities issued by Latvian credit institutions</i>	217	20%	43
<i>Non-OECD corporative debt securities</i>	52	100%	52
<i>Other securities</i>	1,002	100%	1,002
Due from credit institutions *	70,999	–	–
<i>due from credit institutions registered in OECD countries</i>	70,740	20%	14,148
<i>due from Latvian credit institutions</i>	57	20%	11
<i>due from Lithuanian and Estonian credit institutions</i>	20	20%	4
<i>due from credit institutions registered in non-OECD countries</i>	182	100%	182
Loans to customers *	10,192	–	–
<i>Loans secured with Latvian treasury bills</i>	106	0%	–
<i>loans secured with term deposits with fixed terms</i>	570	0%	–
<i>loans secured with mortgages secured in the Land Register</i>	133	50%	67
<i>other loans</i>	9,383	100%	9,383
Accrued income and deferred expenses, which cannot be allocated to an exact deal partner *	83	50%	42
Other assets	261	100%	261
Fixed assets	1,166	100%	1,166
Intangible assets **	99	–	–
Significant stake in other credit institution ***	1,249	–	–
Total weighted assets	88,226	–	26,361
* 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	5,499	–	–
<i>Commitments related to documentary operations that are secured with deposits placed with the Bank</i>	115	0%	–
<i>Guarantees, secured with deposits placed with the Bank</i>	5,204	0%	–
<i>Other guarantees</i>	180	100%	180
Undrawn facilities****	2,165	–	–
<i>Counterparties with 100% risk</i>	2,165	50%	1,083
Total weighted assets and liabilities			27,624
Bank portfolio credit risk capital demand			2,210
Foreign currency risk capital demand			–

**** weighted value is calculated with risk correction

Equity	
1st tier capital	7,007
2nd tier capital	141
Reduction of Equity	1,249
3rd tier capital used	-
3rd tier capital unused	-
Total equity	5,899
Capital adequacy ratio in 2004	21%
Minimum capital adequacy ratio	8%
3rd tier capital ratio unused	0%
Capital adequacy ratio in 2003	51%